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Raising Resources to Finance the Post-2015 Development Agenda

Synthesis of the Johannesburg Roundtable of Experts

RAISING RESOURCES TO FINANCE THE POST-2015 DEVELOPMENT AGENDA[1]

SYNTHESIS OF THE JOHANNESBURG ROUNDTABLE OF EXPERTS

Pan - African Parliament

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Overview

The scale of resource needs for the post-2015 and sustainable development agendas, although yet to be fully quantified, provides a serious challenge for aligning expectations of an ambitious post-2015 agenda with the implementation of that agenda. To bridge this gap, it is crucial that Africa, hitherto considered to be significantly dependent on external resources for financing its development, puts forward its vision of how the financing issue should be addressed.

With a view to contributing to this visioning, this synthesis draws on the reflections of civil society representatives and experts at the meetings on Development Finance and the Post 2015 Framework and the post-2015 Development Narrative organized by the Pan African Parliament, the United Nations Millennium Campaign-Africa, UNDP, ACORD, Christian Aid, Tax Justice Network - Africa and Third World Network- Africa, with the participation of UNECA and the African Union in Johannesburg, South Africa on 24-25 February 2013.

The meeting reflected an emerging consensus on the continent that the question of financing and the organization of the economy and the state are interlinked. Consequently, there is an imperative to strengthen and realign the focus of state activities towards an orientation of a ***developmental and capable state*** *in regard to the mobilization and expenditure of resources; that the different sources of finance while additive at one level, also impact one another at others. Further, the issues of financing and development partnerships cannot and should not be divorced from policies aimed at system-wide sustainability, resilience and a pro-active focus on developmental priorities to mitigate the growing financialization of our economies.*

Proposals for financing and development partnerships need to be assessed from three perspectives: first, from the point of view of evidence discernible from recent trends for the different financing modalities; second, from a political economy perspective as regards state-citizen relations and accountability; and, third, from the point of view of their contribution to economic, social and sustainable development-related transformational agendas for the continent. There is a well-documented push for a greater reliance on domestic resource mobilization, principally through identifying how the tax base can be expanded further as well as staunching underpayment, illicit transfers, licit transfers through transfer pricing negotiated subsidies etc.

1. The scale of the resource needs

The anticipated additional resources needed to finance a post-2015 sustainable development agenda that provides universal access to basic services, jobs for the productive population, universal social protection for the poor and weak, universal social security and arrests/adapts to global warming, preserve biodiversity, water and fisheries among others, are immense. At the global level, the World Bank estimates that for mitigation of, and adaptation to, climate change alone, additional resources to the tune of $520bn-840bn are required annually. In relation to Africa, the estimates for adaptation costs range from $30bn-$50bn. Add to this figure, the cost of arresting desertification, species depletion, water resource depletion and pollution as well as the cost of providing universal access to basic services, social protection, fulfilling human rights and peace and security and infrastructure for regional integration (energy, railways, roads, water resources etc), among others. The additional annual cost for filling Africa's infrastructure gap alone is estimated as $31bn, at the minimum.

This scale of resource needs, although yet to be fully quantified, provides a serious challenge for aligning expectations of an ambitious post-2015 agenda with the implementation of that agenda. To bridge this gap, it is crucial that Africa, the most dependent on external resources for development, begins to put forward its vision of how it intends to address the financing issue.

2. **<u>Effective resource mobilisation depends on capable states and capable economies</u>**

A capable state is, among others, one with strong and well-resourced institutions, including those that design and implement tax policies and those that manage the allocation and expenditure sides of public finance. A capable state is also one that has strong legitimacy among its people through the services (including peace and security), and opportunities it provides and facilitates, and its ability to steer capable economies that put food on the table, money in people's pockets and generates rewarding employment, among others. Also key is transparency, accountability and democratic governance. A capable state is effectively **a democratic developmental state** in the African context.

The legitimacy of the African state in the eyes of the citizenry is also affected by the relationship of dependency on foreign finance and support or domination of their peace and security apparatuses. This relationship has created a number of challenges. The first is the so-called dual constituency problem. By this is meant, the tensions between satisfying donors and global corporations on the one hand, and accounting to and satisfying the electorates on the other. Over the past three-decades or so, accountability to the external, has trumped accountability to the electorate.

The second is the tension between a focus on the mobilisation of domestic resources and the attraction of foreign capital, including Foreign Direct Investment (FDI) and Official Development Assistance (ODA). The evidence suggests that over the past three decades or so, policies and actions have prioritised the foreign over the domestic, and that foreign capital inflows may have been attracted at the expense of the mobilisation of domestic resources in Africa. Cases in point are: the so-called "race to the bottom" policies in which extensive tax and other concessions are provided to attract foreign capital, with dire impact on the tax burden; and, the illicit financial outflows phenomenon - in which more resources are lost than attracted, through tax avoidance and evasion strategies, using profit shifting in international pricing and tax havens and secrecy jurisdictions to hide wealth from taxation and re-investment.

The third challenge is the tension between a short-term and narrow approach to domestic financial sector development (the focus on banks), and the attraction of short-term external capital (focus on loans, aid and portfolio flows) at the expense of building institutions for long-term capital formation (e.g. pension funds and life insurance or even development banks which were set up in the past to absorb that which private banks cannot) and productive FDI.

A capable state is also dependent on a capable economy. By a capable economy is meant one that is growing, diversified (through value addition) and balanced, in the sense of: (i) a better mix of different sizes of enterprises (small, medium, large) feeding into each and, (ii) largely owned by the local private sector or the state or the mix of both, and (iii) distributes the benefits of growth fairly. Such an economy is more likely to be jobs-intensive and able to spread opportunities, incomes and wealth more broadly. Such an economic structure is best suited for growing and sustaining the tax base and revenue pot without undermining the incentives for investment, re-investment or even necessary consumption. With an Africa-wide nominal Gross Domestic Product (GDP) approaching US$ two trillion per annum, a two per cent growth rate puts in an extra US $40 billion into the economy. Similarly, significant resources can be mobilised for investment by increasing the value of exports.

Given the above, Africa's key challenges going forward in the post-2015 era are: (i) maximising domestic resource mobilisation especially through taxation(ii) taking steps to stem illicit outflows of capital (iii) taking steps not only to harness foreign resources to complement domestic resources, but also to manage foreign inflows to maximise their positive impacts and minimise their negative impacts (iv) taking steps to ensure that a domestic capital market thrives alongside a thriving and responsible domestic private sector (iv) taking steps to ensure a fairer share of natural resource rents.

3. Domestic Resource Mobilization – The role of taxation:

Tax is already the biggest source of public finance in developing countries. African governments, for example, raise over ten times more revenue through taxation than through aid.[2] Even if only the "low hanging fruit" are addressed, the result is likely to be significantly increased public resources.

This is borne out by a brief study of recent trends in tax revenue in low and lower-middle income countries. A simple average across those countries for which sufficient data is available during the years 2002-9 shows an average annual increase in the tax to GDP ratio during this time of 0.23 percentage points. In a few countries the ratio fell; if we exclude these, the annual increase rises to 0.44 percentage points. If this latter figure

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[2] *African Development Bank, OECD & UNECA, 2010: African Economic Outlook 2010*

is a reasonable estimate for the potential increase that could be achieved through a concerted effort across all low and lower-middle income countries, the result would be a year-on-year increase in public revenues of US$22.5 billion.[3]

As ODA declines and FDI becomes increasingly volatile and concentrated, taxation will become even more important for the provision of services and public investments generally. If all African countries raised just 15 per cent of GDP in revenue, the continent's governments would have an additional US$200 billion at their disposal annually. The potential of taxation as part of the post-2015 settlement is therefore evident. The key challenge is to take steps to increase the tax to GDP ratio.

4. <u>The wider importance of taxation</u>:

i. Taxation is the policy tool to transform the relationship between state and citizen

It would be a mistake to view the tax agenda as solely about raising money – it is in the process of raising money that accountability is strengthened and the state apparatus is built. The true priorities of policies are often revealed more clearly by budgets and tax legislation than they are by declarations and action programmes. And governments ultimately become responsive to their biggest funders. Here, increasing tax revenue and its responsible management is crucially linked to transparency of revenues and budgets – disclosed in a format that citizens can understand.

ii. Taxation allows states to challenge inequality

We live in a world where the top 20 per cent of the global population enjoys more than 70 per cent of total income. Inequality of outcome becomes inequality of opportunity for children. A child in the richest 10 per cent of households has on average 35 times more effective income available to meet their needs than the income of a child in the poorest 10 per cent of households. Taxation enables the state to:

1. Ensure universal access to good quality basic goods and services- food, housing, water, health services, education and social protection;
2. Improve revenue collection from sectors and agents that have benefited disproportionately from aggregate income growth.

iii. Taxation is a policy tool for promoting green growth

Sustainable economic transformation will require shifting economies towards valuing environmental resources. Taxes can dis-incentivize the use of goods and services, with social and environmental costs – this revenue can be used to invest in green growth.

In summary, the role of taxation in development can be summarised as in 4 'R's.

1. **Revenue** – to provide funding for basic services;
2. **Representation** – strengthening the relationship between state and citizen;
3. **Redistribution** – challenging inequality through progressive taxation and provision of social safety nets; and,

[3] *Data from http://worldbank.org/; latter figure is based on 2011 GDP.*

4. **Re-pricing –** increasing the cost of goods and services which do not reflect social and environmental externalities.

5. The Challenges and opportunities for Taxation in the post-2015 agenda:

Challenge 1: Matching tax potential to revenue need

There is certainly potential to raise more tax revenue in every country, subject to the trade-offs discussed below. But that potential varies from country to country. Potential corporation tax revenue from policy reforms depends on the size of a country's private sector, the diversity of that sector and its actual and potential levels of inward investment or re-investment of profits. These depend in part on factor endowments, the degree of economic diversification and the policy environment.

A paper from the OECD Development Centre in 2011 compared the public resources needed to meet the Millennium Development Goals (MDGs), against a simple measure of each developing country's 'tax potential'. "Although at the global level the magnitude of potential additional resources available from improved tax collection is similar to that of the additional resources needed to achieve the goals," it concluded, "on a country by country basis substantial external resources will still be needed."[4] Such countries are likely to be low income countries, countries emerging from, or embroiled in, conflicts and countries with less diversified economies.

Challenge 2: Raising revenue in a progressive way

In an ideal scenario, developing countries would increase their domestic revenue through progressive taxes that have little or no incidence on the poorest and significant incidence on the richest. Special attention would be paid to the gendered impact of tax reforms: the fiscal system wouldn't be gender neutral, it would redistribute income from men to women to compensate for the opposite effect in the economy and society at large. But behind these simple aspirations is a host of conceptual and practical questions. For example:

What does progressivity mean? The concept of progressivity of taxation is complex and much debated. In its simplest formation, it means that the more a person earns, the more tax they should pay, as a share of their income. This seems fair enough, but is inadequate if it lets off those with immense wealth (e.g. idle non-taxed landed property) which has not been transformed into income. There is also the issue of where progressivity matters most? According to the IMF's Mick Keen, "[w]hat ultimately matters…is the distributional impact of the full tax-spending system," not that of individual taxes or even of the tax system as a whole.[5] According to this logic, it's OK to tax regressively if you spend progressively; but not everyone would agree. This is the

[4] *Vararat Atisophon et al, 2011, Revisiting MDG Cost Estimates from a Domestic Resource Mobilisation Perspective. OECD Development Centre Working Paper No 306.*

[5] *Mick Keen, 2012. Tax and Development – Again. IMF Working Paper WP/12/220*

domain of values and ethics. For many, the poorest people should, by necessity, not contribute more than the rich, relative to their incomes, even if they receive more in expenditure incidence, especially if reducing inequalities sharply is a policy objective. These complexities notwithstanding, it is sufficient progress in an increasingly unequal world where wealth is shielded from tax, that the principle of progressivity be put front and centre of the tax-expenditure system.

Tax revenue as a source of finance brings with it many benefits, but it is important to be aware of the trade-offs, too. It's unlikely that an ambitious approach to increasing tax revenues can be realised solely through taxes levelled directly on wealthy individuals and companies. One core gap in most countries' tax policy toolboxes is the capacity to conduct the distributional analyses of tax reforms (by income group or gender) needed for stakeholders to fully understand this trade-off. This may be important to invest in, in the post-2015 world, if equality and equity are to be effectively monitored.

Challenge 3: Re-examining the global distribution of taxing rights

Owing to the fact that their tax bases are less diverse than those of developed countries, developing countries are more dependent on taxes levied on companies rather than those derived from personal incomes (except pay roll taxes). Tax avoidance, illicit capital flight and tax incentives are all factors that constrain developing countries' current revenues, and because of their greater reliance on business taxes, these ills exert a greater proportional impact than in developed countries. Another aspect also merits consideration.

Across the globe, the majority of corporation tax revenues come from multinational companies. The division of these companies' tax bases is determined by national policy and administration, and by tax treaties, all influenced by international tax rules, in particular the UN and OECD model tax treaties and the OECD transfer pricing guidelines.

Yet international rules are not politically neutral – they have implications for the distribution of taxing rights between different groups of countries. China and India, for example, have already implemented measures to increase their share of the tax base beyond what is allocated to them by international rules.

A global development finance settlement, especially one that considers aid and tax in the same breath, ought to include an explicit discussion of this point from a development perspective, before reaching a settlement on how these revenues are to be (re)distributed. A commitment to shift the distribution of taxing rights over multinationals towards developing countries would provide them with a sustainable increase in revenues, while increasing the benefits from inward investment. If combined with effective measures to address 'base erosion and profit shifting', this could even be a revenue-neutral intervention for developed countries.

6. ‘What gets measured gets managed’: Three types of targets

Clarity about what needs to be measured and monitored in relation to revenue mobilisation is crucial to harnessing maximum resources for the post-2015 agenda. Three targets are worth considering:

Tax to GDP ratio**:** This is an attractive starting point to measure progress in domestic resource mobilisation, but it must recognise the different starting points and potentials across different countries. Asking each country to increase its tax to GDP ratio by, say, three percentage points over 10 years might therefore be better than a notional target that may be too easy for some and too hard for others to attain. Alternatively, an aggregate target tax to GDP ratio across all developing countries, with differential contributions by different countries to achieving it, might make sense.

Progressive taxation**:** Hand-in-hand with any target incentivising, increased tax revenue must be one that measures and directs the share of taxation paid by the poor, and particularly by women. It must do so in a way that stimulates, rather than constrains, public debate on a topic that runs to the heart of political discourse. That most developing countries lack the analytical capability to measure this at present is precisely a reason to create such a target, which might conclude, for example, that women should be net beneficiaries of the fiscal system, or that the bottom third of the population by income should always pay a smaller share of their income in tax than the top third.

Corporation tax**:** There could be a global financing target focused on the corporate tax base. This could be, for example, an absolute increase of 20 per cent in tax revenue from multinational companies in developing countries. At one end of the spectrum, this target could be achieved at a (relatively small) cost to developed countries through a shift in the allocation of the corporate tax base to developing countries; in which case, it may be revenue neutral for multinational companies themselves. At the other end, it could be obtained through reforms that increase companies’ overall tax payments by reducing ‘base erosion and profit shifting’ and eliminate tax incentives, thereby increasing revenues in both developed and developing countries. An intermediate option would combine the two, keeping revenues constant in developed countries.

7. Transforming Foreign Direct Investment

South–South financial co-operation, where southern countries negotiate financing deals for mutual benefit, is increasing rapidly. In 2010, FDI overtook overseas development assistance as the primary source of international capital into Africa.

It is a mistake to assume that mobilising revenue involves a direct trade-off with attracting FDI. The upstream and downstream linkages of FDI can be improved through increasing investment in manufacturing infrastructure, funded in part through taxation. For instance, increasing transparency with regard to the impacts of firms though measures to ensure all firms apply a ‘do-no-harm’ approach to their core business through evaluating and disclosing social impacts of their activities. The Global Reporting Initiative guidelines provide a helpful framework.

That said, there is evidence that when FDI is channelled into consumption rather than investment expenditure, their value for development is diminished and FDI may in fact negatively affect domestic resources mobilisation. This is also the case when policies to attract FDI promote tax concessions and do not pay attention to incentives to encourage re-investment of profits.

But states must also be equipped to glean revenues from FDI flows. In 2008, half of Zambia's copper exports were channelled to Switzerland. If Zambia were to glean the export price that Switzerland exported this copper, it could have doubled its GDP. The macro level evidence on illicit financial outflows suggests that Africa loses more to tax avoidance and evasion than it receives in aid. As the complexity of African economies increases and the continent becomes more integrated into the global economy, the importance of capturing the true value of FDI becomes even more crucial.

8. <u>Official Development Assistance</u>

Aid in context:

- Developing and emerging economies have been driving global growth since mid-2000s, and this trend is set to continue;
- Most developing countries expanded their fiscal revenues by almost four times over the years 2000 to 2010, with revenues expected to total US$10 trillion in 2015;
- By 2030, OECD (2010) estimates that emerging and developing countries will generate two-thirds of global GDP; this was diametrically opposite in 1990;
- FDI stands at US$506bn in 2010, up from US$158bn in 2001;
- Workers' remittances are now at US$319.6 billion, from just US$90bn in 2001;
- ODA is about US$130bn, compared with under US$100bn in 2001;
- And philanthropy funding to developing countries is estimated at US$53 billion, compared with about US$12bn in 2003.

But it is not all about numbers: African economic growth has resulted in improvements in livelihoods for some, and is placing the continent on a positive trajectory. However, this should not give rise to complacency or reductions in aid commitments. Africa's economic growth is still characterised by inadequate job creation and low value-addition, and, remains in large part, driven by export of primary products and natural resource extraction.

According to UNDP analysis, even if high-income countries were to stop growing today and Sub-Saharan Africa were to continue on its current growth patterns, it would take Sub-Saharan Africa until 2236 to catch up.[6] Therefore it is clear that we cannot afford to neglect the important role an adapted ODA can play in placing Africa's growth on a sustainable path.

[6] *UNDP, Human Development Report 2005: International cooperation at a crossroads – aid, trade and security in an unequal world (2005), p. 37).*

In the consensual agreement on Financing for Development reached in Monterrey, Mexico in 2002, leaders committed to a "*substantial increase in official development assistance [to help] developing countries achieve internationally agreed development goals and objectives*"[7]. However, although ODA increased steadily since the introduction of the MDGs, rising from US$58 billion in 2000 to a projected US$125 billion in 2010, it still falls far short of the estimations of the financing gap for achievement of the MDGs, as well as in comparison to the collective pledges made by donor countries.

ODA will therefore remain crucial – particularly in low income countries and fragile states where revenue mobilisation is challenging. In 2009, for example, countries such as Burundi, DRC, Ethiopia and Guinea Bissau collected as little as US$35 per person – hardly enough to provide the services needed to improve maternal mortality or provide universal education. Here the need for aid is crucial.

To ensure a long term positive impact for ODA, the Paris Principles on Aid Effectiveness should be observed:

- Pledges and commitments are honoured to make ODA predictable and reliable;
- ODA is aligned with recipients' national development priorities and not the other way around;
- It is ensured that donor aid delivery modalities are better coordinated.

This will be increasingly important as sources of development finance become more diversified – from innovative finance mechanisms, the growth of non-traditional donors and grants from philanthropic organisations and South-South transfers and aid programmes. There is increasing evidence that the less dependent a country is on aid, the more effective aid is likely to be. These likely results from the fact that less aid dependent countries are better positioned to resist policy imposition and therefore more likely to use aid to supplement domestic resources to finance nationally owned development strategies.

But for aid to be an effective instrument for development in poorer countries there remains the need to address the donor political economy conundrum: the tension between 'instant Results' and building resilient Systems. Two approaches are possible:

Approach A: Try to engage further and support long term systemic change, which means:

a) Working to understand the complexities of national political systems better;
b) Managing home political constraints.

Approach B: Accept that systemic changes are too complex <u>for donors</u>, and so focus aid on simple shorter-term results such as providing vaccines, building roads, schools, hospitals and infrastructure etc.

9. Curbing Illicit Financial Flows

[7] *United Nations 2003, 14*

> *"The costs of this financial haemorrhage have been significant for African countries…[Capital flight has had adverse welfare and distributional consequences on the overwhelming majority of poor in numerous countries in that it heightened income inequality and jeopardized employment prospects." Governor Ndung'u of the Central Bank of Kenya*

In addition to mobilising other external resources outside of ODA, tackling illicit flows from Africa should be at the centre of resource mobilisation to finance the Post 2015 framework.

Illicit money refers to money that is illegally and illegitimately earned, transferred or used. It is illicit if it breaks laws or ethical boundaries in its origin, movement or use. Some of these flows are obvious – money earned from illegal and criminal activities and laundered across borders. Examples include: drugs trafficking; illegal weapon sales; the trafficking of women and children; and, monies and assets earned through bribes and kick-backs.

According to the Global Financial Integrity (GFI), the composition of illicit flows is roughly as follows:

- The share of public sector bribery in global illicit flows - 3%
- Criminal activities – 30-35%
- Commercial activities – 60%+

The bulk of the losses from commercial activities emanate from trade-mispricing i.e. the illegal use of transfer pricing by TNCs, mis-invoicing of imports and exports and the deliberate mis-recording of trade pricing. Some illicit financial flows are not so obvious: for example, wealth concealed in commercial activities, such as trade pricing and moved abroad through profit laundering. Others such as aggressive tax planning that exploit loopholes and encourage secrecy, lie on the border line between the illegal and the unethical.

The key motivations are: to minimize, evade or avoid taxes; to channel capital secretly abroad, to conceal certain activities from public view and to conceal identities behind the ownership of wealth using secrecy jurisdictions.

Estimates on the magnitude of illicit financial flows from developing countries vary enormously, but even the most conservative suggest that the total outflow significantly exceeds the amount of ODA receipts from the OECD countries.

Illicit flows not only minimise the revenues needed for improving governance institutions, the provision of public services and for growth-enhancing investment such as infrastructure development, they also erode legitimacy of economic activities and thus thwart vital economic development.

Illicit flows totalled US$854 billion between 1970 and 2008, a fairly conservative estimate.[8] Adjusting the US$854 billion estimate to take into account some of the components of illicit flows not covered, it is not unreasonable to estimate the total illicit outflows from the continent across the 38 years at some US$1.8 trillion.[9]

If this staggering loss of capital would have been retained in the continent, most African countries could have paid off their outstanding external debt and retained surpluses for economic development and service provision.

Notably, these estimates do not take into consideration very important forgone public revenue as a result of tax incentives, which cost African countries millions of dollars annually and contribute to a race to the bottom of tax competition between African countries, to the detriment of cooperation within and between regions.

An in-depth analysis of drivers of illicit flows with a view to curbing them and enhancing DRM should look at the following factors:

- Structural factors such as the existence of tax havens and secrecy jurisdictions which "lease sovereignty" to offer sanctuary to hide ill-gotten assets from legitimate governments and conceal information from tax and anti-money laundering authorities;
- Business policies and practices to evade and avoid taxes as well as to escape regulation;
- Corruption and kick-backs in investment and procurement agreements;
- The capacity of institutions to collect taxes and counter illicit activities;
- The inclusion of the 'shadow economy' in the tax base.

According to UNDP, other factors conducive to illicit financial outflows include:
Inequalities and inequitable growth, and the size of the underground economy;

- The degree of liberalization of trade, finance, foreign exchange and the capital account; the degree of foreign indebtedness; natural resource dependency; Weak regulatory capacity of government especially of companies and banks and large loopholes in laws easily exploited by lawyers and accountants;
- Lack of focus of governments on the provisioning of basic services to citizens, thereby encouraging aggressive tax avoidance;
- Inequitable taxation and tax burdens;
- Lax corporate regulatory regimes that tolerate the concealment of natural persons behind the ownership of companies and bank accounts.

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[8] *The estimations are based comparison of bilateral trade data held at IMF Direction of Trade Statistics. But this database cannot pick up illicit flows resulting from same-invoice faking; and yet "several studies have plausibly indicated that illicit flows through same-invoice faking are at least as large if not larger (and almost impossible to detect) than those involving mispricing between invoices".*

[9] Global Financial Integrity: Illicit Financial Flows from Africa: *Hidden Resource for Development, 2010*

10. **Managing Remittances**

The value of financial remittances from African migrants abroad has grown significantly and now exceeds official development assistance. The recorded flows may well be far less than real inflows if one factors in cash carried in pockets across borders or transfers made in the form of goods rather than cash. Although most of these transfers are directed to fulfilling household consumption and housing needs, there is some evidence of increased investments financed by remittance. What is clear is that the potential to manage remittances for structural transformation is immense. Ethiopia's diaspora bond has succeeded in attracting hundreds of millions of dollars for the construction of the millennium dam project, signalling an untapped potential. This informs the decision by the heads of State and Governments in the African Union to establish an African Institute for Remittance to study, monitor and develop incentives and investment products to harness the development impacts of remittances. The cost of remittances to Africa is however quite high, reflecting various charges and taxes as well as limitations in the banking infrastructure and capital management policies and infrastructure.

There is a role for partnerships – across transnational banking institutions, money transfer companies, financial regulatory institutions and government – to shape the remittance industry to support Africa's transformation agenda. A post-2015 financing framework should encourage and incentivise the creative harnessing of remittances. Critically, there is an imperative to recognise that the actual and potential resources that African migrants transmit back home transcend finances to include knowledge, ideas, energy and values.

11. **Innovative Sources of Finance**

Innovative financing mechanisms have been at the forefront of discussions on financing poverty reduction, the management of disease pandemics and climate change mitigation and adaptation.

In order to raise adequate resources to finance the ODA commitments arising from the G8 Gleneagles Summit in 2005, former Prime Minister Gordon Brown, proposed the International Financing Facility (IFF), a government bond aimed at raising resources from the capital markets in order to front-load expenditures on international development. The IFF did not fly because rich countries would not take the risk. Other proposed mechanisms for raining funds for international and climate change financing have spawned a wide variety – international airline taxes, taxes on fertilizers, lotteries, taxes on oil and fats, advanced market mechanisms for financing risks related to market failures, carbon trading, the financial transaction tax (the so-called Robin hood tax) and many more. None of these mechanisms have as yet proven to be a source of significant resources. What is striking is that most of these mechanisms are tax-based. To the extent that industrial economies are suffering recessions and the tax system is undermined by tax evasion and aggressive avoidance practises by companies and wealthy individuals, it is unlikely that these international innovations will be a reliable source of resources for Africa to finance its development.

But innovations need not be only of international origin. The relative success of Ethiopia's diaspora bond which has raised capital from Ethiopians home and broad is instructive; as is Rwanda's recent successful appeal to its population for voluntary contributions to plug its budget hole when donors suspended budget support. Also, Ghana has been relatively successful in harnessing and channelling its pension funds (the Social security and National Trust, SSNIT) in long-term investments and creating taxed-based specialised funds to finance its critical infrastructure such as roads, health and education. These initiatives indicate that the scope for creative resource mobilisation remains to be fully harnessed. The post-2015 process should serve as an opportunity for African governments and people to carefully assess and establish mechanisms for monitoring and sharing lessons on innovative financing initiatives.

12. Factoring resource mobilisation into the Post 2015 Framework

The Post 2015 framework can incentivise the increase and improvement of domestic resources at the national level and better management of foreign sources of finance. This will involve monitoring of key metrics on revenue mobilisation as a proportion of GDP. Given the dependence of many African countries on commodity exports and the need to increase value addition, a sector-by sector disaggregation of revenues could be valuable. To increase accountability and tax morale, budget transparency indicators are also crucial.

i. Financing principles:

For financing to address Africa's long term needs, it should be guided by the following principles:

a. Robust analysis of financing needs

The Post 2015 framework must be built on a robust analysis of the financing required to achieve the goals established. This should include international aid commitments and ensuring they are aligned with country priorities. At the national level, goals and targets should seek to incentivise adequate revenue mobilisation (such as a national target on Tax to GDP ratio).

b. Externalities

Consideration should be given to the impact of countries' own economic policies on the development efforts of other countries. If countries tackle their own economic and financial problems without taking into consideration the congruent impact on other countries, this can negatively impact on interests of African countries and more importantly, could jeopardize domestic resource mobilization efforts for sustained and adequate economic growth. This includes the provision of tax incentives and financial secrecy.

c. Policy space

The issue of "policy space" is fundamental to policy sovereignty as it concerns countries' independence and flexibility in designing their economic and financial policies and institutions in light of their circumstances and devising ways and means of aligning domestic policy to international opportunities and constraints. However, this needs to be cognisant of the impact of these policies on other countries' development efforts. The principle of proportionality needs to be applied here.

d. Long-term, stable financing and designed to expand productive capacity:

Ideally, resources flowing into Africa from external sources should help to ease the constraints for value addition in the productive sector, preserving natural capital or in the expansion of human capital and social institutions.

e. Developmental and justice principles

Financing should be aligned with human rights principles and priorities as well as climate justice goals. The poor should not be forced to bear the price when systemic failure is caused by excessive risk taking and poor regulation.

f. Domestic resource mobilization and ease of mobilization principles

These include: a focus on expanding the share of taxation in GDP without punishing the poor and small entrepreneurs; the need to link taxation with the provision of public services; principles encouraging progressive taxation; principles related to a fairer sharing of natural resource wealth; and, the encouragement of innovative modalities for mobilising resources.

g. Governance principles - financial system resilience and coherence principles

These relate t*o* such issues as the criteria and extent of public bail-outs and irresponsible lending.

h. Accountability principles:

This relates to freedom of information, transparency, transparency related to taxation, tax dodging, payment of fair taxes, transparency on information on taxes paid.

ii. Indicators

The post-2015 framework should promote disaggregated indicators that assist with identifying developmental impact and also help with identifying transition from reliance on one type of finance to another. Examples of indicators that align financing in line with the changing structure of the economy and size of potential resource mobilization base include:

- Revenue mobilization based on measures of local content in trade and value chains;
- Capital inflow indicators – that encompass the types of capital inflows as a way of tracking hot money as well as financial volatility;
- FDI – sectoral decomposition and what percentage goes to middle tier of firms and not just apex firms;
- ODA – as a proportion of GDP, budget, social sector spending with the objective of

transitioning.

Table 1 below outlines examples of indicators related to domestic resource mobilization.

Table 1

Stimulating national level commitments towards Domestic Resource Mobilisation	
Target	*Indicators*
Ensure countries have transparent governance, with open budgeting, freedom of information and holistic corporate reporting	• Increase in Open Budget Index score (transparency and participation in public budgeting); • Existence of legislation on corporate reporting that requires companies to report on their social and environmental impact, including human rights impact and tax paid
Ensure countries increase domestic resource mobilisation to at least 20% of GDP	• Tax to GDP ratio • Direct to Indirect tax ratio • Revenue collected disaggregated by economic sector e.g. extractives / non agribusiness; manufacturing; services.

The policies of some states undermine the ability of other states to collect revenues by allowing businesses and individuals to avoid or evade taxes and escape regulation – through providing banking and financial secrecy. Not only does this secrecy have a corrosive effect on the integrity of institutions by facilitating corruption, but it also undermines tax morale – the willingness of citizens to pay tax – when they see the wealthy not paying their way. *The Post 2015 framework should therefore place obligations on states to share information on beneficial ownership (the warm blooded beneficiary) of bank accounts and financial assets.*

Table 2 below offers examples of indicators related to the mobilisation of international resources:

Table 2

International frameworks to support development financing	
Target	*Indicators*
Increased and more effective use of resources for development	• OECD DAC donors will uphold their commitment to allocate 0.7% of GNI to ODA; • Bilateral and multilateral development actors progress on the principles established through the Global Partnership for Effective Development cooperation (using their monitoring indicators)
International transparency to support domestic resource mobilisation	• Increased transparency of financial flows through south–south cooperation; • Progress on countries committing to and delivering automatic exchange of beneficial ownership information.

Conclusion

The issues underlined above, being as they are, a compilation of submissions and discussions at a one-day roundtable, are by no means exhaustive. We submit them in the hope that they stimulate further discussion on an issue which is critical to Africa's hopes for structural transformation, democratic governance and a better life for its citizens.