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AU/CAMEF/Rpt (1)

The First Conference of African Ministers of
Economy and Finance (CAMEF)

7 May 2005,

Dakar, Senegal

REPORT

I. INTRODUCTION

1. The First AU Conference of African Ministers of Economy and Finance (CAMEF) was held on 7 May 2005 in Dakar, Senegal. The Conference was preceded by a preparatory Experts' Meeting, held also in Dakar, on 4 – 5 May 2005. The Ministers' Conference as well as the Experts' preparatory meeting were organized by the African Union Commission in collaboration with the Government of Senegal.

II. OPENING

2. The Conference was officially opened with a key-note address by H.E. Maitre Abdoulaye Wade, the President of Senegal. H.E. Professor Alpha Oumar Konare, Chairperson of the Commission of the African Union, also made a statement at the opening Session of the Conference. In addition, the Chairperson of the Experts' Meeting, Ambassador of Senegal to Ethiopia and Permanent Representative to the African Union Commission, H. E. Mame Balla Sy, presented to the Conference the Report of the Experts' Meeting.

3. In his statement, H.E. Prof. Alpha Oumar Konare underscored the importance of the Ministerial Conference in view of major forthcoming meetings, including the Sirte AU Summit in July 2005, the G8 Summit in July 2005 and the UN Conference in September 2005, where important issues relevant to Africa's development will be discussed. He also noted that effective preparation for these meetings requires harnessing competences within and outside the continent, avoiding duplication of efforts and ensuring coordination between AU, Regional Economic Communities (REC), NEPAD and other African organizations.

4. He highlighted the socioeconomic and political challenges facing Africa, including HIV/AIDS, conflicts, governance, deteriorating living conditions, and food insecurity. He pointed out that the establishment of the AU and adoption of NEPAD were aimed at meeting these challenges and for drawing lessons from past experiences. He further remarked that Africa does not need another Marshall Plan for its development. The African Union and its NEPAD Programme exist for that purpose. It is the duty of African countries, he added, to make the necessary sacrifice for the financing of AU/NEPAD, and RECs for the acceleration of African integration and development. Assuming responsibility in this regard does not require endless studies, otherwise we risk burying our hopes.

5. Prof. Konare advocated that in Africa's development agenda emphasis should be put on the development of human resources, the bridging of the digital divide, the achievement of food security, combating the HIV/AIDS pandemic and meeting the other needs of our population. Given the strength of Africa as reflected in our voice in the UN, our natural resources and potentially huge and young population, he expressed optimism that Africa will be the new market and workshop of the future. The 21st century will be that of Africa if the Continent's unity in diversity is properly managed as a source of strength.

6. Regarding the issue of Africa's external debt and aid, he noted that there have been good intentions and the debate has been around for quite sometime. He called for the translation of these good intentions into concrete actions. He further stated that debt cancellation and doubling of aid would contribute significantly to the financing of Africa's development. He then called for the establishment of a new mechanism besides the London and Paris Clubs framework for dealing with the problem of Africa's external debt. The cancellation of debt, he argued, should cover all African countries. He

emphasized the need for the unity of African countries in engagement with the rest of the world.

7. In his key-note address, President Wade welcomed the Ministers and the Participants to Dakar and commended H.E. Prof. Konare for his opening statement. He then addressed the Conference on three major issues: (1) Africa's external debt, (2) the Millennium Development Goals (MDGs), and (3) Financing of development. On the issue of external debt, he defined the concept of "over-indebtedness" as a situation in which a country has to spend more than 15% of its export earnings to service external debt. He argued that over-indebtedness deprives a country of much needed resources to finance development and can contribute to vicious circle of poverty. He then proposed that the solution to over-indebtedness must be debt cancellation. However, the case of debt cancellation must be based on a thorough appraisal of debt, indicating how much was borrowed, under what circumstances, what the fund was utilized for, how much was repaid and how much remains to be repaid. With such a precise documentation, we can meaningfully engage our partners on the issue of debt cancellation.

8. President Wade welcomed the initiatives of Jacques Chirac and Tony Blair on the transfer of resources to Africa and urged Ministers to recommend to the Heads of State and Government the acceptance of these initiatives. In case the proposal for total debt cancellation fails, President Wade recommended establishment of Debt Management Fund in order to facilitate debt repayment.

9. In his reflection on the MDGs, the President challenged the notion of defining poverty in terms of money income. He urged that poverty be defined in terms of minimum requirement to live a decent life including proper housing, safe water, sanitation, nutrition, etc. Accordingly, he argued that poverty reduction must encompass the enhancement of human dignity and

security. To alleviate poverty, he advocated for the allocation of more resources to health, education and training as well as improved access to information and communication technologies.

10. For the financing of Africa's development, the President underlined the need for enhancing the value of our natural resources, getting right prices for our products, and securing improved access to the markets of developed countries. He advocated a new philosophy for the management of Africa's natural resources, especially those underground such as oil. Given that African boundaries are artificial, he stated that such resources should be managed on continental basis for the benefit of all Africans. He advocated for a strategy that will enable Africa to retain a greater proportion of the value of its resources in Africa.

11. The President called for a re-definition of Africa's relationship with the international community. In this regard, he requested for a preparation of a concept paper on the reform of the Bretton-woods Institutions. He also proposed the enlargement of the G8 to G9 to allow Africa to have a seat in that Group.

12. Finally, President Wade said Africa being part of the international community, a system is required that will enable the community to respond to the needs and aspirations of Africa.

Attendance

13. The Conference was attended by delegates from AU Member States. Also represented were the United Nations Economic Commission for Africa (ECA), the United Nations Development Programme (UNDP), the Common Market for Eastern and Southern Africa (COMESA), Banque Centrale des

Etats de l’Afrique de l’Ouest (BCEAO) and the African Development Bank (ADB). The list of participants is attached to this Report.

14. The Ministers elected a Bureau and adopted the agenda as follows:

Bureau:

- Chair: Senegal
- 1st Vice-Chair: Libya
- 2nd Vice-Chair: Gabon
- 3rd Vice-Chair: Botswana
- Rapporteur: Tanzania

Agenda

- i) Opening
- ii) Election of the Bureau
- iii) Adoption of the Agenda
- iv) Consideration of the Africa’s Debt Problem
- v) Consideration of the proposals of the African Union Commission on the Union’s Alternative Sources of Funding
- vi) Review of the Millennium Development Goals
- vii) Consideration of the Commission for Africa Report
- viii) Any Other Business
- ix) Adoption of the Report
- x) Closing

Africa's External Debt

15. In introducing this agenda item, the Commission indicated that Africa's debt is unsustainable compared to those of other developing countries. The Commission stressed that all technical solutions have not yielded sustainable and lasting solutions.

16. It was reported that the Chairperson of the Commission had set up a working group to consider Africa's debt issue and propose scenarios for coping with Africa's debt. The Commission also held, on 21-22 March, 2005 a workshop of independent experts and civil society organizations on Africa's debt. The workshop discussed the scenarios proposed by the AU Commission and recommended that these scenarios be technically analyzed. Finally, the Commission indicated that on 2 – 3 May, 2005, the same scenarios were presented at the Meeting of African Eminent Personalities which examined them and made relevant recommendations thereon.

17. The scenarios are as follows:

- a) Cancellation of the External Debt;
- b) Twenty-Five (25) year moratorium;
- c) Comparison of the Annual debt Payout Level and the Annual Expenditure on Social Policies of Debtor countries;
- d) Debt repayment in local currency or African Exchange;
- e) Cancellation of the 1960 – 2000 debt;
- f) Debt equity swaps or exit bonds in debtor countries;
- g) Non re-payment of debt; and
- h) Future loan optimization: non-debt: generating funding.

18. In the discussion that followed, Ministers underscored the dramatic character of Africa's indebtedness and the need to devise adequate solutions. The Conference made the following observations and recommendation:

- a. The Highly Indebted Poor Countries (HIPC) initiative had a limited scope.
- b. The Ministers agreed that debt cancellation should be the ultimate goal for Africa but this must be linked with the implementation of the Millennium Development Goals (MDGs), and also the access of African products to foreign markets.
- c. Apart from Africa's external debt, the Conference also expressed concern about domestic debt which is also an impediment to national and continental development.
- d. Debt cancellation should not result in any reduction of development Official Development Assistance (OAD) to Africa.
- e. As regards the proposed scenarios, the Conference highlighted the need for a selective approach that would result in only one formula to make negotiations with creditors easy for the Heads of State.
- f. Consider establishing an African Debt Management Fund to facilitate all debt relief or cancellation mechanisms and initiatives.
- g. In order to justify debt cancellation, African countries should carry out an audit indicating the amount of debt, its origins and terms.

- h. It was in the interest of African countries to adopt a common position on debt that would be presented to the African Union Summit in July 2005 in Sirte (Libya).
- i. African countries have the responsibility to ensure that Africa's debt remains indivisible so that any initiative vis à vis African debt should benefit all African countries.
- j. African leaders should avoid being subjected to conditionalities related to debt cancellation.

Alternative Sources of Financing the African Union

19. In its presentation, the Commission of the African Union highlighted the fact that the Organization of African Unity (OAU) largely depended on statutory contributions of the Member States for financing its activities which, for the most part, were administrative functions. However, the creation of the African Union increased operational requirements and made it imperative to identify other financing sources. Additional financial resources were needed not only to operate the various organs of the Union, but also to implement its continental programmes and sectoral projects as contained in its strategic plan for 2004-2007, for example.

20. Several financing sources had since been proposed including those by President WADE on import levy as well as a tax on insurance; the proposal on the Pan-African Resource Solidarity by the African Organization of Civil Societies, and other financing sources like the popular mobilization of financial resources and mobilization of resources through the private sector.

21. The Commission then invited the Conference to give views on the feasibility, implementation and efficiency of the proposed alternative funding sources and recommended appropriate financing mode which would enable the African Union to achieve its objectives.

22. In the ensuing discussions, the Ministers agreed with the Commission that there was a need to look into alternative funding based on the fact that statutory contributions of the Member States had several shortfalls, including:

- accumulation of contribution arrears;
- delays in contribution payments on average, 40% of statutory contributions are collected on time every year; and,
- dependency on one single and now insufficient financing source.

23. Regarding the proposed import levy, it was observed that the proposed 0.2% import levy on imports external to the Union would be borne by the African consumer of the imported goods. This financing mode presents the double advantage of being civic, as the consumer pays, and fair, as a result of the proportionality between the gross tax contributions as related to each country's capacity to import. Given that integration was the ultimate objective of the African Union, this financing mode seems reasonable as an option for finding dedicated resources. However, some Ministers pointed out that this proposal could result in some related problems, namely:

- Inflation
- Problems related to the mechanism for the transfer to the African Union;
- Multiplication of tax at the Regional Economic Communities (RECs) level, where tax is already levied; and
- Non-compliance with WTO rules.

24. Regarding the 0.2% tax on insurance, it was pointed out that the idea was to establish a non-physical African Union stamp which would be a contribution for each subscribed insurance policy. Given that insurance companies were very liquid and they generate considerable savings, the tax base

was broad and might depend either on the insurance policies, or turnover or profits. However, the drawbacks may be linked to the asymmetric market structure in Africa, with only one country (South Africa) accounting for 80% of resources, reduced market size and prominent evasion in the insurance sector.

25. The idea of value added tax was mentioned but was considered not feasible due to non-harmonization of tax legislations in Africa. However, the Ministers proposed for consideration the establishment of a trust fund financed by the private sector and financing by the African Investment Bank to be created soon.

26. After the discussions, the following recommendations were made:

- i. The Member States and the African Union Commission should pursue reflections on ways and means to endow the Union with its own sufficient and permanent resources;
- ii. President WADE's proposals should be presented to the Member States before July 2005, once the document has been translated in the four working languages of the Union. The Member States, RECs and civil society should further be involved in the review of the proposals by President WADE;
- iii. Ministers agreed to fulfill their commitments to contribute to the African Union budget and to clear their outstanding arrears.

Millennium Development Goals (MDGs): Assessment of the Status of Implementation by Africa

27. Presenting an overview of the Report on this agenda item, the Commission of the African Union recalled the January 2005 Abuja Summit Decision which directed the AU Commission to coordinate and lead the process of developing an African Common Position in the review of the

MDGs. It was indicated that the Report prepared by the African Union Commission in collaboration with partners was in response to the Summit Decision.

28. The AU Commission stated that while some African countries had made some progress towards meeting the MDGs, the overall performance of the Continent had not been as good as those of the other developing regions of the world. It was further indicated that if the current implementation trend continues, Africa might risk not achieving the MDGs by the target date of 2015. The attainment of the MDGs, it was argued, required greater efforts on the part of Africa in a number of areas including peace and security, social and economic policies, and resource mobilization as well as efficient utilization of these resources. Also critical for the attainment of the MDGs was the need for the international community to meet its commitments to Africa with regard to development assistance, debt relief and market access.

29. In the ensuing discussions, Ministers noted the recent achievements of African countries in promoting peace and security, good governance, and implementing economic and social reforms. But, there was a consensus on the need for further progress in these areas and many other aspects of social, economic and political life in Africa. The Conference also agreed that efforts should be made to internalise the MDGs and that national policies and appropriate institutional mechanisms should be put in place and/or reinforced to ensure implementation, monitoring and review of the MDGs.

30. It was also noted that breaking the cycle of poverty and conflict in Africa required equitable and sustainable economic growth and social development, especially addressing the problem of youth unemployment, inequality and social exclusion. The enhancement of physical and social infrastructure, and the development of human capital, especially through financing science and technology were considered critical for the attainment of the MDGs.

Emphasis was also placed on the need for speeding up the process of Africa's regional integration and implementation of NEPAD.

31. The Conference called for greater mobilization and efficient utilization of Africa's resources, - human and financial - for the implementation of the MDGs.

32. The Ministers agreed that Africa's inability to make sufficient progress towards the MDGs had partly been due to the failure of the international community to meet its previous commitments in the areas of development assistance, debt alleviation, and trade. In this regard, it was agreed that debt cancellation would greatly contribute to the reduction of poverty, promotion of socio-economic development and improvement in the living conditions in Africa.

33. At the end of the discussions, the Ministers made the following recommendations:

- Background papers on economic policies must mainstream MDGs and be used as operational frameworks for the achievement of these goals;
- Member States should have coherent socio-economic plans and programmes in which the MDGs should constitute a part;
- In the framework of the implementation of the MDGs, African countries should put emphasis on youth employment, wealth creation, promotion of good governance and peace and security;
- Greater attention should be paid to the mobilization of domestic resources for the financing of the MDGs;

- The AU Commission should be aggressive in the coordination of efforts in achieving the MDGs and sharing best practices among member states;
- Concerted efforts should be made by the AU and the RECs in the framework of the NEPAD programme to speed up Africa's infrastructure development and regional integration;
- The international community should fulfil its commitments to Africa's development by increasing and improving the flow of development assistance. In this regard, the target of 0.7 per cent of GNP of the developed countries as ODA should be met for the achievement of the MDGs by the target date;
- The alignment of aid procedures with development strategies of African countries is essential;
- The cancellation of Africa's external debt would help release resources for the promotion of economic and social development, especially for combating HIV/AIDS, improving primary health care and education and achieving other MDGs;
- The imbalances against Africa in the global trading system should be redressed through the elimination of subsidies, tariff peaks and escalation, and through greater valorisation of Africa's natural resources and commodities; and
- The Ministers recommended the Draft Declaration on the MDGs to the Executive Council for the consideration and onward transmission to the AU Summit in Sirte, Libya from 4-5 July, 2005.

Consideration of the Commission for Africa Report

34. Introducing the item, the Commission questioned the rationale for having another initiative in addition to the several existing initiatives on Africa including:

- i. African Economic Recovery Programme (1986);
- ii. UN-NADAF (1990);
- iii. Final Act and Lagos Plan of Action (1980);
- iv. Abuja Treaty (1991);
- v. The Tokyo International Conference on African Development (TICAD) (1992);
- vi. Africa-Europe Dialogue (2000);
- vii. NEPAD (2001);
- viii. The Vision, Mission and Strategic Plan of the Commission of African Union (2004); and
- ix. Strategic Plan of the African Union Commission (2004).

36. In the light of the above observation, the Commission raised questions **pertaining to** the value added of the Report, its limitations as well as strategies for its implementation. In order to answer these questions the Commission **stated that it** had undertaken a review of the Report **to** facilitate **its** collective understanding in Africa.

37. After the presentation of the Commission Ministers made the following observations and recommendations:

- The Ministers commended the initiators of the Report and indicated that if the stated objectives of the Report are to be met it should benefit from the political will of the G8 countries and the entire international community. They were

of the view that implementation of the proposals and recommendations contained in the Report could contribute to the development process in Africa.

- The Report offers the African Continent an opportunity that can help it not only to attain the MDGs but also to place itself on sustainable growth and development path. The African Union should therefore take ownership and ensure its implementation;

Closing

38. The AU Commissioner for Economic Affairs, Dr. Maxwell Mkwelazamba, thanked the host government and the Ministers for the success of the Conference and expressed the hope that the recommendations of the Ministers will assist the Summit in taking appropriate decisions on the issues discussed.

39. The Chairperson of the Conference, Hon. Abdoulaye Diop, Senegalese Minister of Finance thanked the participants for their positive contribution to the discussions and declared the Conference closed.

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