

## **G8 Action Plan for Good Financial Governance in Africa**

Against the background of higher aid flows, debt relief, and increasing revenues from natural resources in Africa, good governance is receiving a growing amount of attention. In addition to other governance issues such as the regulatory framework, the rule of law, and political stability, progress in implementing effective and efficient tax policy and tax administration, public expenditure management and debt management, in other words good financial governance, is of particular importance with a view to achieving the Millennium Development Goals (MDGs). Strong financial governance plays a critical role in supporting development in Africa. The primary responsibility for improving financial governance rests with national governments, and there, the utmost priority is to develop the capacities of individuals, institutions, and societies. Donor governments can play an important role in supporting these efforts through a range of complementary actions. This plan outlines ten areas for action drawing on the principles of the Paris Declaration on Aid Effectiveness and on ongoing initiatives to support the reform of public finance systems in Africa. We invite all donors and African countries to participate in the dialogue on the development and promotion of good financial governance.

### **1. Contributing to good financial governance through bilateral and multilateral development assistance**

Based on the Paris Declaration on Aid Effectiveness it is our objective to harmonise donors' cooperation by establishing and using common procedures in order to enhance the effectiveness of international development assistance and contribute to the development of our partner countries' own public financial management systems. In addition, the allocation of programme-oriented development cooperation resources could be linked more closely to good financial governance and the development of country capacity bearing in mind the specificities of fragile states. Therefore, it is necessary to exchange experiences between the relevant institutions – such as the ministries of finance, parliaments, supreme audit institutions, procurement offices, and donors – and to identify actions to be taken to strengthen the relevant systems. To this end, good financial governance and capacity building in this area should play a stronger role in International Financial Institutions (IFI) activities. African leaders' awareness of the importance of sound public finances for their countries in the future is key. No substantive progress can be achieved without direct commitment and political resolve by the countries themselves. Within such a framework donors could contribute to sharpen the focus on the Africa Peer Review Mechanism (APRM) by asking that adequate emphasis be put on financial governance in the review of countries' governance.

### **2. Strengthening African tax systems**

We support African countries in reforming their tax policies and tax administrations, especially with a view to providing citizens with the legal means to effectively scrutinise the decisions of their tax administrations. We encourage African countries to make use of regional networks and international knowledge on tax policy and tax administration in order to bolster domestic expertise. We will therefore enhance our efforts to enable partner countries to participate in bilateral and international initiatives, such as the International Tax Dialogue (ITD).

### **3. Establishing transparent and comprehensive budgeting procedures**

Positive economic development in African countries is also based on national budgets that reflect a government's current political priorities. We encourage our African partners in their efforts to develop concepts for transparent, accountable and reliable budget management, as stated by the African Finance Ministers in May 2006 in the "Abuja Commitment to Action". Our objective is to provide assistance for partner countries wishing to strengthen their systems of budget management at all levels of government, so that these systems better serve as a basis for political decision-making. This includes improvements in the integration of policy-making, planning and budgeting. Regional networks for budget directors or accountants-general can be very useful instruments for budget reforms. A process of mutual support and learning has, for example, been initiated through cooperation with senior officials in the Collaborative Africa Budget Reform Initiative (CABRI). We welcome and support the role and activities of African sub-regional institutions in order to improve financial governance.

#### **4. Promoting accountability and transparency, enhancing budgetary control**

We promote good governance by enabling supreme audit institutions (SAI) to help their respective governments to improve performance and foster the efficient and effective receipt and use of public resources through increased capacity building measures. We assist regional organisations such as the African Organization of Supreme Audit Institutions (AFROSAI) in fostering the implementation of international standards and in encouraging the exchange of ideas and experiences. Meeting these standards will validate SAI recommendations that focus on improving the operations and services of government agencies, increasing the effectiveness of government spending, and enhancing citizens' trust in their governments. A majority of African states have already committed themselves to the UN Convention against Corruption (UNCAC). We encourage other African nations as well as donor countries to join this global anti-corruption agreement. This could also contribute to the recovery of corruptly acquired assets.

#### **5. Increasing accountability for revenues from extractive industries**

We give our full backing to the Extractive Industries Transparency Initiative (EITI) and support it in its efforts to optimise its implementation and monitoring mechanisms and to contribute to enhanced participation by all stakeholders. We encourage other resource-dependent countries and industries from the extractive sector, especially from emerging market economies, to participate in the EITI. We welcome the fact that an independent validation process has been initiated to monitor the national implementation measures. We encourage a prompt application of arrangements to identify countries which have achieved the target levels of transparency and those which are making progress towards them. The applicability of EITI principles to other sectors should be examined more closely. Moreover, measures could be considered to use revenues from extractive industries for the long-term benefit of the respective countries by establishing stabilisation funds or funds for future generations.

#### **6. Securing public debt sustainability**

We call for the effective use of countries' own resources and restraint in borrowing on non-concessional terms in coherence with the International Development Agency's (IDA) policy. We commit to applying responsible practices in our lending decisions. To this end, we urge all borrowers and creditors to share information on their borrowing and lending practices. The debt sustainability framework, developed by the IMF and the World Bank, provides an important guiding tool for decisions on new borrowing and lending and we encourage its broad use by all borrowers and creditors as a way to prevent new lend-and-forgive cycles. Technical assistance to improve debt management in African low-income countries is crucial. We also highlight the importance of the quality of public investment for debt sustainability: not only does the concessionality of lending matter, but the returns on investment as well.

#### **7. Supporting fiscal decentralisation**

A system of multi-level governance needs clearly defined financial and political competences for all levels of government. A dialogue was initiated at the Kigali Conference in 2006, where the need for strengthened capacity at all levels of government, transparency and accountability of local governments, and mechanisms for coordination between central and local governments were emphasised. Where our partners wish to pursue a policy of fiscal decentralisation, involving the establishment of sustainable and efficient inter-governmental fiscal relations and the promotion of civil society participation, we will endeavour to support them.

#### **8. Promoting donor harmonisation through knowledge management**

Within the donor community, we are making greater efforts to attain a better understanding of partner countries' political processes and administrative systems. We call for more sharing of information and transparent knowledge management on the part of donors with regard to partner countries' systems. To this end, we intend to work more closely with the Public Expenditure and Financial Accountability (PEFA) multi-donor partnership, whose instruments should be used jointly by donors to analyse public finance systems. Furthermore, other instruments should be developed to analyse governance risks and capacity needs.

#### **9. Enhancing capacities for governance in fragile states and situations**

Capacity building can be achieved even in states and situations with acute governance challenges. To do so, we are stepping up our engagement in fragile states by establishing and strengthening key governmental functions, especially in the budget system, to enable the provision of basic services and security for the population. Capable and sustainable systems of public finance should help to reduce the risks of post-conflict countries becoming dependent on external assistance over the long term and support the effective financial engagement of donors in the

course of providing emergency assistance. Civil society organisations also have a key role both in demanding good governance and in terms of service delivery.

#### **10. Developing local bond markets in emerging market economies**

Modern and efficient domestic market structure can provide an important contribution to principal stability and sustained growth. To foster progress in this area, a specific action plan has been developed so as to strengthen market infrastructure and public debt management, to broaden and diversify the investor base on local bond markets, to develop appropriate derivative markets as well as to improve the information available on local bond markets.