INTERGOVERNMENTAL GROUP OF EXPERTS ON FINANCING FOR DEVELOPMENT, 6th SESSION, UNCTAD

Financing for development: Mobilizing sustainable development finance beyond COVID-19

Excellencies, dear colleagues, all protocols observed.

It is an honor to have the opportunity to deliver remarks in this sixth session of the Intergovernmental Group of Experts on Financing for Development. I would like to thank UNCTAD and, in particular, its Secretary-General, my dear friend Rebeca, for this invitation.

My apologies for my voice but I am coming out from bronchitis.

I will touch on 4 issues.

First, I have been arguing that sustainable development in Africa requires, above all, a change in paradigm—a long-needed shift that has still not happened. The change in paradigm will require policymakers to understand that, before addressing sustainable development, they need to tackle sustainable financing. Consequently, the policymaking focus must be adjusted. Sustainable development is only possible if there is internally driven sustainable financing. Three key issues are important in this approach:

(i) Debt management and control (or lack thereof) of economic and financial flows, a question of political leadership in Africa;

(ii) Strong domestic institutions and global value chains—the route to minimizing risk in investing in the Sustainable Development Goals (SDGs) and maximizing the impact of SDG investment;

(iii) Sustainable finance for sustainable development—in particular, private sector engagement versus de-risking strategies, an opportunity for African countries.

Second, in order to tackle sustainable financing, African policymaking needs a reboot in the sense that it is now time to stop equating the business of managing poverty with development. Africa will not achieve structural transformation by relying only on external financing for poverty reduction. African policymaking for development finance will have to give the "driver's seat" to domestic resources mobilization (DRM) beyond Domestic revenue mobilization. In this context, DRM, which includes budget (both sides of the budget) and non-budget resources: (i) fighting inefficient public spending; (ii) putting in place efficient revenue authorities, tax administration but not only; (iii) domestic savings; (iv) capital markets; and (v) illicit financial flows.

Third, African sustainable financing for sustainable development requires the rescue of multilateralism as the only global platform able to lead a fundamental shift in the international financial system, enabling the United Nations system to address urgent global threats and restore trust in international cooperation. The United Nations Secretary-General has made a strong call: "Action is needed at all levels. Our shared challenge is to make the international trading and financial systems fit for purpose to advance sustainable development and promote fair globalization" (United Nations, 2019

Fourth, Sustainable financing (i.e., long-term and endogenously controlled) is a required condition for sustainable development. Statements such as this might appear to be a matter of simple semantics, but this is not at all the case. The recognition that sustainable financing is the key issue in delivering development will significantly and positively impact policymaking in Africa. For 3 reasons:

First, it will force policymaking to pay attention not only to stocks but, more importantly, to flows. policymaking in Africa has been—apparently—focused on stocks rather than flows. The public debt management framework is a good example. The public debt-to-gross domestic product (GDP) ratio has become one of the main indicators used in evaluating public policies; in most cases, this disregards the global picture in terms of economic and financial flows, particularly flows relating to the creation of debt. Certain questions arise: What economic flows will be impacted? How (in which conditions) is money mobilized? How is the money spent (low quality of public expenditures)? How is future money pledged (future receivables)? Are the conditions in place to assure that the impacted economic flows will be duly captured by domestic resource mobilization (DRM) mechanisms? Most of the time, these questions are barely considered by different actors. There are painful examples in Africa, particularly linked to commodity-export flows.

Second, it will bring to light how the decision-making process in Africa lacks ownership over financial, fiscal and natural resources flows. In other words, how the non-exercise of ownership over economic and financial flows puts Africa in a position of begging for its own money and, despite its wealth,[1] being unable to provide for

[1] A third of the mineral wealth of the planet, nearly two thirds of its remaining arable land, a fifth of the global landmass and about 15 per cent of its forests.

its own people.[2] Most of the African countries, particularly those engaged in commodity export, have the fundamentals to run positive primary balances on a consistent basis; the reality, however, has been the opposite (International Monetary Fund, 2018). Persistent negative primary balances over time are a very good indication of the lack of control over economic flows and, as a result, can signal the existence of channels through which domestic savings outflow the country instead of financing national development. Most known examples of such outflow are pension funds and international reserves. The combination of the demographic dividend, the increasing level of economic formalization and a growing middle class provides Africa with incredible sources of financial liquidity, long-term capital, and a strong development financing mechanism. Again, the potential is not being realized. Most of this liquidity is placed in developed countries' financial centres, and, through market intermediation, African countries have been borrowing at a high cost.

Third, it will point out the amount of domestic resources available for Africa to finance its own development, and how this has been prevented due to institutional weakness. In other words, the weakness of DRM institutions and systems. The contrast between the amount of illicit financial outflows from Africa versus Africa financing its own needs for sustainable development is, partially, a result of such weakness. This has become a trap supported by a paradox: Africa loses money with its "right hand" and begs for it

[2] According to United Nations projections, a quarter of the world`s population will be African by 2050, and by the end of the century, half of the young people on the planet will live in Africa. This demographic dividend could, potentially, place Africa at the centre of the global economy.

> with its left. In the end, Africa borrows its own money, and sometimes at absurd interest rates with mismatched maturities. Illicit capital outflows from sub-Saharan Africa are huge—about 6.1 per cent (Kar and Spanjers, 2015, p. viii) of the region's GDP—and enter the international financial system from, "just down the road," where African countries have been borrowing resources—namely, through Eurobond issuance.

Is this a technical issue? No. This is a mind set issue. And political science as well as political economy should be call into the conversation.

Thank you.