Excellencies,

Mr. Chairman,

Ladies and Gentlemen,

Thank you very much for the invitation and for the opportunity to speak about Germany’s G8 Presidency.

In January 2007, Germany took over the G8 Presidency for the fifth time. The guiding theme of this Presidency is: Growth and Responsibility; growth and responsibility as a major challenge for both the global economy and the economic, political and social development of Africa. Our intention is to take account of both the changes that are taking place in the world economy and the prevailing situation in terms of global and good governance.
Since the end of the 1990s, there has been an increasing focus on Africa’s development at G8 summits. As a result, development cooperation has played a growing role since then within the framework of G8 negotiations:

**Focus on Africa and the G8**

At the **Cologne Summit in 1999**, the German government’s idea of extensively cancelling the debts of the poorest developing countries, thus enabling them to make a new start in economic terms and facilitating sustainable poverty reduction, was very well received. This idea, known as the “Cologne Debt Initiative”, has meanwhile become an important instrument of development cooperation.

The summit in Genoa (in Italy) in 2001 took place very much under the banner of your reform strategy, the New Partnership for Africa’s Development (NEPAD), which the heads of state and government of Algeria, Nigeria, Senegal and South Africa presented to us. You also thereby prepared the ground for the discussion that we are conducting here today.

In 2002, in Kananaskis (in Canada) came our reaction to NEPAD with the adoption of the G8 Africa Action Plan, which gave birth to the reform partnership between G8 and NEPAD countries.

However, this year’s Presidency programme is also a continuation of the support for the development of the African Peace and Security Architecture (APSA) as decided in 2002 at the summit in Kananaskis. The G8 announced at that time their willingness to help build up the African Standby Force (ASF). The G8 support primarily consists of training and
capacity building, with the provision of equipment playing a fairly minor role.

In 2003 and 2004, in Evian and Sea Island, we discussed important aspects of combating corruption and improving transparency.

Eventually in 2005 at the summit of Gleneagles the G8 leaders and their African partners from the AU, Ethiopia, Algeria, Ghana, Nigeria, Senegal, South Africa and Tanzania came to a major breakthrough for Africa and its development. The outcomes of Gleneagles are well known, nevertheless let me mention the two most important headlines of that summit. Firstly we agreed on further debt cancellation, the so called MDRI initiative, which included cancellations worth some 50 billion US dollars in public debt. Secondly the G8 made a commitment to increase their official development assistance (ODA) by 50 billion US dollars until the year 2010, with half the total being earmarked for Africa. Even though there has been a lot of criticism recently about many G8 countries – among others Germany – to not stand up to those obligations, I can ensure you that we are fully committed to keep our promises. As our Chancellor Dr Angela Merkel just stated last week in Berlin at the opening of the Africa Partnership Forum, the German government not only embraced the Gleneagles Process, but it is fully committed to meet its results.

The summit of Gleneagles also proved to be an important step in the fight against HIV/AIDS. In St. Petersburg last year the G8 emphasized their continuing support for these initiatives launched originally in 2001 and then
in 2005. We want to help bring about near universal access to prevention, treatment and care by 2010. Speaking of the German government I would like to mention that since 2002 we have disposed an average of about 300 million euros a year for the global fight against HIV/AIDS, malaria and tuberculosis. In view of the dramatic way in which the AIDS epidemic is developing, the German government intends to increase its contribution towards fighting HIV/AIDS, malaria and tuberculosis to 400 million euros in 2007.

Now, looking back to the past G8 summits, there are three points that stand out in particular:

- A firm dialogue has now been established between G8 and African heads of government, which clearly illustrates the shared perception of international responsibility.
- The representatives of your countries have emphasized the central role of African ownership in all reform processes.
- Reforms will only be able to come to full fruition if accompanied by policies for good governance.

Consequently, the question of what constitutes good governance plays a major role within the framework of Germany’s G8 Presidency.

Good governance is the basis for our cooperation and the most important assurance that development cooperation is used for its intended purpose of fighting hunger, poverty and disease. Beyond that, our particular focus is on strengthening the African Peer Review Mechanism (APRM) and on improving the political and economic integration of the continent through the existing Regional Economic Communities (RECs). Moreover, we are
underlining respect for human rights, fundamental freedoms, peace, democracy and gender equality as some of the core principles of development policy.

Good governance also plays a major role in the area of public finance: **good financial governance.**

As we all know, competent, transparent and accountable public financial management is a central element of a functioning democracy, whilst weaknesses in this field hamper sustainable development, investment, and economic growth. Transparency, participation, and accountability that come from an empowered citizenry are the strongest antidotes to corruption.

As the African Union (AU) has stressed in its New Partnership for Africa’s Development (NEPAD) programme, African countries accept that responsibility for peace, development, good governance and transparent, sustainable financing of the public sector lies with them. In order to be able to assume this responsibility at both the national and the regional level, they need capacities and institutions, the establishment and strengthening of which we are promoting and supporting. In this context the G8 also welcome the Abuja Commitment to Action endorsed by African Ministers of Finance last year. We fully enhance its call for long term predictable financing as part of the efforts of African countries for transparent and reliable budget management.

Donor countries in general can make a valuable contribution towards establishing good financial governance through their own financial
management. The manner in which we and our fellow donors regard and structure our cooperation has a substantial impact on governance and institutional development in partner countries.

Against this background, the G8 together with their African partners from South Africa, Mozambique, Cameroon, Nigeria, Ghana and the African Development Bank have elaborated an Action Plan for Good Financial Governance in Africa. This Action Plan was discussed and endorsed at the G8 Meeting of Finance Ministers in Potsdam on May 18th and 19th. It was the first time G8 Finance Ministers met with their African counterparts. The Finance Ministers had a fruitful exchange of views on suitable measures for promoting good financial governance.

Today I have the honour to present the G8 Action Plan for Good Financial Governance in Africa. The plan outlines ten areas, drawing on the principles of the Paris Declaration on Aid Effectiveness and on ongoing initiatives to support the reform of public financial systems in Africa. In particular, the action plan focuses on:

- promoting effective and transparent budget processes,
- the vigorous implementation of existing initiatives such as the Extractive Industries Transparency Initiative (EITI), and
- on enhancing reforms and capacity development efforts in the area of African tax systems, budgetary control, fiscal decentralisation and debt management.

1. **Contributing to good financial governance through bilateral and multilateral development assistance**
In 2005, donors and partner countries endorsed the Paris Declaration, the aim of which is to enhance the effectiveness of international development aid. The Paris Declaration calls, in essence, for the development, establishment and use of common procedures; partner countries confirmed their obligation to cooperate with donors to establish systems that are more transparent, reliable and accountable, especially for public financial management and procurement.

In particular, it is necessary to develop specific tools for analysing capacity needs with regard to the Public Financial Management Systems of partner countries and to cooperate effectively in order to develop the capacities of partner countries to take political decisions and manage their public finances accordingly.

Against that background our objective is to harmonise our cooperation on the donor side by establishing and using common procedures. This is a very important step in order to enhance the effectiveness of international development assistance. 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. Therefore, it is necessary to have an exchange of experiences between the relevant institutions – Ministries of Finance, Parliaments, Supreme Audit Institutions, Procurement Offices – in partner countries, and also to identify actions to be taken to strengthen the relevant systems. To this end, good financial governance should play a stronger role in IFI activities.
2. Strengthening African tax systems

African tax systems are generally characterised by low tax/GDP ratios. Despite the intensive efforts so far undertaken by our partner countries with the help of bilateral and multilateral institutions, there is still room for reforms in tax policy and, more pressingly, in tax administrations. In 2002, our partner countries committed themselves in the Monterrey Consensus to take steps to mobilise their own revenues, since appropriate participation by citizens in the financing of the development process is a key element in achieving autonomy. In the long term, development policy transfers are no substitute for a partner country’s own efforts to finance its development.

In this context we support African countries’ efforts to reform their tax policies and tax administration, especially with a view to providing citizens with legal means to effectively scrutinise decisions made by their tax administrations. We encourage African countries to make use of regional networks and international knowledge on tax policy and administration, in order to bolster domestic expertise. We are therefore stepping up our efforts to facilitate the participation of our partner countries in bilateral and international initiatives, such as the International Tax Dialogue (ITD).

3. Establishing transparent and comprehensive budgeting procedures
Our objective is to support partner countries wishing to strengthen their budget management systems, so that these systems are better able to serve as a basis for political decision-making.

The positive economic development in Africa is also based on national budgets that reflect a government’s political priorities. We therefore encourage our African partners in their efforts to develop concepts for transparent and reliable budget management, as stated in the Abuja Commitment to Action. A very good process of mutual support and learning has, for example, been initiated through cooperation with senior officials in the Collaborative Africa Budget Reform Initiative (CABRI).

4. Promoting accountability and transparency, enhancing budgetary control

The credibility and reliability of partner countries’ governments in managing their public finances depend upon regular auditing to ensure both the legality and efficiency of public expenditure. This requires an effective and independent system of financial control. Under the umbrella of the International Organization of Supreme Audit Institutions (INTOSAI), African supreme audit institutions have set up the African Organization of Supreme Audit Institutions (AFROSAI).

Corruption in public financial management, procurement and administration is a major obstacle to the establishment of responsible governance and the effective use of public resources. A majority of African states have already committed themselves to the Convention and we are
encouraging further African nations as well as donor countries to join this
global anti-corruption agreement. We are making every effort to ensure
that our African partners are in a position to implement the provisions of
the UNCAC, especially with regard to public financial management. We
also reiterate our commitment to the provisions of UNCAC concerning the
recovery of corruptly acquired assets and encourage the World Bank and
UNODC to assist partner countries in their asset recovery efforts and help
them make the best use of funds acquired by such means. In this we are
following our commitment to support Africa in the fight against corruption
as formulated at the G8 Summit of Gleneagles in 2005.

5. Increasing accountability for revenues from extractive industries
African countries that are rich in oil, gas and minerals generate a vital
proportion of their revenues from the sale of these resources. The call for
transparency in the management of public revenues from extractive
industries is a vital contribution to the establishment of good governance
and to enabling citizens to enjoy a share of their country’s potential wealth.

Therefore we give our full backing to the Extractive Industries
Transparency Initiative (EITI) and are supporting it in its efforts to optimise
its implementation and monitoring mechanisms and to contribute to
enhanced participation by all stakeholders. And, we encourage other
resource-dependent countries and industries from the extractive sector,
especially from emerging market economies, to participate in the EITI.
6. Securing public debt sustainability

Despite the need for public resources, excessive public debt has had negative consequences for sustained growth in Africa. While the need to raise revenue to service foreign debt has distorted domestic economic policy, high debt service ratios have sometimes even contributed to net outflows of domestic resources.

In the G8 Action Plan for Good Financial Governance in Africa, we therefore call for the effective use of countries’ own resources and restraint in borrowing on non-concessional terms. We commit to applying responsible practices in our lending decisions. The Action Plan especially points out the importance of the quality of public investment for debt sustainability: it is not only the concessionality of lending that matters, the returns on investment are also important.

7. Supporting fiscal decentralisation

Effective use of public funds can only be effective if the central government and sub-national levels of government charged with providing public services are both able to perform their tasks properly. The Kigali Conference in 2006 emphasised the need for strengthened capacity, transparency and accountability of local governments, and mechanisms for coordination between central and local governments. We are prepared to support our partner countries’ efforts to establish legally concise and sustainable intra-governmental fiscal transfer and tax sharing systems which adhere to principles of fairness and accountability.
8. Promoting donor harmonisation through knowledge management

Performance-oriented and appropriate support for partner countries demands that donors develop a better understanding of these countries’ processes and systems. Within the framework of the Train4Dev Initiative, for instance, we are seeking to gain a deeper understanding of partner countries’ processes with a view to establishing a democratic, rules-based and reliable public finance system.

With its Performance Measurement Framework for Public Financial Management (PMF-PFM), the Public Expenditure and Financial Accountability (PEFA) working group, which comprises donor countries and organisations, has developed an instrument that should be used jointly by all donors to analyse public finance systems. This should avoid overtaxing partner countries’ limited capacities whilst helping to identify needs for common action. At present the instrument focuses on fiduciary risk assessment. It should be further developed in order to cover governance risks and capacity needs. What is needed is a system of knowledge management that systematises and answers questions with regard to good governance that are vital for the sustainable reform of the public finance system. To this end we, together with our African partners, should work on the further development of the PEFA instrument.

9. Enhancing capacities for governance in fragile states and situations
In many partner countries, statehood has suffered temporary or long-term damage as a result of political crises, conflicts or natural disasters. In fragile states, democratic legitimacy is often limited and government structures at all levels are fragmented and lack sufficient capacity to plan, manage and implement policies. These are particular demands on governance, but modest capacity development can be achieved even in states and situations with acute governance challenges. In such a situation, it is often necessary to restore basic functions of government in order to enable basic services and security for the population to be provided.

In order to support governance in partner countries with limited state capacity, our support should be specifically tailored to their demands, as expressed in the draft OECD-DAC Principles for Good International Engagement in Fragile States. We are seeking to enhance the capacity of government bodies to initiate, coordinate and implement their own development policies. Stronger capacity of cabinet secretariats and their administrations would also strengthen the responsible use of public funds at the centre of government.

I reiterate: capacity development can be achieved even in states and situations with acute governance challenges. To achieve this, we are stepping up our engagement in fragile states by establishing and strengthening key governmental functions.
10. Developing local bond markets in emerging market economies

Modern and efficient domestic market structures can make 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, broaden and diversify the investor base on local bond markets, develop appropriate derivative markets and improve the information available on local bond markets.

Conclusion:

Good financial governance is of particular importance with a view to achieving the Millennium Development Goals. Implementing the Action Plan for Good Financial Governance in Africa could be a tool for achieving these targets.

Thank you very much for your attention.