DOMESTIC PUBLIC RESOURCES FOR DEVELOPMENT

Key commitments

Africa: Since the 2001 NEPAD Founding Statement, African governments have emphasised the primary significance of domestic savings and of strengthened public revenue collection for development finance. They have pledged on many occasions to raise additional domestic resources. They have also placed increasing emphasis on tackling illicit financial flows which reduce the resources available to governments (see also Topic 12).

Development partners: Supporting developing country efforts to mobilise national savings was a major commitment of the Monterrey Consensus, reaffirmed at the follow-up 2008 Conference in Doha. The domestic resource mobilisation pillar of the Multi-Year Action Plan agreed at the G-20 Summit in Seoul in 2010 includes commitments to (i) support the development of more effective tax systems; (ii) support work to prevent erosion of tax bases in developing countries including through exchanging tax information and supporting the effectiveness of transfer pricing regimes; and (iii) develop and harmonise benchmarking tax administration instruments.

What has been done to deliver on these commitments?

Africa: Many African countries have improved revenue mobilisation efficiency by broadening their tax base. Most countries in Africa have adopted value-added taxes to reduce reliance on trade taxes but in most countries, VAT laws tend to be complex. Twenty two countries have established revenue authorities. The African Tax Administration Forum (ATAF) has created a platform to help tax administrators share good practices, set tax priorities and improve fiscal legitimacy. Some countries are experimenting with approaches to enhance partnership and trust with the taxpaying community. Yet, in spite of efforts by many governments to reduce total tax rates on businesses in line with a worldwide trend, African companies still face the world's heaviest tax burden both in terms of high rates and cumbersome regulations (see also Topics 4 and 12). Also, free trade arrangements within Africa and between Africa and their major trading partners, together with the use of tax competition to attract foreign investments have put pressure on narrowing the tax base in many countries. In dealing with multinational

enterprises, a number of African countries have transfer pricing policies in place but face significant challenges in their capacity to effectively assess the risk of potential revenue losses and take remedial action. Lastly, successes with rolling out VAT have increased tax efficiency but have also led to a greater share of more regressive indirect taxes, while the more progressive personal income tax has experienced only a small increase as a share of GDP.

Development partners: There has been a significant scaling up of international effort:

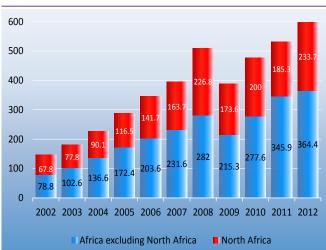
- (i) The OECD Task Force on Tax and Development provides support for developing countries on a broad range of tax issues including capacity building for tax administration, combating tax avoidance and evasion, and building effective transfer pricing regimes, in association with ATAF and other partners.
- (ii) The Global Forum on Transparency and Exchange of Information for Tax Purposes was restructured in 2009, now includes 120 member jurisdictions including 17 African countries; African membership has almost doubled in the past 6 months. The Forum has launched over 100 peer reviews. A series of technical assistance programs have been launched by the Forum to assist smaller jurisdictions and developing countries to meet the standard.
- (iii) There has been a steady increase in the number of exchange of information agreements. Three African countries have signed the Convention on Mutual Administrative Assistance in Tax Matters which is the most comprehensive multilateral instrument available to help counter cross-border tax evasion and ensure compliance with national tax laws.
- (iv) A Global Forum on Transfer Pricing has been established, and the UN has published the Practical Manual on Transfer Pricing for Developing Countries providing guidance on the policy and administrative aspects of applying transfer pricing analysis to transactions of multinational enterprises (MNEs). Recent developments have, however, underlined the complexity of the challenges involved and the need to address these not only through building effective domestic transfer pricing regimes but also by stronger international action.

Continued recovery of domestic revenues following global crisis reaches new highs in 2012. More needed to broaden tax base together with international efforts to address tax havens and transfer pricing.



Recent domestic public revenue mobiisation (US\$ billion, nominal)

Sources: IMF World Economic Outlook database (April 2013); OECD Migration and Development Brief (Nov. 2012); International Debt Statistics (2013); World Bank Global Economic Prospects (2013). DAC International Development Statistics database; World Bank



What results have been achieved?

(i) Total government revenue excluding grants increased from 22% to over 32% of GDP be-tween 2002 and 2008. As a result, Africa more than tripled its revenue collection over the period to reach over US\$509 billion, more than ten times the volume of ODA, though the ratio to ODA varies considerably among countries (see Appendix table). Revenue to GDP ratios have increased in all groupings of countries, but most significantly in resource-rich countries, helped by the boom in commodity exports and in middle-income countries. As a result of this performance, while 20 African countries mobilised less than 15% of GDP as public revenue — commonly regarded as the minimum to ensure coverage of basic government services — in 2002, only 9 countries (or 17%) still collected less than 15% of GDP in 2012. However, from a global perspective, public resource mobilisation in Africa (excluding North Africa) remains weak compared to other regions. Recent assessments of tax effort by the IMF show that half of countries in this group can, on the basis of their economic potential, further raise the equivalent of 2% to 4% of GDP in revenue.

(ii) The global economic crisis caused a sharp fall in public revenue in 2009. due to lower com-modity prices and lower growth. In nominal terms, public revenue declined by US\$120 billion, some 23% below the previous year, to US\$390 billion. This decline occurred mostly in oil exporters. Government revenue has recovered strongly since then to reach a new high of US\$580 billion in 2012. The increase in domestic revenue mobilisation was particularly strong in sub-regions outside of North Africa with collective revenues reaching over US\$364 billion in 2012 for this group, or 4.5 times the level mobilised in 2002. The gross national savings rate increased from an average of 17.1% of GDP in the pre-Monterrey period to a high of 24% in 2006, but has since dropped back to an average of 20% in the past three years. However, increases reflect the performance of resource-rich and middle-income countries, whilst low-income countries have made minimal improvement. (iii) The level of domestic revenue continues to be affected by illicit financial flows. Estimates are debated but there is consensus that the sums are very large. International tax evasion and avoidance are a significant element in this.

What are the future priority actions?

- Strengthen tax administration efforts including addressing the problem of tax avoidance and getting a fair share from the exploitation of natural resources;
- Broaden the tax base by rationalising tax policy including treatment of tax preferences and exemptions:
- Give higher priority to facilitating savings through the development of financial markets and microcredit institutions.

- Intensify co-operation with Africa on the development of more effective tax systems, (see also Topics 12 and 15);
- Intensify co-operation on preventing the erosion of tax bases, including through improved exchange of information and support for building effective transfer pricing regimes;
- · Develop broader work on improving the effectiveness of transfer pricing regimes.

FOREIGN DIRECT INVESTMENT AND OTHER PRIVATE FINANCIAL FLOWS

Key commitments

Africa: In the 2001 NEPAD Founding Statement, African leaders committed to encourage and boost private capital flows as a long-term approach to addressing Africa's resource gap. They further agreed to promote the deepening of financial markets, to enhance cross-border financial market harmonisation and integration, and to promote an improved business environment to encourage both domestic and foreign investment (see also Topic 4).

Development partners: Since 2002 in Monterrey, development partners have reaffirmed their support to increase foreign investment (see also Topic 4). In the Doha Declaration, member states agreed to strengthen national and international efforts aimed at maximising linkages between foreign investments and domestic production activities. The G-8's goal of reducing the transfer costs of remittances from 10% to 5% by 2014, announced in 2009, was adopted by the G-20 in 2011.

What has been done to deliver on these commitments?

Africa: To compete globally for foreign investments many African countries have put in place incentives to attract foreign direct investment (FDI). African countries have signed 1,304 international investment agreements (IIA), 40% of all signed IIAs worldwide. The Southern African Development Community (SADC) has been working on a model bilateral investment treaty template to promote harmonised approaches among its member countries. The African Union has created the African Institute for Remittances (AIR) to build capacity of African countries to leverage remittances for development. Many countries have made progress in rendering exclusivity contracts illegal which increases competitiveness and reduces transfer costs of remittances.

Development partners: The NEPAD-OECD Africa Investment Initiative is helping build capacity to strengthen the investment environment by providing a forum for policy makers and supporting country-led investment reviews and reforms. Under the Global Remittances Working

Group partners have launched initiatives on remittance data collection, migration and development, payment and market infrastructure, and access to finance. As part of this effort, the World Bank is helping one country develop mechanisms to securitise savings by its diaspora through Diaspora bonds.

What results have been achieved?

Until the global financial crisis of 2008-09, Africa experienced six consecutive years of growth in private capital inflows, which reached a record high of almost US\$70 billion in 2007. Flows recovered strongly in 2010 but have suffered declines in the last two years. Political turmoil in North Africa saw private capital flows to the region fall 81% in 2011-12 to a low of US\$3 billion. By contrast, private capital flows to the four other sub-regions increased by 14% over the period to a record \$54.5 billion. Much of the increase was driven by FDI and bond flows. FDI inflows were attracted by major gas discoveries, oil well drilling and new mineral deposits across several parts of the continent. And while the extractive sector continues to dominate FDI flows, there were increasing investments in the services sector, infrastructure, and consumer sectors such as retail trade and consumer banking in the larger economies with a growing middle class. Currently, 14 out of 54 countries in Africa have issued foreign currency-denominated instruments on the international markets; 4 of these issues took place in 2012.

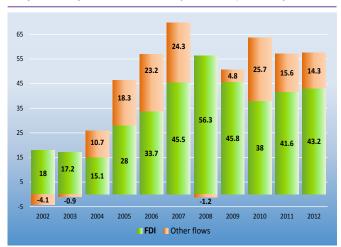
About two-thirds of FDI flows into Africa have helped to finance new projects. The cumulative stock of FDI was estimated at US\$559 billion at end-2011 with North Africa holding the largest share (37%) followed by Southern Africa (29%), West Africa (19%), Central Africa (8.5%) and East Africa (6%).

Although modest in size from a global perspective, FDI inflows to Africa have a significant impact on recipient countries. About half of Africa has received FDI in excess of \$500 million in one or more years in the recent period. Excluding North Africa, FDI accounted for more than 20% of total investment in over a third of African countries and has helped to raise total domestic investment as a share of GDP by almost 4 percent-

Private flows to North Africa still affected by political unrest, but other sub-regions reach record highs. FDI remains most significant component.



Net private capital flows to Africa (US\$ billion, nominal)



Sources: WB International Debt Statistics, January 2013; WB Global Economic Prospects, January 2013; UNCTAD, World Investment Report 20121; IMF World Economic Outlook database. April 2013.

age points since the late 1990s. According to the UNCTAD FDI Contribution Index, Africa is the region where transnational corporations contribute the most to the economy in terms of value added, R&D expenditures and wages. Estimates by the African Development Bank based on a sample of 34 countries for the period 2004-08 show that the impact of FDI on savings and investments is 5 to 7 times larger than official development assistance.

Portfolio equity flows to Africa (excluding North Africa), which declined during the global crisis, recovered to 2007 levels in 2009-10, encouraged by the establishment of a number of Africa-focused private equity funds. But the Euro zone crisis dampened portfolio equity inflows in 2011. The experience of the last few years shows that private equity is becoming a growing part of the financial sector in Africa, especially for long-term finance. While South Africa has traditionally been the

major recipient of portfolio equity in Africa, in recent years, 5 African countries have experienced portfolio equity flows in excess of \$500 million on a yearly basis.

With increasing global migration flows, workers' remittances have become an important source of inflows for many African countries. Between 2000 and 2012, remittances to Africa rose sevenfold to US\$54.6 billion, exceeding official development assistance. After a decline in 2009 in the aftermath of the global financial crisis, remittance flows rose 20% in 2011-12. Such growth has been led by North Africa, which experienced a 33% increase in remittances over the period as the diaspora sent larger amounts of money to help families and friends affected by the political unrest. Actual remittances to the other African sub-regions are estimated to be much larger if transfers through unofficial channels are included. For 13 countries in the region, remittances accounted for more than 4% of GDP in 2011. The cost of remittances to Africa has declined somewhat but remains the highest among developing regions at 12.4% at end-2012.

What are the future priority actions?

Africa

- Continue efforts to improve the business environment in order to attract both domestic and foreign investment;
- Create the conditions to enhance the contributions of FDI to the economy;
- Develop the capacity at country and sub-regional levels to promote and better track remittance trends, leverage their development impact, and reduce their transaction costs.

- Support Africa's effort to promote and diversify private capital inflows:
- Strengthen actions to facilitate remittance flows and to reduce transfer costs.

DEVELOPMENT ASSISTANCE

Key commitments

Africa: African governments have committed to exercise effective leadership over their development policies and programmes, to strengthen public financial management and to be accountable for development results. These commitments were set out in the Paris Declaration on Aid Effectiveness (2005) and the 2008 Accra Agenda for Action and reaffirmed in the 2011 Busan Partnership for Effective Development Co-operation.

Development partners: Development partners made a series of commitments in 2005 to increase development assistance by 2010 and (in the case of the EU) to further increases by 2015. In 2011, G-8 countries reaffirmed commitments on ODA and enhancing aid effectiveness. Some commitments were denominated in GDP. Adjusting for lower GNI in 2010, commitments translate into ODA to Africa of US\$65 billion in 2010 (2012 prices and exchange rates). They have also agreed that new sources of finance needed to be developed, and set quantified targets for climate finance (see Topic 18).

A second category of commitments relate to improving aid effectiveness, particularly in the areas of alignment to countries' policies and systems, harmonisation of practices, transparency and predictability. Some made additional voluntary commitments under the 2008 International Aid Transparency Initiative (IATI). Several time-bound Busan commitments on aid untying, transparency and predictability required early action including a review in 2012 of plans to accelerate efforts to untie aid, publication by end-2012 of schedules to implement a common standard to improve aid transparency, and the provision of reliable 3-5 year forward expenditure figures or implementation plans to all developing countries by 2013. Emerging economies have accepted the Busan outcome document as a reference point for South-South co-operation.

What has been done to deliver on these commitments?

Africa: Most African governments have made progress in delivering their Paris/Accra commitments including strengthening the leadership of their development programmes. 13 countries (out of 29 for which data is available)

have improved the quality of their national development strategies since 2005, and several have completed fully-costed MDG needs assessments. Many countries have accelerated and deepened public financial management reforms. But parliamentary oversight of national development strategies and civil society involvement remain limited.

Development partners: Aid volume commitments for 2010 were still not met collectively in 2012, although some individual partners have met their commitments. Total ODA fell to US\$125.6 billion (2012 prices), a drop of US\$8 billion in nominal terms and 4% in real terms, following a 2.3% drop in real terms in 2011. It was significantly below the 2010 level implied by 2005 commitments, of around US\$146 billion in 2012 prices. The fall was most marked in those countries with weak fiscal positions. Slightly over half (US\$4.5 billion) was in Africa, which was thus affected disproportionately compared to its 38% share of global ODA in 2011. Donors have created three innovative financing mechanisms in the health sector including Advanced Market Commitments (AMCs) to support the development of vaccines, the International Finance Facility for Immunisation (IFFIm), and the UNITAID Solidarity Air Ticket Levy and carbon market mechanisms (see also Topic 18). Discussions continue on the introduction of a levy on financial transactions to support development among other objectives.

Global progress on aid effectiveness has, moreover, been insufficient to meet most of the targets set in the Paris Declaration. The 2011 OECD Report on Progress in implementing the Paris Declaration found that only one out of the 13 targets for which data was available was achieved in 2010 and by a narrow margin: the target for coordinated technical co-operation. In particular, donors are not systematically making greater use of country systems where these are more reliable. Progress on aid transparency has gathered pace, with 100 agencies publishing data to IATI standards. But evidence to date suggests that more efforts are needed to implement the Busan commitments on aid untying, transparency and predictability and address political constraints. Progress in accelerating efforts to until aid is patchy. A number of donors have untied 90% or more of their ODA. But while some are committed to making further progress, others see little scope for additional untying in areas that they see as politically difficult. At the end of 2012, all 24 DAC members had published schedules for implementing the common standard on aid transparency by the end of 2015 though further

Aid to Africa falls in 2012 and remains below 2010 targets. Commitments on aid effectiveness only partially met. Aid to Africa should be increased in line with earlier commitments.

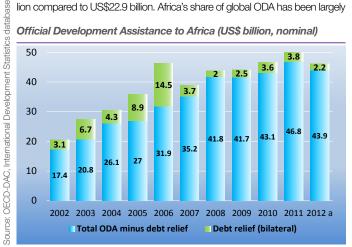


clarity on what 'minimum compliance' to the common standard entails is required. But the specific Busan commitment on medium-term predictability is unlikely to be fully met by 2013. Although several donors have made efforts to improve the availability of forward spending information, such efforts tend to focus on "priority" partner countries. Few donors appear to be on track to provide developing countries with comprehensive, rolling forward spending plans. A new stock take of progress will be undertaken by mid-2013 on the basis of the set of 10 indicators agreed in June 2012 to support global accountability within the Global Partnership for Effective Development, along with an assessment of the plans for implementing the common standard.

What results have been achieved?

On aid volume, ODA to Africa fell from US\$50.7 billion in 2011 to US\$ 46.1 billion in 2012 (preliminary data), around US\$19 billion below the 2010 level implied by 2005 commitments (around US\$65 billion in 2012 prices). The shortfall is due to two factors. Global ODA has risen more slowly compared to commitments (as above). But Africa has also had a smaller share than anticipated - about 34% of the increase since 2004 instead of the 50% assumed in 2005, or US\$15.7 billion compared to US\$22.9 billion. Africa's share of global ODA has been largely

Official Development Assistance to Africa (US\$ billion, nominal)



static since 2007, and indeed fell between 2011 and 2012. The issue is therefore one of both global volume and distribution. Forward spending plans provided by donors for country programmable aid (CPA) (about 56% of bilateral ODA in 2011) indeed suggest a shift in Shift in ODA towards middle-income countries in the Far East and South and Central Asia. By contrast, CPA is likely to stagnate to countries with the largest MDG gaps and poverty levels, many of which are in Africa. On innovative finance, an estimated US\$5.8 billion for health and US\$2.6 billion for climate and other environmental programmes have been managed through such mechanisms since 2002. On aid effectiveness, evidence suggests that improvements in aid delivery have made a helped to strengthen core state functions although the actual contribution to final development outcomes is difficult to establish. On aid untying, some issues remain concerning the extent to which de jure untied aid is actually untied in practice and to demonstrate tangible development benefits for partner country beyond better value for money. Since donors are only just beginning to publish their aid information according to the common standard, it is too early to comment on results, and on what difference transparency on financial flows is making in developing countries.

What are the future priority actions?

Africa

- Exercise effective leadership and develop capacity in coordinating and harmonising donor activities;
- Develop country-level frameworks for monitoring results in terms of development effectiveness, especially in the context of implementing the Busan commitments:
- Strengthen public financial management and procurement systems.

- Volume: meet those commitments which have been made on ODA to Africa in 2015, and where there are no such commitments, as a minimum. maintain ODA to Africa at 2010 levels:
- Effectiveness, quality and accountability: fully deliver commitments made at Busan, including on improving aid predictability and transparency and accelerating efforts on aid untying;
- Sustainability: ensure ODA is compatible with longer-term sustainability objectives.

EXTERNAL DEBT

Key commitments

Africa: At Monterrey (2002), Africa committed to establish national comprehensive strategies to monitor and manage external liabilities, embedded in the domestic preconditions for debt sustainability.

Development partners: The Monterrey Consensus called for joint responsibility by debtors and creditors for preventing and resolving unsustainable debt situations. More specifically, it called for a speedy, effective and full implementation of the enhanced Heavily Indebted Poor Countries (HIPC) initiative. In 2005, G-8 countries further committed, through the Multilateral Debt Relief Initiative (MDRI), to cancel 100% of outstanding debts of eligible HIPCs to the IMF, the International Development Agency and the African Development Fund. The 2008 Doha Financing for Development Conference stressed the need to avoid a recurrence of unsustainable levels of debt and the 2011 G-8/ Africa Joint Declaration in Deauville reiterated the call to preserve debt sustainability in Africa. In 2011 the G-20 Cannes Summit Declaration called for the review of the World Bank/IMF Debt Sustainability Framework to allow greater private participation in African Infrastructure. In 2012 the UN General Assembly adopted a draft resolution which stressed the importance of responsible lending and borrowing.

What has been done to deliver on these commitments?

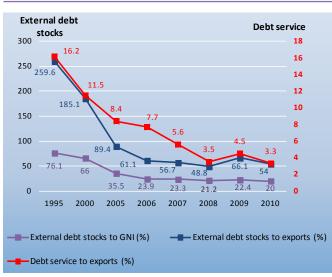
Africa: Debt management systems in most African countries have progressed, but important gaps remain. Many countries have undertaken efforts to co-ordinate debt management and macroeconomic policies across key government agencies. Debt management units and debt recording systems exist in most countries but analytic capacity and information sharing between different government agencies responsible for contracting debt need strengthening.

Development partners: The HIPC and MDRI initiatives have made substantial progress. To help eligible low-income countries reduce their commercial external debt, the World Bank's Debt Reduction Facility (DRF) has helped HIPCs extinguish commercial debts at a steep

discount. The DRF has recently been extended to 2017 and will be in a position to help the other 20 HIPCs sharply reduce their commercial debt, estimated in excess of US\$10 billion. The World Bank and the IMF have introduced the Debt Sustainability Framework (DSF), a standardised framework designed to help guide low-income countries in their borrowing decisions and provide guidance for creditors in lending and grant allocation decisions. To allow countries with new borrowing space to finance public investment, partly on non-concessional terms, the DSF was recently revised by taking into account the assets and future income that public investment may generate, particularly in the context of G-20 commitments to increase financing for African infrastructure.

Under the Evian approach, development partners have also taken action to deal with debt problems of non-HIPC African countries,

Debt service burden for countries in Africa (excluding North Africa)



Source: World Bank Global Development Finance (2012)

External debt burden fallen dramatically creating savings on debt servicing. Continued efforts needed to secure longterm debt sustainability as number of countries facing debt distress increases.



including partial write-offs. In 2011 the OECD and South Africa set up the African Sovereign Debt Management Centre, which helps governments in the region to analyse debt and sovereign risk, as well as monitor bond market developments.

What results have been achieved?

Of the 33 African countries currently eligible under HIPC, 29 have reached the completion point (3 more than last year) and received irrevocable debt relief under HIPC and 100% debt cancellation under the MDRI. Another country is expected to reach completion point within the next 12 months. Three 'pre-decision point' countries which continue to face fragile political situations are about to start or are at the very initial stage of the process of qualifying for HIPC debt relief. Finally, a 34th African country may become eligible to HIPC/MRDI debt relief, although this would require some adjustment of the eligibility criteria. The total debt relief effort for all eligible African HIPCs amounted to US\$105 billion in nominal terms by end-2012, US\$67 billion under HIPC and US\$38 billion under the MDRI. Multilateral agencies and Paris Club creditors bear over 80% of the total cost of the HIPC Initiative.

Over US\$5.5 billion of external commercial debt has also been written off in 15 African HIPCs supported by the DRF. By helping countries reduce or eliminate commercial debt which is not covered by the HIPC Initiative, the DRF has also helped reduce the threat of litigation against HIPCs. Decisions by one partner to ban lawsuits from the so-called 'vulture funds' - which bought commercial debt owed by HIPCs at sharply discounted prices and then sued countries to recover payment of the debt's face value — have provided some relief but a small number of African HIPCs are still facing the threat of litigation.

After a low of \$193 billion in 2006 at the height of the HIPC Initiative and the MRDI. Africa's total stock of external debt (excluding North Africa) has risen by an annual average of 11% since between 2006 and 2011. One third of the debt buildup in recent years is attributable to private sector debt and reflects the worldwide trend of the sharply rising share of private debt in developing countries. But expressed as a percentage of gross national income and export of goods and services, both the stock of debt and debt service payments have declined by over two thirds as a direct result of these initiatives. Debt service payments expressed as a share of exports fell from 11.5% in 2000 to less than 3.4% in 2011. Nevertheless, several challenges remain:

- The four countries that have not yet completed the requirements for full debt relief face common challenges and will require sustained domestic efforts and continued support from the international community in the interim period;
- Full participation of all creditors, particularly a number of smaller multilateral, non-Paris Club bilateral and private creditors, which together account for 25% of total HIPC Initiative costs, remains to be secured:
- While most African countries have benefited from the one-off debt relief exercises covered by the HIPC, MDRI, and DRF initiatives, recent debt buildup, particularly by the private sector, has led to a worsening of debt sustainability. Fourteen of the 33 HIPCs are facing moderate risk of debt distress while 7 are in high risk of debt distress.

What are the future priority actions?

Africa

- Maintain efforts to enhance debt management and sustainability, including debt incurred by the private sector and domestic debt by the public sector:
- For the remaining 4 pre-HIPC completion countries, sustain efforts to reach the decision point and completion.

- Maintain vigilant monitoring of the debt situation in Africa and provide support to strengthen debt management capacities in African
- · Continue efforts to ensure that eligible HIPCs get full debt relief from all their creditors and discourage lawsuits against HIPCs by non-cooperating creditors and vulture funds;
- Maximise the concessionality of new funding and prioritise grants over loans to avoid a return to unsustainable debt levels.

CLIMATE FINANCE

(This section should be read together with the separate Topic 6 - Climate Change)

Key commitments

Africa: The African Ministerial Conference on the Environment (AMCEN) in 2009 urged that climate finance should be new and additional and provided primarily in the form of grants. In 2011, AMCEN stressed the importance of ensuring direct access to funding, equitable allocation, and a balance between adaptation and mitigation. In 2012, it called for agreement on the sources and scale of public financial resources to be provided in the period starting 2013 and for progress on the Green Climate Fund (GCF). African Heads of State also called for the establishment of an Africa Green Fund (AfGF) to improve access of African countries to climate financing including the management of resources allocated to Africa under the GCF.

Development partners: The 2007 Bali Action Plan underlined the need to provide developing countries with adequate and additional financial resources. In the 2009 Copenhagen Accord, developed countries pledged resources approaching US\$30 billion of new and additional fast-start finance over 2010–2012 with a balanced allocation between mitigation and adaptation. Industrialised countries also committed to jointly mobilise US\$100 billion per year by 2020.

What has been done to deliver on these commitments?

Africa: The UNECA together with the African Climate Policy Centre (ACPC) have organised three conferences in 2011-2013 on climate change, including climate finance and development in Africa. Most African countries have either eliminated or significantly reduced fossil fuel consumption subsidies thereby indirectly shifting support for climate actions. The African Development Bank (AfDB) has developed a framework for the proposed AfGF. The AfDB has also launched the Africa Carbon Support Programme (ACSP) to promote Clean Development Mechanism (CDM) activities. With support from UNFCCC, the West African Development Bank has established a support office to help promote CDM activities in West Africa.

Development partners: A total of 19 different climate funds, bilateral and multilateral, are active in supporting climate-related activities in Africa. Under the aegis of the UNFCCC and the Kyoto Protocol, three funds have been es-

tablished: (1) the Least Developed Countries Fund (LDCF) with US\$525 million pledged to date to help least-developed countries prepare and implement national adaptation programs of action (NAPAs); (2) the Special Climate Change Fund (SCCF), with US\$241 million pledged to support adaptation and mitigation projects in all developing countries; and (3) the Adaptation Fund (AF), funded from a 2% levy on proceeds issued to CDM projects with US\$300 million received including pledges by some bilateral donors. In addition, the Global Environment Facility (GEF) has used contributions to the GEF Trust Fund to support climate related projects. These resources are provided in the form of grants.

Much larger funding mechanisms have been set up outside of the UNFCCC, most of them not provided as grants. Most noteworthy are the Climate Investment Funds (CIF), four separate funding windows channelled through the World Bank Group and the four regional development banks to help developing countries pilot low-emissions and climate resilient development and address deforestation. The CIFs have received pledges of US\$7.2 billion from 14 countries. A number of specialised funds such as the Congo Basin Forest Fund, the MDG Achievement Fund and the UN-REDD Programme, with cumulative pledges of US\$408 million, have been established to help reduce emissions from deforestation and forest degradation and to promote energy efficiency and renewable resources (see also Topics 5 and 6).

Fast Start Funding: According to the World Resources Institute, pledges totalled US\$28 billion as of November 2012.

Longer-Term Funding: The decision to establish the GCF was made in Cancun in 2010 to channel a substantial part of future climate change financing. COP17 at Durban adopted the Fund's governing instrument. Discussions in Doha have focused on the governance structure of the GCF and operational regulations and procedures. There is little progress on funding issues.

What results have been achieved?

Disbursements relative to needs are off track by orders of magnitude and the bulk of climate finance has targeted mitigation:

(i) Total cumulative disbursements to Africa from multilateral climate funds have reached an estimated US\$750 million. The LDCF and SCCF have disbursed US\$234 million combined, with US\$102 million to Africa. Since

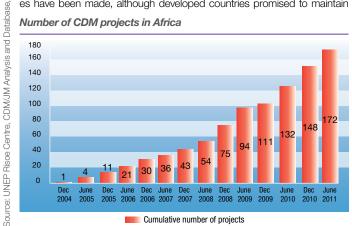
Africa's access to climate finance remains marginal and future volumes of international finance are unclear. Greater African involvement in emerging funds including Green Climate Fund is vital.



the Adaptation Fund became operational in 2009, US\$166 million has been approved, of which US\$8.5 million had been disbursed to 7 countries in Africa. Disbursements under the regular GEF trust funds amount to US\$123 million; (ii) US\$2.5 billion of the CIFs' US\$7.6 billion has been allocated to Africa (US\$1.9 billion through the Clean Technology Fund and US\$0.6 billion through the Strategic Climate Fund). Around US\$1 billion is being channelled through the AfDB, to which it is adding US\$1 billion of its own funds. An estimated US\$630 million has been disbursed, suggesting bottlenecks in programme implementation; (iii) The 19 climate funds active in Africa (excluding North Africa) have approved a total of US\$2.1 billion since 2003 (and increased US\$300 million since 2011), although over a guarter of this has been allocated to South Africa. Disbursements are substantially less and in some cases, unknown. ODA to Africa identified by donors as having climate change as a principle or significant objective totalled US\$4 billion in 2011, \$1.9 billion for mitigation and \$2.1 billion for adaptation - substantially lower than the required annual US\$18 billion estimated by the World Bank;

(iv) On Fast Start Funding, poor information and procedures for monitoring, reporting and verification make it impossible to estimate disbursements. How much climate funding will be available between 2013 and 2020, when the GCF is supposed to be operational, remains unknown. No formal pledges have been made, although developed countries promised to maintain

Number of CDM projects in Africa



through 2015 the average finance levels provided during 2010-12, or roughly \$10 billion a year. Delivery mechanisms are also unclear; (v) Africa's access to carbon finance has been marginal but is improving. Carbon offsets - known as the Certified Emission Reduction (CERs) - through CDM projects have been a major catalyst of low-carbon investments in developing countries. The CDM, which now has 6000 registered projects, has deployed US\$215 billion in investment. While African countries were largely by-passed in the past they emerged stronger in 2011, accounting for 21% of post-2012 CERs contracted, the equivalent of US\$421 million. 36 African countries submitted a total of 267 CDM projects, a 36% increase over the previous 12 months. But the CDM is also being challenged by low carbon prices due to weak demand, the result of weak commitments to reduce GHG emissions.

Wider domestic policies, such as support for green investment, have a key role to play in creating the conditions for scaling up climate finance. To increase investment in low carbon, climate resilient infrastructure, it is essential to integrate climate change considerations into infrastructure and investment policies. In most countries, environmental and investment policies still function quite separately and sometimes at cross-purposes.

What are the future priority actions?

Africa

- Build institutions and programmes to access, use, and manage climate finance effectively and efficiently;
- Strengthen capacities to better engage in CDM and REDD+ processes;
- Make stronger horizontal links between climate, investment and infrastructure policies, in order to attract low carbon/climate resilient investment.

- Help secure adequate and sustained funding in the interim 2013-20 period and for the Green Climate Fund:
- · Support reforms, such as streamlining CDM registration and emission credit issuance to make existing carbon market mechanisms more relevant and accessible to Africa:
- Improve regulatory frameworks to attract low carbon/climate resilient investments.