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**2nd Specialized Technical Committee on
Finance, Monetary Affairs, Economic
Planning and Integration
Experts Meeting
12-14 April 2018
Addis Ababa, Ethiopia**

Eco/STC/MAEPI(II)/EXP/Rpt

DRAFT REPORT OF THE MEETING OF EXPERTS

I. Introduction

1. The meeting of Experts of the Second Specialized Technical Committee (STC) on Finance, Monetary Affairs, Economic Planning and Integration¹ was held at the African Union Commission in Addis Ababa, Ethiopia, from 12 to 14 April 2018. The meeting was chaired by Babacar Ba, Director of NEPAD and Partnerships at the Ministry of Integration of Senegal and Second Vice-Chair of the STC.

A. Attendance

2. The meeting was attended by representatives of the following Member States: Algeria, Angola, Benin, Burkina Faso, Burundi, Cameroon, Central African Republic, Chad, Comoros, Congo, Côte d'Ivoire, Democratic Republic of Congo, Djibouti, Egypt, Ethiopia, Equatorial Guinea, Gabon, Gambia, Ghana, Guinea, Kenya, Lesotho, Libya, Morocco, Madagascar, Malawi, Mali, Mauritania, Mauritius, Mozambique, Namibia, Niger, Nigeria, Rwanda, Sahrawi Arab Democratic Republic, Senegal, South Africa, Sudan, Tanzania, Togo, Tunisia, Uganda, Zambia, Zimbabwe.
3. The Common Market for Eastern and Southern Africa (COMESA) was also represented.
4. Also present were representatives from African and international institutions and representatives of the technical departments of the African Union Commission.

B. Welcome Remarks

5. The Opening Session of the Experts' Meeting was moderated by Dr Rene Kouassi, Director of Economic Affairs at the African Union Commission (AUC). He requested participants to observe a moment of silence in remembrance of the victims of the military plane crash in Algeria.
6. Opening remarks were made by H.E. Prof. Victor Harison, Commissioner for Economic Affairs. He welcomed experts and expressed his sincere appreciation on behalf of H. E. Moussa Faki Mahamat, Chairperson of the AUC, to the authorities of the Federal Democratic Republic of Ethiopia for all the facilities made available for the organization of the Second STC. He highlighted the importance of mobilizing domestic resources, the fight against corruption and illicit financial flows. He noted that with the adoption of Agenda 2063, the "Africa we want", it was important for African countries to have adequate resources for its implementation to enable them to own their destiny.
7. He underscored the need for more efforts to be geared towards mobilizing domestic resources in order to bridge the infrastructure gap in Africa, which is between 130 to 170 billion US dollars per year. He noted that the share of tax revenue in Africa, which lies between 10 and 30 percent of GDP, was

¹ Reservation entered by South Africa.

inadequate to finance the infrastructure needs of the continent. In that regard, he said that it was important to formalize the informal economy, which represents almost 40 percent of the real economy in Africa.

8. He emphasized the results of a study conducted by ECA and the AU Advisory Board on Corruption, which concludes that among Member States that signed African Union Convention on Preventing and Combating Corruption, 50 percent of tax revenues, 25 percent of GDP and 30 billion US dollars allocated for aid to Africa, were misappropriated because of corruption. He stressed the fact that the amount of money flowing into Africa as ODA is lower than the amount of money going out in the form of illicit financial flows.
9. He emphasized the need for Member States to win the fight against corruption at all levels, including at revenue authorities and justice departments. He also underlined the importance of setting up government bodies and agencies to fight corruption and illicit financial flows because this would improve governance at national level, attract investors, increase GDP and, therefore, generate enough resources for our development and improve the well-being of our citizens.
10. In conclusion, the Commissioner reiterated the willingness of the AUC to work in close collaboration with Member States, Regional Economic Communities (RECs) and the entire development community to contribute to mobilizing domestic resources necessary to the fight against corruption and illicit financial flows. He underscored that these were not only the major causes of overreliance on ODA, but also an impediment for the development of Africa and for the implementation of Agenda 2063.

C. Discussions during opening session

11. There were extensive discussions on Rules of Procedure governing the organization of the STC. Discussions focused on the fact that convening of the meeting did not meet the threshold of a formal meeting with regard to the short notification, and the delay in submission of meeting working documents. Some delegations suggested that the meeting be transformed into a consultative meeting.
12. South Africa expressed reservations with regard to the outcome documents of the meeting based on the following shortcomings of the AUC:
 - a) The short notice for convening the STC Meeting, which is in violation of Rule 10 (2) of the Rules of Procedure; and
 - b) Distribution of meeting documentation during the meeting, which made it difficult for South Africa to adopt a national position on items on the agenda.
13. A representative of the Office of the Legal Counsel informed the meeting that the Rules of Procedure only allow for the conversion of a formal meeting to a consultative one where there is no quorum. In the present case, there was a quorum, hence this was a formal session as far as the Rules of Procedure are concerned.

14. Despite reservations from South Africa, Experts agreed to proceed with the meeting.

Recommendations

15. The AUC should develop and present an updated matrix of status of implementation of previous recommendations during each future session of the STC;

16. The AUC should send working documents to Member States at least 30 days before the convening of an STC according to the existing Rules of Procedure;

17. The AUC should organize future STCs in October beginning in 2019;

18. The AUC should send invitation to the STC through embassies so that embassies convey the invitation to the relevant Ministers, or request embassies to provide the contact details of the relevant Ministers involved in the STC.

D. Adoption of the draft agenda

19. The meeting considered and adopted the agenda with some amendments as follows:

- a) Welcome Remarks
- b) Adoption of the draft agenda
- c) Presentations and discussions under the theme: “Mobilisation of Domestic Resources: Fight against Corruption and Illicit Financial Flows”
- d) Case Studies (on the informal sector, illicit resource extraction, taxation and fiscal incentives) and OECD presentation on IFFs in West Africa
- e) Presentation and discussions on the Report of the Independent Experts’ Meeting on the Theme of the STC
- f) Presentations and discussions on statutory issues:
 - Implementation of the Integration Agenda in Africa: State of Play
 - STATAFRIC and PANSTAT
 - Report of the Committee of Directors General of the national statistics offices (CODG)
 - Employment and Social Cohesion Fund-Progress Report on the Preparation for the establishment of the Fund
 - 2018 Revenue Statistics in Africa (for information)
 - Progress Report on the F10 + Committee on the Financing of the Union (for information)
- g) Presentation of the Convergence Criteria for the creation of the African Common Currency
- h) Consideration and adoption of the report of the meeting of Experts
- i) Any Other Business
- j) Closing of the meeting

II. Account of proceedings

A. Presentations and Discussion on the theme “Mobilizing domestic resources: fighting against corruption and illicit financial flows”

Presentation

20. A representative of the Commission presented the theme of the STC, “*Mobilization of Domestic Resources: Fighting against Corruption and Illicit Financial Flows*”. He outlined illicit financial flows and corruption in Africa, with a detailed presentation at regional and country levels which is structured as follows: the first part essentially discusses the importance of domestic resource mobilization, and combatting corruption and illicit financial flows (IFFs) to ensure the sustainable development of Africa. The second part takes stock of the IFFs in Africa based on data provided by the organization Global Financial Integrity (GFI). The third part addresses the issue of corruption and financial mismanagement in Africa, and the last part proposes recommendations.
21. On the mobilization of resources, he stated that efforts should be intensified at national level to mobilize further national resources, thereby overcoming dependence on foreign aid and that Africa must seek to improve the use of its available financial resources through a real improvement in the efficiency of public spending and good management of financial resources.
22. With regard to illicit financial flows, the presenter pointed out that the sustainability of Africa's internal development financing is highly dependent firstly on stopping the Continent's haemorrhage due to illicit financial flows, and secondly, reallocating them for optimum use in order to achieve the continent's priority development goals in each sector.
23. Finally the presenter indicated that combatting corruption is a key element in improving governance in Africa and achieving structural transformation goals, since corruption leaves the door wide open for illicit financial flows. In that regard, he noted that benefitting from the proceeds of financial malpractices and payment of bribes and corruption is not only limited to the public sector, but can also originate from the private sector and affects all segments of society.

Discussion

24. During the discussion that ensued, the meeting noted that the main cause of illicit financial flows partly emanated from Africa's weak public institutions and absence of the rule of law and requires more focused attention.
25. The meeting was of the view that there was need to involve the Regional Economic Communities (RECs) in the efforts being undertaken in fighting illicit financial flows and combating corruption, as some have made tremendous progress in that regard. Further, the meeting underlined the importance attached to sharing of good practices and experiences among Member States. The meeting also requested the AU Commission to consider

developing a methodology that would determine the amount of illicit financial flows exiting the continent. Attention should also be focused on the channels used by illicit financial flows such as shadow financial institutions, disguised corporations and anonymous accounts.

26. It was noted that better communication between Central banks and other partners is of relevance in fighting corruption and illicit financial flows. In this regard, setting up of an African instrument for a computerized data base system for sharing information is crucial in preventing corruption and illicit financial flows. The meeting agreed that Innovative approaches such as sensitization on the impact of fighting corruption especially in public procurement and fighting against money laundering have been proved to be good working mechanisms aimed at combating corruption and preventing illicit financial flows.

27. The meeting also highlighted the necessity of rationalizing and harmonizing the tax incentives at the national, regional and continental levels.

Recommendations

28. In the light of the discussions, the meeting of Experts made the following recommendations:

- (a) Call upon Member States to implement strategies for more effective and fair taxation systems and to establish more effective legal and regulatory frameworks and strengthen the capacities of institutions involved in DRM and combating corruption and IFFs. In that regard, the meeting called for closer collaboration between the judiciary and fiscal authorities;
- (b) Invite Member States to strengthen their macroeconomic frameworks to ensure coherence between monetary and budgetary policies with a view to reinforce the budgetary processes to facilitate their execution;
- (c) Encourage Member States to improve the mechanism of the mobilization of domestic resources through fighting against corruption and illicit financial flows;
- (d) AUC should collaborate with the Member States, Regional Economic Communities and other relevant African and international institutions to share the best practices and experiences in fighting against corruption and combating illicit financial flows;
- (e) AUC should create its own mechanism to assess illicit financial flows, building on the existing ones at regional level and set up a data collection system to combat and track corruption and illicit financial flows;
- (f) AUC should provide capacity building including training and sensitization to Member States in order to assist them in fighting efficiently against corruption and illicit financial flows;
- (g) Strengthen the capacity of the AU Advisory Board on Corruption; and
- (h) Member States are encouraged to strengthen transparency in the public sectors, in management and budgetary control as well as transparency in the banking system.

B. Presentation of Recommendations of the Independent Experts' Meeting on the Theme of the STC

Presentation

29. A representative of the Commission presented key recommendations drawn from the report of the Independent Experts meeting on the theme of the STC that took place from 9 to 10 April 2018 at the Headquarter of the African Union Commission. The recommendations were presented in three parts on Domestic Resource Mobilisation, Fighting against Corruption, and Fighting against Illicit Financial Flows.

Discussions

30. In the ensuing discussions, the meeting emphasized the need for transparency and clarity in the organizational process of the independent experts meeting to make sure that Member States are involved. Further, the meeting reiterated the need for the AUC to create synergies among existing institutions and instruments at national level to avoid duplication of efforts in the continental fight against corruption and illicit financial flows.

31. The meeting discussed the issue of property addressing systems, online registration and the use of Tax Identification Number (TIN) system with a view to strengthening domestic resource mobilization in African member states. In this vein, the meeting stressed the importance of strengthening communication mechanisms between tax policy and tax administration organs.

32. In terms of negotiation of tax treaties, experts underscored the relevance of capacity building with a view to equip African negotiators with the relevant necessary skills.

33. With regards to winning the fight against corruption and illicit financial flows, the meeting highlighted the need for African countries to build capable states able to design, implement and monitor public policies aimed at strengthening their domestic resource mobilization capabilities. This process should include enforcement processes.

Recommendations

34. After the discussion, the meeting made the following recommendations:

- (a) There is need for the Commission to involve Member States in the organizational process of the independent experts meeting with a view to ensuring clarity and transparency;
- (b) There is need for the Commission to appropriate the recommendations of independent experts prior submission to the experts segment of the STC;
- (c) The Commission take appropriate measures to strengthen the capacities of Member States in the area of tax treaties and investments contracts

negotiations. This is critical to address the root causes of illicit financial flows; and

- (d) There is need for Member States to modernize their administrations in order to be able to design, implement and monitor public policies with a view to strengthening domestic resource collection and adequate utilization.

C. Case Studies (on the informal sector, illicit resource extraction, taxation and fiscal incentives) and OECD presentation on IFFs in West Africa

- 35. A representative of the Commission presented three case studies related to the informal sector, illicit resources extraction, taxation and fiscal incentives. The purpose of the case studies was to draw the attention of Member States on the huge consequences of these phenomenon on Africa's development and to take stock of the recommendations of experts with regards to the continental new drive of harnessing the potential of domestic resources. In that context, the Commission stressed the importance of strengthening domestic resource mobilization as part of its efforts to ensure the sustainable financial autonomy of the continent with a view to accelerating socio-economic transformation as enshrined in Agenda 2063.
- 36. On the Economy of Illicit Trade in West Africa, a representative of the Organisation for Economic Cooperation and Development informed the meeting that a study had been carried out due to the region's vulnerability to illicit trade.

Discussion

- 37. In the ensuing discussion, the meeting expressed concern about the source of data concerning the spread of the informal sector in some African countries. They encouraged the AUC to use updated data that reflects the current dynamics on the continent. Experts shared the experiences of their countries in the area of the informal sector and its contribution to the economy. Experts also considered the fiscal policy and fiscal space of African countries taking into account key constraints relating to capacity, incentives and segmentation in the informal sector. In that regard, they highlighted the need for simplification of fiscal policies and systems and strengthening of fiscal predictability and transparency as a means to promote tax compliance.
- 38. On illicit resource extraction, Experts discussed the need for Africa to get better deals in the natural resource sector as a means to reducing the financial hemorrhage arising from non-optimal investment contracts. In this regard, they noted the importance of capacity development in complex contract negotiations to ensure that Africa takes advantage of its natural resource endowment for structural transformation. The meeting also noted the importance of addressing issues of retro-commissions in contract negotiations and called for more transparency and accountability in contract negotiations in the mineral sector. There was consensus on the need for

African countries to create a conducive business environment to encourage private sector participation.

39. The meeting considered the issue of tax incentives in the continental fiscal landscape and underscored the importance of complementarity in fiscal policies and fiscal legislations. They also deliberated on rationalization of the tax exemptions to reduce the negative impact on revenue and development of state.

40. For the OECD presentation, the meeting commended the presenter for a well articulated presentation on illicit financial flows in West Africa and encouraged OECD to conduct similar studies in the rest of the continent.

Recommendations

41. The meeting recommended the following:

Informal sector

- (a) The need for the Commission to use appropriate data from Member States rather than external sources of data; and
- (b) There is need for African countries to design and implement appropriate fiscal policies and tax systems that encourage the formalization of the informal sector with a view to broadening the tax base.

Illicit resource extraction

- (a) Experts called upon the AUC to take the necessary actions to strengthen the capacity of African countries in complex contract negotiations in the extractive industry;
- (b) Member States should strengthen transparency in the extractive industry through provision of information to the public using ICT;
- (c) There is need to revise countries mining codes to ensure their alignment with the new dynamics of Africa's transformation. In this regard, the meeting called upon the Commission to explore the feasibility of drafting a Continental Mining Code; and
- (d) The meeting also expressed the need for better regulation of the mining sector in Africa taking into consideration the potential for job creation and the adverse impact on inequality, poverty, peace and security.
- (e) Reinforce the African solidarity chain in the fight against extration and illicit trade of resources.

Taxation and fiscal incentives

- (a) There is urgent need for Member States to design and implement measures that ensure coherence in fiscal legislations to reduce harmful fiscal incentives that deprives countries to useful domestic resources;
- (b) The meeting also stressed the need for African countries to rationalize their tax exemption processes as a means to strengthening domestic

resource mobilization; and evaluate economic and social impacts of tax exemptions.

- (c) The meeting called upon the Commission to finalize the adoption process of the Pan African Investment Code, considered as a concrete response towards investment policies rationalization within the continent.

OECD presentation on IFFs in West Africa

The meeting invites the OECD to undertake similar studies in other African regions.

D. Presentations and Discussions on Statutory Issues

i. Implementation of the Integration Agenda in Africa: State of Play

Presentation

42. A representative of the Commission made a presentation on the status of regional integration in Africa. In his presentation, he highlighted key information on the implementation process of the integration agenda in various areas in relation to the issues of mobilization of domestic resource and illicit financial flows. He informed the meeting that African integration is a key to the fight against IFFs and its successful integration will support the harmonization of the existing regional integration tools in order to combat corruption and curb illicit financial flows. He presented also the status of the different integration initiatives in Africa including the Pan African Institute of Statistics, the Pan African Statistics Training Center, the African Central Bank, African Investment Bank, African Monetary Fund etc.).

Discussions

43. The participants raised several issues including the delay observed in the implementation of integration agenda which is due to the disparities of policies and programs that are being implemented by the Members States. The meeting highlighted the concerns regarding the status of the African Pan-African Institute and recommend to accelerate its effective operationalization. The participants also stressed the necessity to facilitate the free movement of people through a large signature, ratification and an efficient implementation of the African Single Passport initiative. The meeting also underscored the need to undertake advocacy and awareness campaigns and efficient monitoring processes of integration agenda and requested the harmonization of the statistics in Africa.

Recommendations

44. After the ensuing discussions, the meeting made the following recommendations:

- a) Accelerate the operationalization of the AU Institute for Statistics and Pan African Statistics Training Center;

- b) Call upon Member States that have not signed and ratified the protocol and statutes of the African Financial Institutions to do so;
- c) Request Member States to develop policies to mobilize domestic resources and curb illicit financial flows;
- d) Strengthening the capacity building at country level to accelerate the implementation of Strategy for Harmonization of Statistics in Africa for comparability of statistical information; and
- e) Member States should integrate their payment systems building on the successful experiences at the regional level such as the COMESA payment system.

ii. Report on STATAFRIC and PANStat

Presentation

45. The Secretariat gave the background of the creation of the AU Institute for Statistics and The Pan African Statistics Training Centre, their mandate and objectives and their governance and management.
46. During the discussions, the meeting made comments on the financial implications and requested for clarifications on the two institutions.

Recommendation

47. Following discussions, Experts requested the AU to submit to Member States the Statutes of the two institutions for comments in 30 days from 17th of April 2018, to enable the Commission to finalise the two documents and submit them to the next STC..

iii. Report of the Committee of Directors General of NSOs (CODGs)

Presentation

48. The Secretariat presented the report of the Eleventh Annual Session of the African Union Committee of the Directors General (CoDGs) of the National Statistical Offices was held in Mauritania, from 09th to 11th December 2017. The meeting took in consideration the report of the Eleventh Annual Session of the African Union Committee of the Directors General (CoDGs) of the National Statistical Offices for decision.

Recommendations

49. The meeting took note of the report and made the following recommendations:
- a) called upon Member States to regularly provide data on Agenda 2063 indicators to AUC in order to establish the African Statistical continental database.

- b) Called upon member states to integrate the Agenda 2063 indicators into their national development plan.

iv. Employment and Social Cohesion Fund-Progress Report on the preparation for the establishment of the Fund

50. The presenter outlined the progress report on the establishment of the AU Employment and Social Cohesion Fund. He recalled the mandate of the Assembly and the decision of the STC on Finance calling for accelerating the process of establishment of the Fund. He explained the process of the feasibility study which was supervised by a Technical Working Group constituted of the AUC, AfDB, ILO and ECA with the support of the AUC-AfDB-ECA Joint Secretariat (JSSO). The study describes the scoping of the Fund, its support mechanisms, the structuring and hosting, the governance structure, the resource mobilization channels and opportunities, as well as the business/operating model. It is envisaged to undertake a complementary study on the operational mechanism of the Fund. A timeline was proposed for the completion of the process leading to the submission of the financial, organisational and technical framework of the Fund to the next ordinary session of the AU Assembly of Heads of States and Government and of the Executive Council.

Discussion

51. The ensuing discussions evolved on the necessity to follow the procedures by consulting the competent Sub Committee of the Permanent representative Committee. Delegates enquired about the missions and objectives to be pursued by the Fund, the targets, in particular the relevance to cover key sectors such as the agriculture and formalization of the informal economy, self-employment of youth and women, social protection and social security, and poverty eradication. Questions were raised on the attributions of the Fund and its financial mechanisms, the role of the private sector, the confidentiality principle.

Recommendations

52. Took note of the progress report on the establishment of Employment and Social Cohesion Fund (ESCF) and made recommendations as follows:

- a) Request AUC to undertake Study on the operationalisation and implementation mechanism of ESCF;
- b) Request AUC to submit the financial, organisational and technical frameworks of the Employment and Social Cohesion Fund to the F15 Ministers of Finance, the relevant Sub Committees of Permanent Representatives Committee for scrutiny and onward submission to the Executive Council and the Assembly of Heads of State and Government in January 2019 for adoption; and
- c) Request AUC to organise a meeting between the bureau of STC on Finance, Monetary Affairs, Economic Planning and Integration and the

bureau of STC Social development, Labour and Employment, to consider the Governance Structure, administration, Business Model, Resource Mobilisation Strategy, the operationalization and implementation mechanism of ESCF.

v. *Revenue Statistics in Africa (for information)*

53. The Secretariat presented the joint AUC/OECD/ATAF publication on revenue statistics that is developed in response to the Agenda 2063 and agenda 2030 goals in order to improve domestic capacity for tax and other revenue collection. He indicated from 1990 to 2015, African countries have made significant efforts to strengthen tax policy and tax administration, but still face challenges because of large informal sector and the narrow tax base in resource-rich countries.

vi. *Progress Report of the F10+ Committee on the Financing of the Union (for information)*

Presentation

54. A representative of the Commission presented an updated on the Financing of the Union for noting to the Experts. He highlighted achievements made on financing of the Union to date, including progress with regard to the work of the Committee of Ten Plus Finance Ministers. He informed that a set of 9 Golden Rules establishing clear financial management and accountability principles had been adopted. Further, the meeting was informed that the Committee of 10+ Finance Ministers (F10+) budget oversight role has been defined and enables the F15 to provide stronger technical oversight of the AU budget in collaboration with relevant Organs.

55. On implementation of the 0.2% import levy, he reported that currently there are 22 Member States at different stages of implementing the levy with 13 Member States that have started collecting the levy. However, he noted that there were challenges such as, amongst others, the schedule for transmission of funds to the AU has not been defined.

56. The meeting took note of the Report.

E. Presentation of the Coverage Criteria for the creation of the African Common Currency

57. This item was not presented due to unavailability of the responsible Organization.

III. Consideration and adoption of the Report of the Meeting of Experts

58. The report was adopted with amendments.

IV. Any Other Business

59.No point was raised under this item.

V. Closing of the Meeting

60.In his closing remarks, the Chair of the Experts' Meeting expressed his appreciation to all for their fruitful contributions throughout the discussions.

61.On his part, the Commissioner for Economic Affairs also thanked the experts and emphasized that the Commission is committed to improving its working methods in compliance with the STC's Rules of Procedure.

62.The meeting was adjourned.