

10 INFRASTRUCTURE PROJECTS FOR AFRICAN INTEGRATION



United Nations
Economic Commission for Africa



NEPAD
TRANSFORMING AFRICA

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ACRONYMS

AADT	- Annual Average Daily Traffic
AAP	- AU-NEPAD African Action Plan: 2010-2015
ACBF	- African Capacity Building Foundation
ACFA	- Accelerated Co-financing Facility for Africa
AEC	- African Economic Community
AFAIP	- African Fisheries and Aquaculture Investment Partnership
AfDB	- African Development Bank
AFFM	- African Fertilizer Financing Mechanism
AFOLU	- African Agricultural, Forestry and Other Land Uses
AFREXIMBANK	- African Export-Import Bank
AGM	- Annual General Meeting
AIDF	- African Infrastructure Development Fund
AMRH	- African Medicines Regulatory Harmonization Initiative
AMU	- Arab Maghreb Union
APDev	- Africa Platform for Development Effectiveness
APRM	- African Peer Review Mechanism
ATAF	- African Tax Administrative Forum
AU	- African Union
AUC	- African Union Commission
BRICS	- Brazil, Russia, India, China and South Africa
BRVM	- Bourse Regionale des Valeurs Mobilières
CAADP	- Comprehensive Africa Agriculture Development Programme
CAFRS	- Comprehensive African Fisheries Reform Strategy
CAPEX	- Capital Expenditure
CD	- Capacity Development
CDM	- Clean Development Mechanism
CDSF	- Capacity Development Strategic Framework
CERs	- Certified Emission Reduction
CID	- Council for Infrastructure Development
COMESA	- Common Market for Eastern and Southern Africa
CPA	- Consolidated Plan of Action for Africa's Science and Technology
DAC	- OECD Development Assistance Committee
DBSA	- Development Bank of Southern Africa
DE	- Development Effectiveness
DEG	- German Investment and Development Agency
DFI	- Development finance institution
DFS	- Dakar Financing Summit
DRM	- Domestic Resource Mobilization
EAC	- East African Community
EAP	- Environment Action Plan
EC	- AU Executive Council
ECCAS	- Economic Community of Central African States
ECOWAS	- Economic Community of West African States
ECREEE	- ECOWAS Centre for Renewable Energy and Energy Efficiency
EIB	- European Development Bank
EPSA	- Enhanced Private Sector Assistance
FfD	- Financing for Development
FDI	- Foreign Direct Investment
GDP	- Gross Domestic Product

GEM	- Global Emerging Markets
GHG	- Green House Gases
GoU	- Government of Uganda
GP	- Global Partnership for Effective Development Cooperation
HLF	- High Level Forum on Aid Effectiveness
HSGOC	- NEPAD Heads of State and Government Orientation Committee
IAG	- Infrastructure Advisory Group
IAIDA	- Institutional Architecture for Infrastructure Development in Africa
IATAL	- International Air Travel Adaptation Levy
ICT	- Information and Communications Technology
IDB	- Islamic Development Bank
IDF	- Innovative Development Finance
IFC	- International Finance Corporation
IFF	- Illicit Financial Flows
IGAD	- Intergovernmental Authority on Development
IPPF	- NEPAD Infrastructure Project Preparation Facility
ISPAD	- Information Society Partnership for Africa's Development
JBP	- Joint Border Post
JSE	- Johannesburg Stock Exchange
KfW	- German Development Finance Bank
MDGs	- Millennium Development Goals
MDTF	- Multi-Donor Trust Fund for CAADP
M&E	- Monitoring and Evaluation
MIGA	- World Bank Multilateral Investment Guarantee Agency
MNCs	- Multinational Corporations
MoU	- Memorandum of Understanding
NAFSIPs	- National Agriculture and Food Security Investment Plans
NFIPs	- National Fisheries Investment Plans
NBF	- NEPAD Business Foundation
NEPAD	- New Partnership for Africa's Development
NPCA	- NEPAD Planning and Coordinating Agency
NPoA	- National Programme of Action of the APRM
NRI	- Natural Resources Institute
NSE	- Nigerian Stock Exchange
NSTIH	- NEPAD Science, Technology and Innovation Hub
NYSE	- New York Stock Exchange
OAU	- Organization of African Unity
ODA	- Official Development Assistance
ODF	- Official Development Finance
OECD	- Organization for Economic Cooperation and Development
PAF	- Partnership for African Fisheries
PAP	- Priority Action Plan
PE	- Private Equity
PFM	- Public Financial Management
PICI	- Presidential Infrastructure Champion Initiative
PIDA	- Programme for Infrastructure Development in Africa
PIDA-PAP	- Priority Action Projects of PIDA
PPPs	- Public-Private Partnerships
RECs	- Regional Economic Communities
SACU	- Southern African Customs Union

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This book is condensed from two technical reports prepared by ECA and NEPAD Agency: one profiling the 16 projects adopted at the Dakar Financing Summit (DFS) on Infrastructure Financing and the other, “Mobilizing Domestic Financial Resources for Implementing NEPAD National and Regional Programmes - Africa Looks Within”, prepared at the behest of African Heads of State by ECA and NEPAD Agency.

Both reports benefitted immensely from the contributions of members of ECA and NEPAD Agency who co-organized DFS with the Government of Senegal and constituted the NEPAD-ECA Core Team on Domestic Resource Mobilization (DRM). They include Prof. Olu Ajakaiye, Dr. Maria Wanzala, Mr. Bankole Adeoye, Dr. Genevesi Ogiogio, Ms. Samira Hotobah-During, Mr. Kossi Toulassi, Mr. Abdoul Salam Bello; Mr. Elvis Mtonga, Professor Emmanuel Nnadozie, Dr. Adeyemi Dipeolu; Mr. Adeyinka Adeyemi; Ms. Aissatou Gaye; Mr. John Robert Sloan and Mr. Zheng Jian. We are equally grateful for inputs provided by senior officials, including Dr. Sloans Chimatiro (Fisheries), Mr. Benoit Faivre-Dupaigre (CAADP), Ms. Florence Nazare (Capacity Development) and Dr. Edmund Katiti (e-Africa Programme).

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The present project was led by Adeyinka Adeyemi, Senior Adviser and Head of the Regional Integration and Infrastructure Cluster and ECA's Focal Point on NEPAD, under the general supervision of Adeyemi Dipeolu, Director, Capacity Development Division. Mr. Wilfred Amoako translated and aligned the book to ensure that it is available in English and French while crucial project support was rendered by Eskedar Bekele, Senior Staff Assistant.

SADC	- Southern African Development Community
SC	- NEPAD Steering Committee
SDSWF	- Strategic Development Sovereign Wealth Fund
SEM	- Stock Exchange of Mauritius
SIDA	- Swedish International Development Agency
SLM	- Sustainable Land Management
SME	- Small to Medium-sized Enterprises
SPVs	- Special Purpose Vehicles
SSC	- South-South Cooperation
STI	- Science, Technology and Innovation
TX	- Transmission
ToR	- Terms of Reference
UEMOA	- West African Economic and Monetary Union
UNDP	- United Nations Development Programme
UNECA	- United Nations Economic Commission for Africa
UNFCCC	- UN Framework Convention on Climate Change
UNEP	- United Nations Environment Programme
VAT	- Value Added Tax
VOC	- Vehicle Operating Cost
WAEMU	- West African Economic and Monetary Union

FOREWORD

Over the years, there has been a consensus among African Heads of State and Government that the continent's regional integration agenda could be accelerated if our countries were interconnected by cross-border infrastructure: the free movement of persons and goods would be facilitated, peace and mutual understanding promoted, and the livelihood of our peoples enhanced. This is why we launched the Presidential Infrastructure Champions Initiative (PICI) through which the Presidents expressed their personal commitment.

The success of PICI has been resounding and steady even though gradual.

The Dakar Summit on Infrastructure financing in Africa that I organized in Dakar in June 2014, is an important stage in the implementation of the PIDA. At the time, we had adopted 16 cross-border infrastructure projects whose implementation would make it possible to accelerate Africa's regional integration. This Summit aroused great interest on the part of the private sector which wanted answers on issues covering the funding gap, project readiness, project ownership, project bankability and the all-important issue of sustainability.

With a view to ensuring the monitoring of this important meeting, I have requested ECA and the NEPAD Agency to repackage the basic materials of the Dakar Summit, to enable them to meet the numerous concerns expressed. Our objective is to inform the greatest possible number of persons in the world, of the existence of these projects and the enormous opportunities they offer for public-private partnerships.

As Chair of the NEPAD Heads of State and Government Orientation Committee, I wish to appeal to the commitment and political will of African leaders for these projects, and invite the private sector to invest in these cross-border projects. I also pledge to support this 16-project initiative everywhere in the world, in the search for partnerships aimed at accelerating regional integration in Africa.

President Macky Sall
President of the Republic of Senegal
and Chairperson of NEPAD Heads of State and Government Orientation Committee



Photo Credit: Government of Senegal

PREFACE

By: *Carlos Lopes and Ibrahim Assane Mayaki*

The prospects for Africa are still bright: Over the last ten years, more than two-thirds of African countries posted uninterrupted growth and projections through 2030 have eight African countries (Uganda, Kenya, Malawi, Tanzania, Egypt, Madagascar, Zambia and Senegal) in the top 10 in Gross Domestic Product (GDP) growth. Demand for Africa's commodities is still strong and reliable. Labour is readily available, complemented by a high domestic consumption and strong growth in public and private investment in infrastructure, agriculture and natural resources. By 2012, there were over 800 active infrastructure projects worth over \$700 billion across Africa: 41 percent in transport and 37 percent in power. These two sectors are crucial to Africa's industrialization; yet due to their poor state, their contributions to GDP have been negligible. ECA studies show that infrastructure development in Africa can potentially raise GDP by 2 percent and develop the backbone for rapid industrialization, boosting the capacity to generate more domestic resources.

Industrialization is, therefore, at the core of Africa's structural transformation and infrastructure is its catalyst. There is broad consensus on this. The Action Plan of the Accelerated Industrial Development of Africa (AIDA) identifies "infrastructure development" as a priority while Africa Union's Agenda 2063 anticipates that "world class integrative infrastructure" will propel intra-African trade to 50 percent by 2045 and Africa's share of global trade from 2 percent to 12 percent. Similarly, Goal 9 of the Sustainable Development Goals (SDGs) adopted by the United Nations in September 2015, calls on countries to build "resilient infrastructure, promote sustainable industrialization and foster innovation".

This is an urgent call for Africa, whose urban population will reach 857 million by 2025, according to UN projections. Ordinarily, urbanization would

indicate economic development. But when it occurs against poor infrastructure, manufacturing output is reduced, price of manufactured goods increases, triggering untold social, economic and political pressure which can undermine industrialization. Adequate infrastructure will not only reverse these negative impacts, it will enhance the continent's regional integration.

While Africa can showcase broad progress in infrastructure development (such as access to electricity in many countries of West Africa, East Africa and Southern Africa which increased from 23% to 38%; the 625 million mobile phones, up from 87 million in 2005; 45% improvement in fiber optics infrastructure, setting the stage for broadband communication, among others), serious challenges remain. Transport costs in Africa are uncompetitive compared to other regions. Freight costs as a percentage of import value are 13 percent for Africa, compared to 8.8 percent for other developing countries, and 5.2 percent for industrial countries. Energy remains a key obstacle to industrialization. For instance, in many African countries, access to the electricity grid is less than 1%. By 2020, over 60% of people in West, East, and Southern Africa will still not have access to electricity, even when only 5 percent of the continent's hydropower potential, and 0.6% of its geothermal energy have yet been exploited.

It is for these reasons that African leaders initiated the Programme on Infrastructure Development in Africa (PIDA) and prioritized 51 regional projects in energy, transportation, water and sanitation. It is also why they designed the Presidential Infrastructure Champion Initiative (PICI) through which African leaders adopted specific transboundary infrastructure projects to accelerate their implementation. In 2014, the leaders met at the Dakar Financing Summit, where they adopted 16 infrastructure projects capable of enhancing

"...infrastructure development in Africa can potentially raise GDP by 2 per cent and develop the backbone for rapid industrialization, boosting the capacity to generate more domestic resources."

Africa's regional integration in the framework of PIDA and the Dakar Agenda for Action to increase private sector investment in regional infrastructure.

Private sector investment is critical because Africa needs about \$93 billion annually, (15 percent of its GDP), for its infrastructure and one-third of which is needed for maintenance alone. While governments bear most of the cost of infrastructure from their national budgets, there is still a yearly gap of about \$48 billion. Only \$8.8 billion of that sum was invested by the private sector in 2013. It needs to increase, augmented by the continent's own domestic resources. A joint study by ECA and NEPAD Agency, reproduced in this book, concludes that there is immense domestic resource potential in Africa which can be tapped for this purpose, including \$168 billion annually in mineral earnings, \$520 billion in annual tax revenues, \$400 billion in international reserves and over 1 trillion dollars annually in stock capitalization. A fraction of these revenues can make a huge difference in infrastructure development in Africa.

Part of the problem with accelerating private sector investment in infrastructure is the lack of appropriate policy, legal and regulatory frameworks which facilitate financing of transboundary infrastructure projects in Africa. Due to a variety of factors, including our colonial legacies in law and language, differential business environments, political challenges, geographical hardships and capacity deficits in project preparation and

development, we have not been able to trigger adequate and sufficient private sector interest in transboundary infrastructure.

Happily, at the behest of African Heads of State, ECA and NEPAD Agency are developing a framework to harmonize policies, laws and regulations which pertain to infrastructure investment. This should improve the space and opportunities for private sector investment in Africa's infrastructure as we work on de-risking crucial transboundary projects essential for Africa's industrialization and regional integration.

We hope that this book answers the legitimate questions of serious investors and becomes a tool for accelerating the Dakar Agenda for Action.

INTRODUCTION

Infrastructure development is a key driver for progress across the African continent and a critical enabler for sustainable and socially inclusive growth. The Programme for Infrastructure Development (PIDA) provides the strategic framework for priority projects to transform Africa through the construction of modern infrastructure into an interconnected and integrated continent that is competitive domestically and in the global economy.

The main objective of the Dakar Financing Summit (DFS) which took place in June 2014, was to mobilize key stakeholders to accelerate the implementation of PIDA. These stakeholders include lead government agencies, DFIs, private equity investors, infrastructure funds, commercial banks, pension funds, and insurance companies. The financiers have one goal in common which is a desire to identify and fund well prepared bankable projects in line with the

growing investor appetite for infrastructure assets in Africa.

One way to expand the pipeline of bankable projects is to select a number of representative projects and begin to work systematically with national governments, Regional Economic Communities (RECs) and financing partners to drive project implementation through the project preparation cycle. In this regard, the DFS pilots this approach by selecting 16 strategic and regionally balanced projects from the PIDA priority action plan (PAP), which are at different stages of the project development cycle.

The sixteen projects were selected due to their strategic, political and economic importance as flagship regional projects. They are largely in three categories:



POWERING AFRICA

Electricity generation, transmission and distribution infrastructure is underdeveloped for most African nations, as a result hindering broad-base economic growth of the continent. The key to unlocking Africa's potential is identifying opportunities for affordable infrastructure projects that can utilise national and regional energy resources in a way that will benefit the continent. To increase energy access, the continent needs to focus on developing viable energy projects that can attract sufficient funds to be successful and have a significant, long-term impact on the African energy sector. Among the 16 DFS projects, two hydropower projects in East and West Africa (Ruzizi III and Sambangalou Dam respectively) and the Nigeria-Algeria Gas Pipeline project are at an advanced stage of financial close.

MOVING AFRICA FORWARD

A number of transport sub-sectors contribute directly to economic development and poverty reduction in Africa. Good quality roads, railways, ports and airports, with good network connectivity, are essential for sustaining the activity and growth of many economic sectors on the continent including agriculture, industry, mining and tourism. Efficient transport infrastructure can also improve the delivery of, and access to, vital social services, such as health and education, and allow citizens to actively participate in labour markets. Transport infrastructure offers governments and RECs a means to accelerate regional integration.

The advanced transport sector projects at DFS include the modernization and capacity expansion projects in ports (Dar es Salaam Port Expansion), rail investments (Dakar-Bamako Rail Modernisation) and road corridor modernisation (Abidjan - Lagos Corridor). All of these have a major impact on interconnecting the continent and significantly facilitating regional trade and integration. The modernisation of the Abidjan-Ouagadougou-Bamako Multimodal Corridor, for instance, will benefit several countries in the Economic Communities of West African States (ECOWAS) and the West African Economic and Monetary Union

(WAEMU) regions. It will simplify the crossing of borders by people and goods, increasing regional trade, and cost savings.

CONNECTING AFRICA

The information revolution is changing the way Africans are doing business and accessing basic social services including health, education and civic services. Through such channels, improved access to internet broadband has the potential to increase economic growth. Many high capacity international backbone network projects have been built to connect Africa to the rest of the world on an open access basis, thus allowing a gradual reduction in bandwidth cost and long-distance tariffs. Private African capital has been behind many of the fibre optic submarine cables but there are also public-private partnerships with international investors in promoting connectivity in the continent. Linking these fibre backbones to backhaul terrestrial networks and affordable "last mile" connectivity remains a challenge.

One of the projects presented at DFS is the Lusaka - Lilongwe ICT link which falls under the PIDA ICT Terrestrial Connectivity. A number of energy transmission line projects are also included which not only connect regional power pools, but can also be used to carry ICT links across borders. The added value of these projects for the African continent is immense. A project like the Lusaka-Lilongwe Terrestrial ICT Cable will increase regional and continental integration by ensuring better, more reliable connectivity for all. It will lead to the accelerated spread of broadband access and reduction of cost of bandwidth through increased competition, thus creating better opportunities for e-business.

The eight most advanced projects in the forefront of DFS-16 - are the key flagship projects that will contribute to Africa's transformation through infrastructure development. Within each category of projects, there is diversity in the state of readiness. Four of the projects are at an advanced stage of funding, while the remaining ones are at various stages of project preparation.

The flagship projects also include all three under the NEPAD Presidential Infrastructure Champions Initiative (PICl) -- the Nigeria-Algeria Gas Pipeline, the Dakar-Bamako Rail Modernization and the Brazzaville-Kinshasa Road-Rail. In addition, the 8 projects include the emerging regionally championed projects such as the Abidjan-Lagos Corridor modernization and the Dar es Salaam port expansion -- the latter, a key nodal-anchor project in the Central Corridor PIDA acceleration piloting initiative of the Strategic Africa Infrastructure Initiative (SAII) between the World Economic Forum (WEF), the AU-NEPAD and African Development Bank partnership.

This book is organized in two parts.

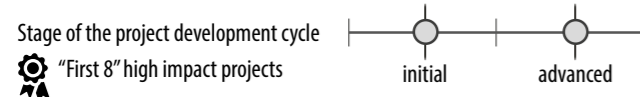
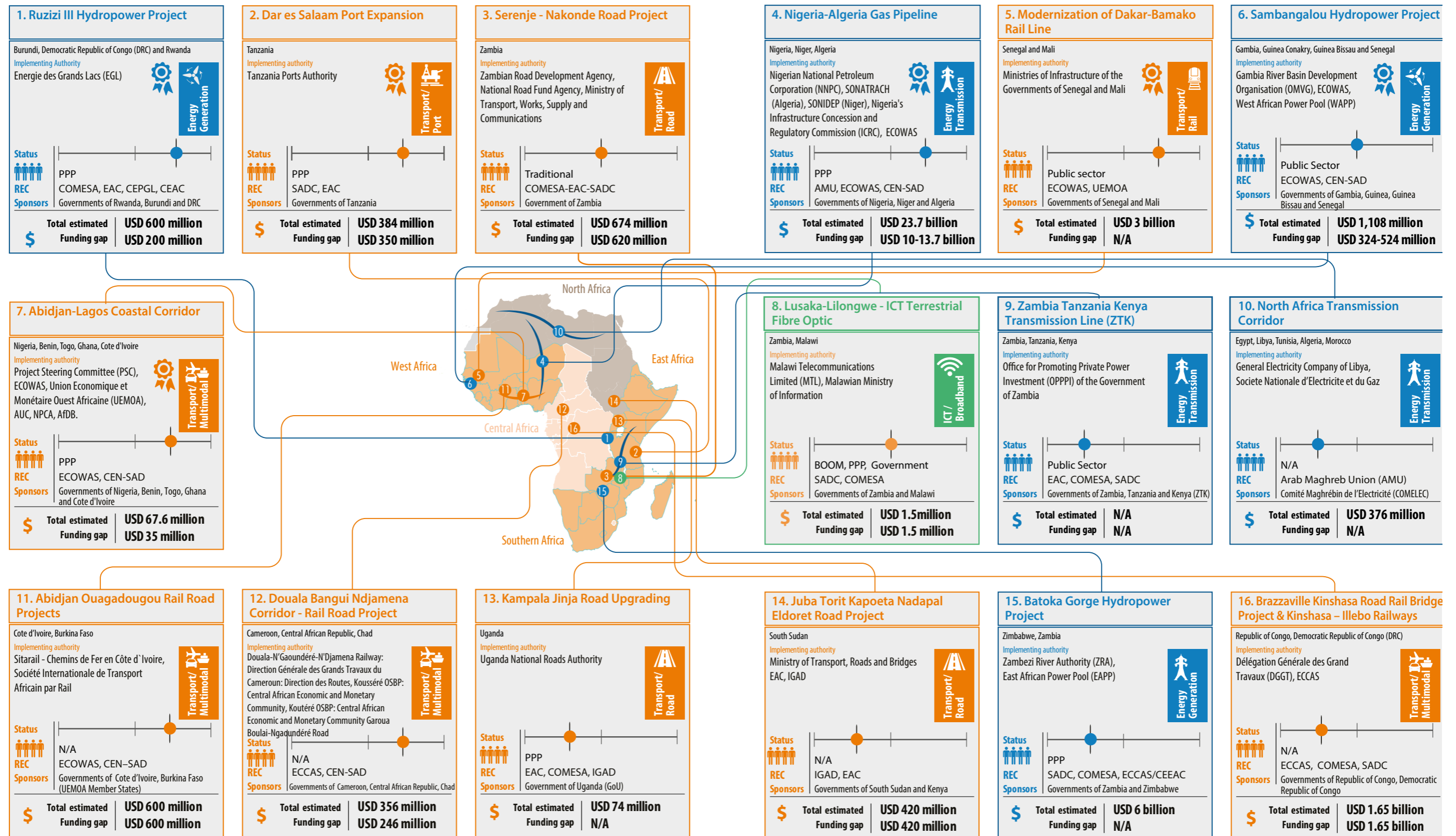
In Part One, we profile all 16 DFS projects, underscoring elements such as strategic importance, technical specifications, transitional coordination, political support, international support, risks, risk mitigation, economic sustainability, expected benefits and the status of project preparation. We also highlight the coordinating authorities, the affected regional economic communities (RECs), the total estimated project cost and the funding gap.

In Part Two, we present "Where the money is", an abridged version of the landmark study by NEPAD Agency and ECA on domestic resource mobilization in Africa. This repackaged version is prepared for the benefit of high net-worth investors who have interests in any of the 16 DFS projects and who require a one-stop document which can respond to critical questions and inquiries they may have.

PART ONE SIXTEEN INFRASTRUCTURE PROJECTS



FIGURE 1. 16 INFRASTRUCTURE PROJECTS FOR POWERING AFRICA



- Powering Africa** (Blue): Affordable infrastructure projects that can utilise national and regional energy resources in a way that will benefit the continent.
- Moving Africa forward** (Orange): Transport projects that have a major impact on interconnecting the continent and significantly facilitating regional trade and integration.
- Connecting Africa** (Green): Projects that will increase regional and continental integration by ensuring better, more reliable connectivity for all, leading to the accelerated spread of broadband access and reduction of cost of bandwidth through increased competition.

Source: Authors.



1. RUZIZI III HYDROPOWER PROJECT

Countries/Region

Burundi, Democratic Republic of Congo (DRC) and Rwanda | East Africa region

Project location

Near Lake Kivu and the Ruzizi River at the border of Rwanda and the DRC

Project description

The third of a series of four hydropower projects, Ruzizi III is a 147 megawatt run-of-the-river hydro-electric plant with three power units.

Project structure /type

A public-private partnership (PPP) independent power producer structured as a 25-year build, own, operate and transfer (BOOT) concession.

REC

COMESA, EAC, CEPGL and CEAC

Coordinating authorities

Energie des Grands Lacs (EGL) – a regional organization, operating under the auspices of the Economic Community of the Great Lakes Countries (CEPGL), is responsible for the elaboration and implementation of energy development in the Great Lakes region.

Project preparation/status

The environmental and social impact assessments have been completed and resource mobilisation, including private sector investment, is in progress. A term sheet model has been developed and a draft agreement is in place, but still needs to be finalized.

Key feature of revenue/cost support

The three governments have committed to pay for the energy in case of default from the three energy utilities.

International support

The European Union, EIB, KfW, AfDB, AFD-DBSA PPFs and MIGA.

Total estimated project cost

USD 600 million.

Objectives

Supply of sustainable electricity to an estimated 107 million people, control of the water level in the river basin, and promotion of peace and stability in the Great Lakes region.

Economic sustainability and expected benefits

Besides addressing the shortages in electricity generation in the sub-region and substituting for high-cost gas/oil based power generation, the project is expected to contribute to the stabilization of the region. Ruzizi I and II have never stopped operating in spite of the lasting war in the Great Lakes region.

Project sponsors

Governments of Rwanda, Burundi and DRC

Private sector developer

Consortium of SITHE Global Power Ventures LLC (USA) and Industrial Promotion Services Ltd (IPS) (Kenya) as Preferred Bidder selected after tendering process in August 2012.

Funding gap

USD 200 million.

Way forward

Financial closure is expected in August 2016; Construction to begin in 2017 and completed in 2020.

1. RUZIZI III HYDROPOWER PROJECT

1.1. BACKGROUND AND STRATEGIC IMPORTANCE

The Ruzizi River forms the border between the Democratic Republic of Congo (DRC) and Rwanda. Ruzizi I and II were constructed in 1959 and in 1989 with installed capacity of 30 MW and 44 MW respectively. The 287 megawatt Ruzizi IV is still in the planning stage. This project has the potential to transform electricity supply for an estimated 107 million people living in the Great Lakes region and is expected to contribute to the stabilization of the region by enhancing economic cooperation between the three countries involved. In spite of the past decade of war, cooperation between the three countries involved in this project -- Burundi, the Democratic Republic of Congo and Rwanda - has never ceased to operate in ensuring the production and distribution of electricity generated from hydropower power on the Ruzizi River. The project was selected by the European Union (EU) to support the peace process in the Great Lakes region.

1.2. TECHNICAL SPECIFICATIONS

The Ruzizi III project will be a run-of-the-river hydro-electric plant with three power units, installed capacity of 147 MW with three turbines designed for a maximum flow rate of 50m³/s, giving a total plant discharge of 150 m³/s. The reservoir will have a storage capacity of approximately 900,000 cubic meters. It is a medium-head power plant with the following technical characteristics:

- A diversion dam, a 3.9 kilometer headrace tunnel, a surface powerhouse comprising three Francis-type turbines, and A 220 kilovolts switchyard.
- A 10 km 220kV transmission line to a substation located at Kamanyola in the DRC.

- The three plants will operate as a cascade: the same water will flow successively through the turbines of Ruzizi I, II and III. Downstream of the powerhouse, all the water will be returned to the riverbed.

1.3. TRANSNATIONAL COORDINATION

The Energie des pays des Grands Lacs (EGL), a regional organization operating under the auspices of the Economic Community of the Great Lakes Countries (CEPGL), is responsible for the preparation and development of the project. The experience of power distribution under the first two hydropower projects, where EGL has been successful at bringing the three countries together by developing practical solutions to ensure that benefits and costs are evenly allocated between the three countries, provides comfort and assurance.

For Ruzizi III, EGL has arranged for the project's electricity generation to be purchased, in equal parts, by the three national parastatal utilities or off-takers -- SNEL for DRC, EWASA for Rwanda, REGIDESCO for Burundi. Each off-taker will purchase on commercial terms with a full payment security package under a Common Power Purchase Terms Agreement. Off-takers will pay for the capacity made available by the project company. Capacity will be adjusted hourly to hydraulic conditions therefore passing on the day-to-day hydrological risk to the off-takers.

1.4. POLITICAL SUPPORT

The project enjoys strong political support in all the three countries. According to the African Development Bank, it is the first regional PPP power project in Africa and is a model for successful implementation with a single agency, EGL, to coordinate between the three countries. This presents a unified policy stance to development finance institutions and private sector financiers. The three governments have

committed to pay for the energy in case of default from the three energy utilities. The Rwandese power utility, EWASA, has received explicit authorisation to buy all the energy in case of surplus.

1.5. INTERNATIONAL SUPPORT

Multilateral development finance institutions (DFIs) – including the European Union, EIB, KfW, AfDB and AFD-DBSA PPFS -- have expressed an interest in providing or have already provided significant project preparation funding for the project. Interested private lenders may participate utilizing the protection offered by a possible (under discussion) partial credit guarantee from the World Bank. It is expected that MIGA will provide political risk insurance.

1.6. RISK AND RISK MITIGATION

- Political instability: The project is expected to further support and enhance peace and stabilisation efforts in the region. However, the possibility of targeting the facility cannot be eliminated.
- Cost overrun: careful cost control during construction.
- Financial situation of the three national utilities: Guarantees from the three governments to pay for the energy in case of default by the utility companies.
- Climate change impact: need to assess the range of deviations (over different climate scenarios) that climate change would cause in terms of possible impacts on the project development targets and the cost of reducing these impacts in terms of project siting and design.



2. DAR ES SALAAM PORT EXPANSION

Countries/Region Tanzania East Africa	Objectives To increase cargo throughput; handle larger vessels in the container, liquid and dry bulk trades; improve interfaces across transport modes; improve linkage services with rail services.
Project location Dar es Salaam, Tanzania.	Economic sustainability and expected benefits Tanzania and regional countries could earn as much as USD2.6 billion per year if the efficiency of the Dar es Salaam port was equal to that of the Mombasa port.
Project description Modernisation of Berths 1-7	
Project structure /type Elaboration of viable PPP options.	
REC SADC, EAC.	Project sponsors Governments of Tanzania.
Implementing authorities Tanzania Ports Authority.	
Project preparation/status Port Master Plan completed in early 2000's. Feasibility for the modernization of berths 1-7 completed. Expression of Interest (EOI) released in June 2013 for packaging works, including construction. EOI released in October 2013 for PPP and transaction advisory.	
International support NEPAD Business Foundation (NBF) – Africa Infrastructure Desk (Afri-ID); World Bank, Development Bank of Southern Africa	
Total estimated project cost USD 384 million.	Funding gap USD 350 million.
Way forward Engage stakeholders and align stakeholder requirements; Package project: develop procurement strategy, prepare EOIs/RFPs; Engage market and evaluate responses; and Execute study and build financial model	

2.1. BACKGROUND AND STRATEGIC IMPORTANCE

The port of Dar es Salaam is the second most important gateway for regional trade in East Africa after Mombasa, catering to 90% of Tanzania's international trade and a significant part of trans-shipment trade for Zambia, Malawi, DRC, Burundi, Rwanda and Uganda. Following privatisation in the 1990s, the Dar port became one of the most efficient ports in Africa but its performance deteriorated gradually over time. It is estimated that efficiency gains if the Dar port were to become as efficient as Mombasa -- the total cumulative cost of the delays and additional monetary costs would add up to the equivalent of a 22% tariff rates on container imports -- amounting to USD 1.8 billion per year.

Modernising the port of Dar es Salaam has been a priority in recent national strategies. Recent initiatives such as the establishment of an electronic single window system and the facilitation of the direct delivery of cargo have been helpful. However, with the projected increase in trade flows, significant new investments are needed to address the delays at anchorage and excessive dwell-time to remove merchandise from the port. The waiting time for container vessels is 10 days on average compared to less than one day in Mombasa; for dry cargo, waiting time is on average 4.5 days compared to no waiting in Mombasa.

2.2. TECHNICAL SPECIFICATIONS

Existing facilities at the port include: 1) Quay length of 2,600 metres consisting of 11 berths for deep sea vessels; 2) One grain terminal facility with a storage capacity of 30,000 MT; 3) 10 private inland container depots; 4) An oil jetty for tanker size of 45,000 MT; 5) A grain silo facility of 30,000 MT; and 6) Connectivity to rail line and land-linked countries.

The key objectives of the rehabilitation of the Dar port project include:

- Deepening and strengthening Berths 1 to 7 from a level of approximately 9 m (Berths 1 to 3) and 10 m (Berths 4 to 7) to 13m or 14m and construction of a Roll-on/Roll-off (RoRo) berth;
- Deepening and widening the adjacent turning area;
- Capacity to handle increasing size of vessels; and
- Installation of conveyor systems and expansion of silos capacities.

2.3. PROJECT STRUCTURE

The main stakeholders in the port of Dar es Salaam are the Tanzania Port Authority (TPA), which is the landlord authority and service provider; the Tanzania International Container Terminal Services (TICTS), a private container stevedoring contractor; and the Surface and Maritime Transport Authority (SUMATRA), the multi-sectoral regulatory agent. TPA operates its General cargo terminal (Berths 1-7). Its full dedicated container terminal (Berths 8-11) is leased to a private operator known as the Tanzania International Container Terminal Services Ltd (TICTS).

2.4. POLITICAL SUPPORT

The Dar es Salaam Port Expansion is part of the Tanzanian President's 'Big Results, Now!' (BRN) Initiative, aimed at adopting new methods of working under specified timeframe for delivery of the step-change required.

2.5. TECHNICAL SUPPORT

TPA is partnering with the NEPAD Business Foundation (NBF) – Africa Infrastructure Desk (Afri-ID) and the private sector to assist the unlocking of the project by:

- Constituting Afri-ID Working Group on RFP requirements and PPP regulatory structuring;
- Liaison and coordination during TPA restructuring;
- Advisory services during RFP's production and ToRs; and
- Information and data mining –including creation of central repository for project specific information.

2.6. INTERNATIONAL SUPPORT

Multilateral development finance institutions (DFIs) – such as DFID, AfDB, DBSA and World Bank -- have expressed interest in providing project preparation funding for the project. The project is one of the key PIDA projects on the Central Corridor identified by WEF as a pilot programme under the Strategic African Infrastructure Initiative (SAII) for PIDA acceleration.

2.7. RISK AND RISK MITIGATION

- Cost overrun: cost control including on project cost.

Coordination risk among the various parties: TPA should take the lead and all parties should follow the Tanzanian ports master plan.





3. SERENJE - NAKONDE ROAD PROJECT

Countries/Region

Zambia | Southern Africa

Project location

Serenje, Mpika, Chinsali, Nakonde

Project description

The project road runs in a north eastern direction from Serenje in Zambia's Central Province to Nakonde in the Muchinga Province covering a total distance of 614.71 km.

Project structure /type

Not suitable for PPP or toll road. Traditional framework contract may be the best solution.

REC

COMESA-EAC-SADC. The COMESA Tripartite Project Preparation and Implementation Unit (PPIU) is acting as the Client in the award and management of the three design contracts, working in technical partnership with the Zambian Road Development Agency (RDA).

Implementing authorities

The Zambian Road Development Agency and National Road Fund Agency, Ministry of Transport, Works, Supply and Communications.

Project preparation/status

The economic analysis was done in 2012/2013 by the University of Birmingham. The final design reports and bidding documents for the three sections were expected to be available in November 2013.

International support

TradeMark Southern Africa, European Development Fund, UKAid, the Tripartite Institutions Trust Account Investment Committee, and the Tripartite Trust Account Manager (DBSA).

Total estimated project cost

USD 674 million.

Objectives

Contribute to the reduction of the cost of road transport along the North-South & Dar es Salaam Corridors & reduce accident losses for the transport of passengers and goods.

Economic sustainability and expected benefits

Improve the competitiveness of business in the 8 countries served by this corridor by reducing road transit times (for imported and exported goods for Zambia, Tanzania, and the DRC, through the port of Dar es Salaam) and the transport for farm inputs and produce through the agricultural areas of Zambia.

Project sponsors

Government of Zambia.

Funding gap

USD 620 million.

Way forward

Project completion expected end of 2017.

3. SERENJE - NAKONDE ROAD PROJECT

3.1. BACKGROUND AND STRATEGIC IMPORTANCE

Road transport carries over 80 percent of the cargo on the Dar es Salaam Corridor and directly and indirectly serves beneficiaries in Zambia, Tanzania, Kenya, Democratic Republic of Congo (DRC), Malawi, Zimbabwe, Botswana and Namibia. Reducing the cost of transport along the North-South and Dar es Salaam corridors is key to improving competitiveness in the eight countries served by these corridors. The Serenje-Nakonde road, which was constructed in the late 1970s, has received minimal maintenance until 1995 by which time significant deterioration had taken place.

The Government of Zambia is currently undertaking emergency maintenance works in order to improve safety on the road. The specific objective is to contribute to the upgrading of the Serenje-Nakonde section of the NSC road network through the rehabilitation of the 3 road links to a design pavement life of 20 years, which represents a cost-effective and economically justified standard.

3.2. TECHNICAL SPECIFICATIONS

The project road runs in a north eastern direction from Serenje in Zambia's Central Province to Nakonde in the Muchinga Province covering a total distance of 614.71 km. The three sections are designed to the same SATTC technical specifications. In accordance with NSC trunk road design a standard 11m-wide road section will be provided with 2 x 3.5m carriageways and 2 x 2m-wide shoulders. The generic pavement design is also standardised, with the existing cement-stabilised base course being scarified, widened, re-stabilised and compacted to a depth of 150mm to the new road cross-section. Drainage is being improved. The horizontal and vertical alignment will remain largely unchanged for the 120 km per hour (kph) design speed, but some sag curves will be eased and improved safety and advisory signage provided. Climbing

lanes will be included on long inclines to facilitate traffic flow on this road that is characterised by a high proportion of heavy trucks and semi-trailers.

3.3. POLITICAL SUPPORT

The Government of the Republic of Zambia has confirmed that it will contribute annual budgetary support through the National Road Fund Agency towards implementing the Serenje-Nakonde Road Project.

3.4. INTERNATIONAL SUPPORT

The project is supported by the COMESA-EAC-SADC Tripartite Project Preparation and Implementation Unit (PPIU), TradeMark Southern Africa (TMSA), the European Development Fund, UKAid, the Tripartite Trust Account Investment Committee (TTA IC), and the Tripartite Trust Account Manager (DBSA).

3.5. RISK AND RISK MITIGATION

Cost overrun: support by TMSA and PPIU provided to the implementing agency for project preparation and unit cost estimates.

- Insufficient funding: some of the longer sectors will be subdivided into or more tender lots to increase the interest of potential funders.
- Capacity constraint by RDA, the implementing agency: support by PPIU to assist the RDA in managing and supervising the works.
- Poor response to EOLs and RFPs: the three road sections were designed to the same specifications thus offering continuity.
- Environmental and social impacts: for environmental and social impact assessments, including resettlement, action plans have been completed and detailed Environmental and Social Management Plans have been set up to mitigate the negative impacts.



4. NIGERIA-ALGERIA GAS PIPELINE

Countries/Region

Nigeria, Niger, Algeria | West and North Africa

Project location

4,400 km pipeline from Qua Iboe Terminal (Calabar) (Nigeria), through Niger to Hassi R'Mel in Algeria.

Project description

Natural gas pipeline for export to Europe. The Nigeria-Niger-Algeria Pipeline is also referred to as the Trans-Sahara gas pipeline (TSGP).

Project structure /type

PPP model

REC

AMU, ECOWAS and CEN-SAD

Implementing authorities

Nigerian National Petroleum Corporation (NNPC), SONATRACH (Algeria), SONIDEP (Niger), Nigeria's Infrastructure Concession and Regulatory Commission (ICRC), as well as the Economic Community of West African States.

Project preparation/status

The government of Nigeria has readjusted the scope and focus of this project, and has included it in its national infrastructure development programme. Given the recent development in the global gas market, the government of Nigeria engaged a consultant to revalidate the 2006 Feasibility Study of this project. The revalidated study report was submitted in March 2014 and reconfirmed the viability and bankability of the project. The bid documents and the execution of contracts for Early Gas are being processed.

Key feature of revenue/cost support

In 2013, the Nigerian government set aside USD 400 million for the construction of the Calabar-Ajaokuta-Kano pipeline to connect to the TSGP.

Total estimated project cost

USD 10 billion (48") & USD13.7 billion (56") line diameters (2006).

Funding gap

USD 10-13.7 billion.

Way forward

The project feasibility study has been revalidated to reassess: 1) gas supply options and 2) the Trans-Nigerian optimization study and identify critical areas of synergy with the TSGP from a construction point of view.

Planned project construction in 2015 for a duration of 4 years.

In addition, Standard Chartered Bank undertook an optimisation and bankability study on behalf of the Nigerian Government, also confirming project bankability and viability. The Nigerian Government has included this project in its National Infrastructure Development Programme and has adjusted the scope and focus of the project. It has committed USD400 million to the project and raised an additional USD450 million through Euro bonds during 2014.

The domestic component of the project has been divided into three phases: Early Gas Phase (a 261 km pipeline scheduled for completion by 2016), Phase 1 (418 km and 683 km pipelines scheduled for completion by 2018), and Phase 2 (a 174 km pipeline scheduled for completion by 2020). In 2013, the Nigerian government called for an Expression of Interest for the local component and received over 67 responses. It has created a technical team to engage with the European Union (EU) on the marketing of gas and to attract incentives for commercial gas operations. Nigeria is also engaging with the Development Bank of South Africa (DBSA), regional banks and other competitive international banks. To date, the 48" pipeline from Calabar to Kano has been completed and the pipeline right-of-way identified and surveyed. The engineering designs for Calabar have also been completed. At present, the bid documents and execution of contracts for early gas are being progressed.



4.1. BACKGROUND AND STRATEGIC IMPORTANCE

Natural gas is poised to occupy a more important place in the worldwide energy balance. With the Nigeria-Algeria gas pipeline, Africa can contribute to the global market with a sustained and diversified supply of natural gas particularly to the European Union. It is projected that natural gas imports may reach 85% of EU gas consumption by 2030 raising the issue of long-term security of supply. Nigeria has the 7th largest gas reserves in the world and the quality of the Nigerian gas is high, rich in liquids and low in sulphur.

The Trans-Sahara Gas Pipeline (TSGP) project will also help to integrate the economies of the sub-region in line with objectives of NEPAD, promote growth and poverty alleviation by opening up economic growth opportunities in the sub-region and assist in the fight against deforestation and desertification by preventing the widespread use of wood for energy.

Lastly, the project will recover flared gas in Nigeria which represents a loss of energy equivalent to 220,000 barrels/day with serious consequences on the environment and emissions.

4.2. TECHNICAL SPECIFICATIONS

The proposed natural gas pipeline will be designed to connect to the existing Trans-Mediterranean, Maghreb-Europe, Medgaz and Galsi pipelines across the Mediterranean sea. The length of the pipeline is estimated at roughly 4,400 kilometers, with over 1000km in Nigeria, 840 km in Asia, 2300 km in Algeria and 220 km connecting Algeria to Spain. The pipeline would initiate in the Niger Delta basin, cross vast spans of the Sahel region and the Sahara desert before reaching Hassi R'Mel, a hub for natural gas and oil pipelines running to the Algerian coast.

Given the length of 4,400 km, the pipeline is considered cost-competitive when compared to the LNG option taking into account gas wastage, estimated at 15-18%, during the process of

liquefaction. There are two options for the size of the pipeline, 48 or 56 inches in diameter. With the 48 inches option, the TSGP will reach a capacity of 30 billion cubic meters of natural gas per year.

4.3. TRANSNATIONAL COORDINATION

Starting with a memorandum of understanding to jointly develop the TSGP between Nigeria and Algeria in 2002 and the admission of the Republic of Niger as a project co-sponsor in 2008, the three countries signed an intergovernmental agreement (IGA) in July 2009. The IGA has been ratified by Niger and Algeria. Progress is being made in securing ratification in Nigeria. The review of the joint venture agreement between the three countries is on hold pending the resolution of SONATRACH's participation in Nigeria's upstream activities.

The proposed Nigeria - Niger - Algeria pipeline project will involve the cooperation of three countries as co-owners of the project. In 2013, the Nigerian government set aside USD 400 million for the construction of the Calabar-Ajaokuta-Kano pipeline to connect to the TSGP.

The demand for energy will come from the EU, the 3 countries' utilities: NNPC for Nigeria, SONATRACH for Algeria and SONIDEP, the National Oil Company for Niger Republic. Nigeria's Infrastructure Concession and Regulatory Commission (ICRC) is the focal point responsible for developing financing options for the project through a public private partnership (PPP).

4.4. POLITICAL SUPPORT

TSGP is a NEPAD Presidential Infrastructure Champions Initiative (PICl) project under PIDA.

4.5. RISK AND RISK MITIGATION

Cost overrun: new feasibility study to assess feasible tariff structures.

European demand: new feasibility study to assess demand conditions.



Construction of a natural gas pipeline Photo Credit: Gasum Oy



5. MODERNIZATION OF DAKAR-BAMAKO RAIL LINE

Countries/Region

Senegal and Mali | West Africa

Project location

Senegal and Mali.

Project description

This project is part of the Dakar-Niamey multimodal corridor of the PIDA priority action plan (PAP); the project involves investment in new rail infrastructure (track and rolling stock), and signaling system for the rail line between Dakar port and Bamako.

Project structure /type

Public sector project

REC

ECOWAS and UEMOA.

Coordinating authorities

Ministries of Infrastructure of the Governments of Senegal and Mali.

Project preparation/status

The Government of Senegal has prioritised the Dakar-Bamako Rail component of the project as the first phase. This phase entails the construction of a new railway network with standard gauge running through Dakar-Tambacounda-Kedougou in Senegal, Keniebu-Bamako-Bougouni-Sikasso in Mali and Bobo Dioulasso in Burkina Faso. The Government of Senegal is negotiating with several potential funding partners, including companies from China. The West African Economic and Monetary Union financed all technical studies. Project implementation is expected to commence in 2018.

International support

China International Railways, China Railways Corporation Construction and Sahara Mining from India have expressed interest in financing this project.

Total estimated project cost

USD 3 billion.

Way forward

Grant application for project preparation to the NEPAD Project Preparatory Grant Facility (NEPAD IPPF) to be submitted by the two governments through ECOWAS and UEMOA.

Objectives

This project is expected to improve connectivity and intra-African trade between Dakar (Senegal) and Bamako (Mali), and other countries, promote regional integration, and helped to engender new economic spin-offs/opportunities through rail spurs.

Economic sustainability and expected benefits

The new line will make possible the exploitation of iron ore mines in Mali and Senegal, and bauxite in Mali and promote cooperation in food production between the southern Senegal region of Cassamance and Guinea Bissau via a southern rail spur.

Project sponsors

Governments of Senegal and Mali.

Private sector developer

China International Railways and China Railways Corporation Construction (CRCC) and Sahara Mining, an Indian company currently involved in iron ore exports from Senegal.

5. MODERNIZATION OF DAKAR-BAMAKO RAIL LINE

5.1. BACKGROUND AND STRATEGIC IMPORTANCE

This project is part of the Dakar-Niamey multimodal corridor -- itself a key component of the wider Dakar-Bamako-Niamey-Ndjamena-Djibouti multimodal corridor of the PIDA priority action plan (PAP).The project involves investment in new rail infrastructure (track and rolling stock), and signaling system for the rail line between Dakar port and Bamako. The existing metric gauge railway, built between 1907 and 1927, is antiquated and obsolete.

This project is expected to improve connectivity and intra-African trade, facilitate regional integration, and also engender new economic spin-offs/opportunities, as a result of the planned dedicated rail branches serving the mining areas. The new line will also allow the exploitation of iron ore mines in Mali and Senegal, and bauxite (in Mali). In addition, the new investment will enable the strengthening of economic cooperation in food production between the southern Senegal region of Cassamance and the Guinea Bissau, via a southern rail-spur: Tambacounda-Ziguinchor-Bissau, which the Governments of Senegal and Guinea Bissau intend to build.

5.2. TECHNICAL SPECIFICATIONS

The project involves the construction of a modern main railway line (of 1234 km between Dakar and Bamako), with key strategic rail-spurs, serving iron ore mining areas near Koudekourou, and Bauxite mines near Falea, in Mali. There are two possible main line options: 1) Sendou-Tambacounda-Koudekourou-Falea-Bamako (757 km) and 2) Sendou-Tambacounda-Koudekourou-Kidira (614 km) with a bypass route from Tambacounda to Koudekourou (311 km). The first phase of the project will focus on the Dakar Bamako section of the wider multimodal corridor.

5.3. TRANSNATIONAL COORDINATION

The institutional reform of the existing rail concession under TransRail management since 2002 - will enable the establishment in each country (Senegal and Mali) - a company responsible for the management and financing of the new rail infrastructure investment. In addition, the two countries will set up a joint private operating company. The implementation of the proposed reforms will be effected by the two governments.

5.4. POLITICAL SUPPORT

This project receives high level support of the NEPAD Presidential Infrastructure Champion Initiative (PICl) and has the technical coordination support of the NEPAD Agency, the African Union Commission, ECOWAS and UEMOA.

5.5. INTERNATIONAL SUPPORT

Two Chinese companies, China International Railways and China Railways Corporation Construction (CRCC) have expressed interest in financing the section joining Sendou to Bamako (Sendou-Tambacounda-Koudekourou-Falea-Bamako). CRCC is expected to sign an MOU with the Government of Senegal. Sahara Mining, an Indian company, which operates an iron ore mine near Tienfala (80kms from Bamako), has expressed interest in financing an alternative rail alignment (Sendou-Tambacounda-Koudekourou-Tienfala-Bamako). The company exported 600,000 MT of iron ore by road in 2012 through the port of Dakar; a target of 1 million MT was expected to be exported in 2013.



6. SAMBANGALOU HYDROPOWER PROJECT

Countries/Region

Gambia, Guinea Conakry, Guinea Bissau and Senegal | West Africa

Project location

Located 930 km upstream from the mouth of the Gambia River. The dam will be located in Senegal, and 80% of the 181 km² reservoir will be in Guinea.

Project description

Construction of a roll compacted concrete (RCC) gravity dam of 90 m height with a 128 megawatt installed capacity, as well as a 181 km² reservoir with 3.8 billion m³ of water volume.

Project structure /type

Developed as a public sector project. Project sponsors will decide whether PPA, operating contract with private operator and other legal and contractual documents. There is a possibility of a PPP for the operation and maintenance of the dam and hydro system.

REC

ECOWAS and CEN-SAD

Implementing authorities

Gambia River Basin Development Organisation (OMVG) will play a lead role with the support of ECOWAS and the West African Power Pool (WAPP).

Project preparation/status

Detailed design study completed in 2008 and cost updated in April 2013. Following 2 detailed social and environmental impact assessments, an environment plan and a resettlement action plan were established. All documents, policies, studies and legal framework have been completed; will be updated by new transaction advisor once the financing has been mobilised.

International support

Concessional funding from China Exim bank. AfDB, World Bank and Islamic Development Bank (IsBD) to help finance remaining needs.

Total estimated project cost

USD 1,108 million.

Objectives

- Supply of sustainable electricity to the three countries.
- Control of the water level in the river basin.
- Promotion of peace and stability in the region.

Economic sustainability and expected benefits

Gambia, Guinea, Guinea Bissau and Senegal will enjoy low-cost, renewable energy. The availability of low-cost electricity will lead to increased regional power trade and enable regional integration. The additional electricity made available through this project will also increase the region's energy security.

Project sponsors

Governments of Rwanda, Burundi and DRC

Funding gap

USD 324 to 524 million.

Way forward

Dedicated co-ordination unit to be formed to manage the implementation process. Updated inter-governmental agreement to be drafted. Construction is expected to be completed by 2018 by China Gezhouba China Group Corporation Limited (CGGC Ltd).

6. SAMBANGALOU HYDROPOWER PROJECT

6.1. BACKGROUND AND STRATEGIC IMPORTANCE

This project originally formed part of a larger Gambia River Basin Development Organisation (OMVG) energy project which entailed an interconnecting power grid with the Kaleta Dam in Guinea. The OMVG was established in 1978 with the three principal thrusts of energy, food security and communication. These river basins provide an opportunity for power production and studies have been financed by OMVG countries with international assistance in particularly from the African Development Bank (AfDB).

Both the Sambangalou Dam and the Kaleta Dam are now PIDA projects. The project helps meet the anticipated growth of electricity demand in the sub-region using non-GHG emitting power generation. The project will impact 186 households (1,320 persons) and 1,250 ha of land (of which 850 ha of which is cultivated land).

6.2. TECHNICAL SPECIFICATIONS

The Sambangalou reservoir will be a multi-purpose reservoir. It will have an installed capacity of 128 MW and the mean energy production will be 402 GWh per year. The total storage capacity is expected to be 3.8 billion m³ with 1.7 billion m³ active storage capacity. The design involves the construction of a gravity dam and 4 turbines of 32 MW each. The plant production 25- year mean cost is estimated at US Cents 6.98/kWh and 25-year mean tariff is evaluated to US Cents 8.69/kWh at the bus bar. The length of the dam will be 573m and the height 90m; it will be made of roll compacted concrete.

6.3. TRANSNATIONAL COORDINATION

There is a single agency, OMVG, for co-ordination between the three countries, thus presenting a unified policy to development finance institutions and private sector financiers.

6.4. POLITICAL SUPPORT

This project enjoys strong political support in all countries involved. It is a Heads of State and Government priority project.

6.5. INTERNATIONAL SUPPORT

During the donors meeting of 30 October 2013 in Dakar, development partners pledged a minimum of USD 584 million to maximum of USD 784 million for the project (total cost is USD 1,108.5 million), leaving a financing gap of about USD 324.5 to 524.5 million. The AfDB has actively sought to promote private sector participation in the project, through operation.

6.6. RISK AND RISK MITIGATION

Environmental impact risk includes a program of measures for both pre-construction/ construction and operation phases.



7. ABIDJAN-LAGOS COASTAL CORRIDOR

Countries/Region

Nigeria, Benin, Togo, Ghana, Cote d'Ivoire | West Africa

Project location

Noepe, Hillacondji/Sanveekondji, Krake/Seme (OSBPs)

Project description

Modernisation and upgrading of the West African Corridor comprising the construction of 4 one-stop border posts (OSBPs). In addition, the project involves the dualization of the Abidjan-Lagos Corridor to a 2x3 lane Highway with an associated rail link, and ICT technology to transform the coastal transport/trade corridor into the 'smart corridor'.

Project structure /type

Public sector project

REC

ECOWAS and UEMOA.

Implementing authorities

A Project Steering Committee (PSC) made up of Ministers in-charge of Works/Infrastructure and chaired by the Nigerian Minister will oversee the implementation of the project. The ECOWAS Commission is the secretariat of the PSC. Other lead agencies will be ECOWAS and the Union Economique et Monétaire Ouest Africaine (UEMOA) for OSBPs and AUC, NPCA, AfDB and ECOWAS for the highway.

Project preparation/status

The project treaty was signed in February 2014 and provides for a supranational corridor management authority. The member states also agreed to a seed fund contribution of \$50 million.

International support

European Union and AfDB.

Total estimated project cost

USD 50.4 million (OSBPs); USD 17.2 million (Highway).

Way forward

The norms and standards for this project need to be harmonised and the project may need expansion in the future due to capacity shortages and increased tariff rates.

Objectives

Reduce border crossing time, harassment and cost. Further reduce transport and logistics costs. Promote trade and economic development amongst countries.

Economic sustainability and expected benefits

The Abidjan-Lagos Coastal Corridor is the most travelled West African corridor. The more efficient transport system and new border posts will ease border crossing, helping to increase regional trade and regional integration among ECOWAS countries.

Project sponsors

Governments of Nigeria, Benin, Togo, Ghana and Cote d'Ivoire.

Funding gap

USD 35 million

7. ABIDJAN-LAGOS COASTAL CORRIDOR

7.1. BACKGROUND AND STRATEGIC IMPORTANCE

The Abidjan-Lagos Coastal Corridor is the most travelled West African corridor on the African Regional Transport Infrastructure Network (ARTIN). It is therefore important that this corridor is modernised and upgraded in order to speed up regional integration. Joint Border Posts (JBP) for common or simultaneous controls by border Agencies from pairs of neighbouring countries are aimed at enhancing trade facilitation through the efficient movement of persons, vehicles and goods within the Community and with adjoining regions through the reduction of border crossing time. More efficient transport system and new border posts will ease the crossing between countries for people and goods. This, in turn, will increase regional trade and enhance regional integration involving five countries - Ghana, Cote d'Ivoire, Togo, Benin and Nigeria, all of which are members of ECOWAS.

7.2. TECHNICAL SPECIFICATIONS

The project focusses on the modernisation of the most traveled ARTIN corridor in West Africa which includes: i) the roll-out of five road related smart corridor modules; ii) modernisation of the 384 km stretch of highway; iii) the upgrading of 288 km of road; and iv) the creation of four one-stop border posts (OSBPs). In addition, the project involves the dualization of the Abidjan-Lagos Corridor to a 2x3 lane highway with an associated rail link, and an ICT technology to transform the coastal transport/trade corridor into the 'smart corridor'. The total length of the Abidjan-Lagos highway is 1028 km.

7.3. TRANSNATIONAL COORDINATION

A Project Steering Committee (PSC) made up of Ministers in-charge of Works/Infrastructure from the Member States will oversee the implementation of the project. The Nigerian Minister of Works is the Chairman of the PSC. The PSC was formed by the Presidents of the five concerned Member States. The ECOWAS Commission is the secretariat of the PSC. Other lead agencies are ECOWAS and the Union Economique et Monétaire Ouest Africaine (UEMOA) for OSBPs and AUC, NPCA, AfDB and ECOWAS for the highway.

The ECOWAS commission has completed the Architectural and Technical Engineering Design Studies for the initial seven JBP sites as part of their West African Joint Border Posts Programme. Ministers of road infrastructure, transport, finance, and justice from Nigeria, Togo, Benin, Ghana, and Cote d'Ivoire meet routinely to discuss the regional infrastructure program, performance indicators and funding options. An implementation action plan was agreed including the development of an institutional framework (MOU, joint development agreement and international project agreement). Member states also agreed to contribute seed capital for project design and feasibility studies.

7.4. POLITICAL SUPPORT

This project is part of ECOWAS's West African Joint Border Posts Programme and also part of the Abidjan-Lagos Highway Development Programme.

7.5. INTERNATIONAL SUPPORT

Currently, the European Union and AfDB are providing funding for the construction of the OSBPs as part of the ECOWAS programme. The World Bank- funded Abidjan-Lagos Trade and Transport Facilitation Project is also being implemented in the same region.



8. LUSAKA-LILONGWE - ICT TERRESTRIAL FIBRE OPTIC

Countries/Region

Zambia, Malawi | Southern Africa

Project location

Lilongwe South (TEC) - Chipata.

Project description

This ICT project is for installing an upgradable 10Gbit/s single channel fibre line from MTL's Technical Centre in Lilongwe to the Chipata border with Zambia.

Project structure /type

Develop as a Build, Own, Operate, Maintain project. A PPP framework may be viable for some of the projects, while others may be implemented through governmental interventions.

REC

SADC and COMESA

Implementing authorities

Malawi Telecommunications Limited (MTL) and Malawian Ministry of Information. MTL will be using internal resources in order to finance this project, and dedicated resources from MTL's own operations and maintenance budget would be provided.

Project preparation/status

Planned construction commencement year is 2015. Expected construction duration is 0.75 years. Issue of operations and maintenance funding: resolved. Technical studies: Partially completed. Governance, management and structure: Needs identified. Part of the Malawi Fibre Optic Network Plan.

Total estimated project cost

USD 1.5 million.

Way forward

- Prepare financing plan
- Obtain financing for the project.
- Carry out risk assessment and prepare risk mitigation plans.
- Preliminary risk assessment to be done.
- Government policy and legislative decisions need to be taken.

Objectives

Provide redundancy and reduce landed prices of internet capacity. Additional capacity (Secondary).

Economic sustainability and expected benefits

As part of the overall PIDA project, terrestrial connectivity will increase regional and continental integration by ensuring better, more reliable connectivity for all. It will also lead to the accelerated spread of broadband access and the reduction of cost of international megabit per second through increased competition. This will lead to increased broadband usage and create better opportunities for e-businesses.

It is expected that this project will contribute USD 1.5 million to the national output during construction and create 225 permanent jobs during construction and operation phases.

Project sponsors

Governments of Zambia and Malawi.

Funding gap

USD 1.5 million.

8. LUSAKA-LILONGWE - ICT TERRESTRIAL FIBRE OPTIC

8.1. BACKGROUND AND STRATEGIC IMPORTANCE

The ICT Terrestrial Connectivity project entails the closing of missing links in the ICT sector in order to improve the interconnecting infrastructure on the continent and to connect Africa with the rest of the world. The project aims to ensure comprehensive continental backbone infrastructure by developing cross-border interconnection of broadband networks. Terrestrial connectivity will increase regional and continental integration by ensuring better, more reliable connectivity for all. The development of cross-border links will lead to robust regional networks that will give the continent resilient internet connectivity.

The programme involves several projects entailing the development of cross-border links in order to create regional networks and provide a diversity of routes to submarine cables connecting Africa with the rest of the world. It will also lead to the accelerated spread of broadband access and the reduction of cost of international megabit per second through increased competition. This will lead to increased broadband usage and create better opportunities for e-businesses. The present interconnecting infrastructure between countries is insufficient, and at least 22 cross-border projects are required to provide adequate regional infrastructure. Many of these projects can be aligned with transport sector projects.

8.2. TECHNICAL SPECIFICATIONS

The Lilongwe-Lusaka Project is a sub-project. Given that Zambia's Zesco already has a fibre line to the border from Lusaka, Malawi Telecommunications Limited (MTL) will use the Zambian project as a template for design and costing to complete a similar ICT project north to Tanzania. The project involves digging trenches in mostly soft ground in the road reserve next to the Chipata main road, laying pipes, "ducting" the cable and filling up the trenches again. Therefore, no additional licences are required and no negative environmental or social impact is foreseen.

8.3. TRANSNATIONAL COORDINATION

To facilitate interconnection between the two countries, decisions will be required at a political level that operators on both sides of the border can build across the border and that there will be no licensing requirements and no licence fees imposed.





9. ZAMBIA TANZANIA KENYA TRANSMISSION LINE (ZTK)

Countries/Region

Zambia, Tanzania, Kenya | East & Southern Africa regions

Project location

Pensulo (Zambia) through Mbeya in Tanzania to Isinya Kenya via Iringa, Singida and Arusha (all in Tanzania)

Project description

Bi-directional 2,206 km 400MW 400kV power transmission line.

REC

EAC, COMESA, SADC

Implementing authorities

Lead co-ordinating agency at present: Office for Promoting Private Power Investment (OPPPI) of the Government of Zambia.

Objectives, Economic sustainability and expected benefits

- Promoting power interconnection across the continent and facilitating the creation of a Pan African power market
- Promote and stimulate development of new power generation projects and electricity export potential
- Improve quality of power to Northern Zambia (via Kasama) and Western Tanzania (Sumbawanga)
- Reinforce the national grid in Tanzania (and make Tanzania an operating/trading member of SAPP)
- Assist Kenya diversify fuel sources for generation -hydro, thermal, etc.

The power deficits that Eastern and Southern Africa have experienced in the last few years should be seen as an opportunity rather than as an obstacle to the development of the ZTK Interconnector. If anything, it is this stark reality that, to some extent, has contributed to the new impetus to accelerate development of this project.

Countries of Eastern and Southern Africa, more than ever, see this project as part of the solution to the problem, parallel with the envisaged increased tempo in the development of new power generation in virtually all the countries in this part of Africa. The project should engender a spirit of increased cooperation among and between utilities. Thus, encourage more power trading among utilities of Eastern and Southern Africa; especially given the differing seasons and time zones, in terms of peak and off-peak periods. In essence, make the advent of a "two-way" trade between East and Southern Africa possible. This would be very much in line with the NEPAD objectives of promoting access and usage of electricity throughout Africa.

Project sponsors

Governments of Zambia, Tanzania and Kenya (ZTK)

9. ZAMBIA TANZANIA KENYA TRANSMISSION LINE (ZTK)

9.1. BACKGROUND AND STRATEGIC IMPORTANCE

The idea for the construction of the Zambia-Tanzania-Kenya (ZTK) Interconnector started off as a bilateral project between Zambia and Tanzania more than two decades ago. It was one of the remnants of the "golden era" (mid -1960s to the late 1980s) of cooperation between the two countries.

The transmission line was meant to connect the electricity grids of Zambia and Tanzania from the Zambia town of Serenje through the Zambian provincial town of Kasama, landing in the Tanzanian town of Mbeya and continuing into the Tanzanian grid.

The building of the transmission line between Zambia and Tanzania was spurred as much by the political pressures of the time (to consolidate the already strong politico-diplomatic relations between the two countries) as by economic objectives and realities (to assist improve the electricity supply in Tanzania, in the face of persistent bouts of drought while providing a market for surplus power from Zambia).

9.2. TECHNICAL SPECIFICATIONS

This Project will connect the Zambian grid to Kenya, via Tanzania; covering distance of 2,206 km. The Interconnector shall be constructed as a bi-directional 400MW double circuit 400 kV power transmission line in sections from Pensulo in Zambia to Isinya in Kenya as shown below.

- Zambia side: A second 330kV circuit from Kabwe will be strung to the existing line to Pensulo to enable the transfer of 400MW to Mbeya (via Kasama)
- Tanzania side: A 400 kV line from Mbeya to Iringa will provide the strong path for power to be delivered to the northern load centres
- Kenya side: Another 400 kV line from Singida onwards to Arusha will be required to deliver power to the Arusha load centre as well as transmit power to Isinya

9.3. POLITICAL SUPPORT

All three governments would need to provide sovereign guarantees to cover any shortfalls in cash during operations

9.4. TRANSNATIONAL COORDINATION

The Project shall be developed by the public sector as a unitary system covering the three countries. A combination of high returns required by the private sector and the need to keep average cost of financing low (in order to minimize impact on the ultimate tariffs) renders this project a candidate for concessionary funding.

The Government of the Republic of Zambia, acting through its hydropower development agency the Office for Promoting Private Power Investment (OPPPI), has been given the responsibility by the Government of Kenya and the Government of the United Republic of Tanzania to undertake the coordination of the Project.

A Project Management Unit (PMU) will be jointly established by the ZTK Governments to manage the project until the formation of the transmission company (Transco or the SPV). The responsibilities of the PMU will subsequently be taken over by Transco. The PMU shall assist the ZTK Governments during project implementation. The three countries shall assign personnel to the PMU, which on attainment of commercial operations, shall hand over the Project to Transco.

A single SPV shall be created to own the assets and operations of the Interconnector. The rationale for a funding structure based on the single SPV is the ability to access concessionary funding without the constraints of the individual country limits.

9.5. RISKS AND RISK MITIGATION

The following risks are associated with this project:

Construction risks: The Interconnector will span a distance of more than 1,600km when completed. There are risks of capital costs overruns and significant delays during construction. These risks are largely mitigated by running an international competitive process (“ICB”) in the identification of a financially and technically capable EPC contractor. As indicated in Section 5.6, the EPC contract will have price completion and performance guarantees. The objective is to award the contract on a fixed price, date certain and with predictable performance parameters.

Interest rate risk: Transco, the borrowing vehicle, shall consider entering into appropriate interest rate hedging mechanisms to mitigate the risk to the Project of increased interest costs.

Foreign exchange availability, convertibility and transferability: The power supply agreements between ZESCO, TANESCO and KETRACO/KPLC should be denominated in United States Dollars. To mitigate significant risks of currency devaluation, convertibility and availability, the PPA contracting parties should consider using hedging as a tool for value preservation (given that revenues will be in local currency and wheeling charges need to be paid in foreign currency).

Any failure by the PPA contracting parties (Transco customers) to pay or transfer foreign currency, could significantly affect the Transco cashflow; which could in turn affect its capacity to service its debts. It is expected that Transco customers will explore political risk guarantee to mitigate the risk of currency convertibility and transferability.

Creditworthiness of the power purchasers: This Project is hinged on the ability of the PPA contracting parties to meet their obligations to each other. The proposed supply through the Interconnector and the corresponding cash outlay represents a manageable portion of the offtake for TANESCO

and KETRACO/KPLC and, to some degree, ZESCO. Recent market indications have demonstrated the market’s willingness to accept the TANESCO and KETRACO/KPLC credit.

Ability of suppliers to meet demand: The development of this project has been prompted by the increasing demand for electric power in East Africa. Due to phenomenal growth that economies of Eastern Democratic Republic of Congo, Kenya, Rwanda, Tanzania and Uganda have been experiencing in the last decade or so, the demand for power has increased substantially. Some of these countries (e.g. Kenya and Uganda) have had to resort very expensive “emergency power suppliers.” Hence the need to explore the possibility of drawing power from Southern Africa, Zambia in particular.

With the combination of existing generation capacity, on-going rehabilitation and uprating of old power stations (with concomitant incremental capacity) and the new power generation projects currently under implementation or planned for development in the next five years or so, there should be sufficient capacity in Zambia and SAPP in general to satisfy requirements for this Project.



10. NORTH AFRICA TRANSMISSION CORRIDOR

Countries/Region

Egypt, Libya, Tunisia, Algeria, Morocco | North Africa

Project description

This project entails the construction of a 2,700 kilometre transmission line with a 4 500 megawatt capacity from Morocco to Egypt through Algeria, Tunisia and Libya, as follows:

- Reinforcement of 220km 400 kV Algeria-Tunisia section; Project value (US\$162m; funding gap (100%))
- Reinforcement of 220km 400 kV Algeria-Tunisia section; Project value (US\$60m; funding gap (N/A))
- Reinforcement of 210km 400 kV Libya-Tunisia section; Project value (US\$154m; funding gap (100%))

Project structure /type

PPP model

REC

Arab Maghreb Union (AMU)
Comité Maghrébin de l'Electricité (COMELEC)

Implementing authorities

General Electricity Company of Libya, Societe Nationale d'Electricite et du Gaz

Project preparation/status

Some interconnection sections for this line already exist within a limited commercial framework.

Way forward

-The role of COMELEC as sponsor and interconnector needs to be reinforced.

- Complementary economic studies on the advantages of interconnection also need to be conducted.
- Priority will be on the development of plants in Algeria and Libya.

Objectives, Economic sustainability and expected benefits

- Ensure transmission of energy between Morocco, Algeria, Tunisia, Libya and Egypt
- Transportation of regional energy to Union du Maghreb Arab/North African countries
- Assist in growing regional power integration and reduce the need for reserve capacity in power systems, leading to savings on investment costs
- Countries involved will share in the benefit of the low-cost, gas-based power generated in Algeria and Libya

Project sponsors

COMELEC serves as a project sponsor and plays a key role in interconnection. COMELEC is a supranational committee of the Arab Maghreb Union (AMU) with the main goal of establishing and co-ordinating energy policy and liberalisation efforts, particularly with regard to the transmission systems of AMU member states



11. ABIDJAN OUAGADOUGOU ROAD RAIL PROJECTS

Countries/Region

Project description

This project would modernize and rehabilitate the multimodal corridor that suffered during civil war in Côte d'Ivoire.

The project entails the modernisation of this West African corridor and the roll-out of four smart corridor modules.

It includes:

- Upgrading of 500 kilometres of highway
- Modernisation of a 1,200 kilometre stretch of existing railway line
- Construction of two one-stop border posts

Railway upgrade between Abidjan and Ouagadougou (1,200 km with modern equipment, signalling and information systems) in coordination with rail master plan.

REC

ECOWAS, CEN-SAD

Implementing authorities

Sitarail - Chemins de Fer en Côte d'Ivoire
The Société Internationale de Transport Africain par Rail has a concession on the rail network between Côte d'Ivoire and Burkina Faso, and will also play a role in the implementation of this project.

Project preparation/status

- Some sections of this programme are already being implemented under national projects.
- Corridor management committee has been established
- Financing has been obtained from various donors, and a public-private partnership is intended for this project.

Total estimated project cost

US\$600m

Way forward

A comprehensive, centralised database of on-going projects and the norms and standards of the programme will be established as the next step.

Objectives, Economic sustainability and expected benefits

- The modernisation of this West African multimodal corridor will benefit UEMOA and ECOWAS member countries of Côte d'Ivoire, Burkina Faso and beyond, and will lead to improved regional trade. The rail component is part of the wider Abidjan-Ouagadougou-Mali; and Abidjan-Ouagadougou-Niamey-Cotonou rail project.
- The project will simplify the crossing of borders by people and goods, which will lead to increased regional trade and cost savings.
- The improved efficiency of the transport system will in turn speed up regional integration.

Project sponsors

Governments of Côte d'Ivoire, Burkina Faso (UEMOA Member States)

Funding gap

100%



12. DOUALA BANGUI NDJAMENA CORRIDOR

Countries/Region

Cameroon, Central African Republic, Chad | Central Africa

Project location

Douala-N'Gaoundéré-N'Djamena: Railway
Kousséré OSBP (Cameroon-Chad)
Koutéré OSBP (Cameroon-Chad);
Garoua Boulai-Ngaoundéré: Road

Project description

Douala-N'Gaoundéré-N'Djamena: Railway and Intermodal facilities study
Kousséré OSBP (Cameroon-Chad); project value US\$110m (finance obtained)
Koutéré OSBP (Cameroon-Chad); project value: US\$10m; Funding gap (100%); Stage: Detailing, structuring
Garoua Boulai OSBP (Cameroon-CAR); project value: US\$10m; Funding gap (100%); Stage: Prefeasibility
Upgrading of 240km single carriageway: Garoua-Boula-Gaoundere (Cameroon): Road section bituminizing; project value US\$226m; Funding gap (100%)

REC

ECCAS, CEN - SAD

Implementing authorities

Sitarail - Chemins de Fer en Côte d'Ivoire
The Société Internationale de Transport Africain par Rail has a concession on the rail network between Côte d'Ivoire and Burkina Faso, and will also play a role in the implementation of this project.

Project preparation/status

- Some sections of this project are already being implemented under national projects.
- Corridor management committee has been established.
- Financing has been obtained from various donors, and a public-private partnership is intended for this project.

Objectives,

The creation of a railway link will speed up regional integration.

- The improved infrastructure will increase the efficiency and capacity of the transport sector and lead to increased regional trade.

Economic sustainability and expected benefits

The construction of this bridge, road and railway line will not only link the three (Cameroon-CAR-Chad) countries, but will speed up regional integration. The Economic Community of Central African States (ECCAS) will play a key role in the implementation of the project.

Project sponsors

Governments of Cameroon, Central African Republic, Chad



13. KAMPALA JINJA ROAD UPGRADING

Countries/Region

Uganda | East Africa

Project location

Kampala - Jinja

Project description

Kampala - Jinja Road Capacity Improvement, part of the Northern Corridor Diagnostic Study

- A 75 km dual carriageway road; will have 2 lanes
- Part of the Northern Multimodal Corridor PIDA Projects

REC

EAC, COMESA, IGAD

Implementing authorities

Lead Agency: Uganda National Roads Authority

Project preparation/status

- Contract type: Build
 - Expected construction duration is 4 years
 - Design studies for upgrading the road have been completed . Issue of operations and maintenance funding: Resolved
 - Technical studies: Partially completed
- About. USD 74 million

Total estimated project cost

USD 68 million
CAPEX USD 2 million from the Government of Uganda

Objectives, Economic sustainability and expected benefits

- Improvement of the traffic capacity of Greater Kampala; this road corridor is a vital link connecting Juba, South Sudan with Kampala, Uganda. Given its design configuration as a dual carriageway of 2 to 4 lanes in each direction, this project could potentially be procured through PPP.
- As part of the overall PIDA project, as a result of a more efficient transport system, it will be simpler for people and goods
- to cross the borders of the countries involved. This will save costs and speed up regional integration and trade. It is expected that this project will contribute USD 1.5 million to the national output during construction.
- Projected financial internal rate of return: 12.8%
- NPV: USD 47, 840, 000

Project sponsors

Government of Uganda (GoU)

Funding gap

Approx. USD 6 million (USD 5,967,087.91) 100% of which is secured

- Financing Obtained
- Prepare financing plan, check PPP feasibility
- Obtain financing for the project
- Preliminary risk assessment done; need to prepare risk mitigation plans
- Government policy and legislative decisions to be taken on PPP



14. JUBA TORIT KAPOETA NADAPAL ELDORET ROAD PROJECT

Countries/Region

South Sudan | East Africa

Project description

Upgrading the Nadapal-Juba Road (365km). The project's objective is to enhance interstate and regional connectivity, and contribute to integrating South Sudan to the regional markets.

REC

IGAD, EAC

Implementing authorities

Lead Agency: Ministry of Transport, Roads and Bridges
EAC, IGAD

Project preparation/status

Contract type: Build, Maintain Operate; Detail design complete. The first phase of this project (US\$80 million) is being funded by World Bank; because of the outbreak of civil war in South Sudan, the project is yet to be approved by the Bank. The second phase of the project (in Kenya) is expected to be prepared next fiscal year, subject to IDA resource availability.

Total estimated project cost

US\$420 million

Way forward

The road from Juba to Eldoret is intended to be developed as a regional corridor in three phases, namely: (i) Phase 1- Juba to Torit; (ii) Phase 2- Torit to Nadapal; and (iii) Phase 3- Nadapal to Eldoret.

Objectives, Economic sustainability and expected benefits

Enhance interstate and regional connectivity, through upgrading a priority road section along a critical national and international corridor. The proposed project contributes to the overarching goal of integrating South Sudan to the regional markets and supporting the newly independent African State to function as a nation. The project will:

- Help to reduce transport costs, travel time, and generate employment and improve livelihood of the population.
- Improve critical interstate and regional roads which is essential to the development of non-oil based economy and is a precondition to the development of feeder roads opening up agriculture development.
- Facilitate import - export of agricultural and other products through the Nadapal - Juba road, which is a gateway to South Sudan and As part of the overall PIDA project, speed up the ease of access for people and goods across the borders of the Democratic Republic of Congo, Kenya, Uganda, Rwanda and Burundi.
- Contribute USD 330m to the national output during construction, and USD 300m during operation.
- Creation of 1.7 million permanent jobs per annum during construction.
- Speed up regional integration through improved efficiency of the transport system will in turn.

Project sponsors

Governments of South Sudan and Kenya

Funding gap

100%



15. BATOKA GORGE HYDROPOWER PROJECT

Countries/Region

Zimbabwe, Zambia | Southern Africa region

Project location

Zambezi River Basin in between Victoria Falls and Kariba Dam

Project description

Hydroelectric plant with an installed capacity of 1,600 MW to enable export of electricity. This project entails the construction of a 181 metre gravity dam and the installation of eight 200 megawatt units with the power shared equally between the two countries. Transmission lines, access roads and other facilities are also included in the project design.

REC

SADC, COMESA, ECCAS/CEEAC

Implementing authorities

Lead Agency: Zambezi River Authority (ZRA) Zambia and Zimbabwe established the ZRA in 1987 to operate the Kariba Dam and to manage the Zambezi water resources along the joint border between these countries. The East African Power Pool (EAPP) is also involved in the project implementation.

Project preparation/status

The detailed feasibility studies, market study, techno-economic study, as well as the environmental and social impact assessments have been completed.

International support

Concessional funding from China Exim bank. AfDB, World Bank and Islamic Development Bank (IsBD) to help finance remaining needs.

Total estimated project cost

USD 6 billion USD 4 billion (Cost of dam and transmission lines), USD 2 million (Preparation Costs)

Way forward

- Project finance is based on PPP. However, project preparation needs to reach bankability in order to secure project finance.
- Project stakeholders need to decide on whether they will create a special purpose vehicle for this project, or whether ZRA should be mandated to fulfil this role.
- Feasibility Study (1993, updated 2009) and Economic Impact Assessment (1993, updated in 2009) need to be updated.

Objectives, Economic sustainability and expected benefits

- Will reduce power shortages and load shedding; generate renewable energy.
- Both Zambia and Zimbabwe will be able to increase their electricity generation capacity, while reducing their reliance on electricity imports, hence improving energy security.
- Will allow Zimbabwe to become a net exporter of electricity in the region
- SAPP energy generation mix, which currently mostly comprises fossil-fired plants, will be significantly improved through this green hydropower project.
- Batoka project operation needs to be co-ordinated with the existing dams on the Zambezi River to ensure availability of appropriate water level in the river all the time
- Expectation that project will create 6,000 permanent jobs per annum during construction and 1200 during the operation phase (split equally between both countries).

Project sponsors

Governments of Zambia and Zimbabwe

Role of sector organisations

ZPC: Generation of power - subsidiary of ZESA; ZESCO;
SAPP: Assist with packaging of the project by securing finance for the project - targeting Government of Norway and Swedish SIDA and NEPAD IPPF About. USD 74 million



16. BRAZZAVILLE KINSHASA ROAD RAIL BRIDGE PROJECT & KINSHASA – ILLEBO RAILWAYS

Countries/Region

Republic of Congo, Democratic Republic of Congo (DRC) | Central Africa

Project location

Maloukou - TresChaut (Bridge)
Kinshasa - Illebo (Rail)

Project description

A combined road and rail bridge and one-stop border post will be built, and the railway line will be connected with the Lumbumbashi-Ilebo line. The sub - project involves only the construction of Brazzaville-Kinshasa Road/Rail Bridge across the Congo River, the construction of a one stop border post (OSBP), equipping of border post and training/capacity building.

REC

SADC, COMESA, ECCAS/CEEAC

Implementing authorities

DGGT - Délégation Générale des Grand Travaux (Bridge & OSBP) ECCAS (Rail)

Project preparation/status

In December 2013 Maloukou Trechot was selected as the best location for the rail/road bridge crossing, and the first phase of the feasibility study was completed. Two workshops were planned for 2015 to finalise the detailed design, but did not take place. As a result, the project did not progress to the tender for the construction phase as envisaged.

International support

The African Union has identified a limited number of priority regional and continental projects under the “NEPAD Presidential Infrastructure Champion Initiative (PICI) - an initiative to accelerate the implementation of PIDA. The Brazzaville-Kinshasa Road-Rail Bridge & Kinshasa-Ilebo Railway is a PICI project.

Total estimated project cost

USD 1.65 billion

Funding gap

100%

Way forward

- ECCAS needs to follow up on the compilation of the bid documents for construction, and will have to make the necessary arrangements for potential public-private partnerships (PPPs) through which to manage the bridge as a toll facility.
- Special effort is needed in ensuring that the legal basis is in place to encourage PPPs. Governance, management and structure needs to be identified.

PART TWO: WHERE THE MONEY IS

INTRODUCTION

African economies have been growing at an average of 5% over the last decade due in part to improved governance, increased domestic demand, and high commodity prices. Against this overall positive picture, however, domestic savings fell significantly short of domestic development and investment needs. As a result of the shortfall, African countries have, for a long time, relied heavily on Official Development Assistance and Foreign Direct Investment for financing development programmes and policies on the continent. There is no disagreement amongst African leaders that this trend is unsustainable and that Africa's vast resources should be harnessed for the continent's long-term growth and sustainable development.

Accordingly, African governments requested ECA and the NEPAD Agency to undertake an in-depth study on the quantum of domestic resources in Africa and how they can be used to implement NEPAD regional projects and programmes. Specifically, the study, which was presented to African heads of state in January 2014, (1) reviewed the present state of development finance in Africa; (2) identified and recommended viable financial instruments that can help mobilize domestic resources, and; (3) articulated the imperatives for effective implementation of recommended instruments. The study methodology had a continental coverage and drew upon interviews with private and public sector representatives, surveys, country case studies, and reviews of relevant research publications.

An assessment of Africa's current state of development finance revealed that the fundamentals exist for the continent to raise more financial resources domestically. Africa, for example, generates nearly US\$520 billion annually in domestic taxes, earns more than US\$168 billion annually from minerals and mineral fuels, has growing public pension assets, and as of 2007 had a stock market capitalization of US\$1.2 trillion. The study, titled "Mobilizing Domestic Financial Resources for Implementing NEPAD National and

Regional Programmes & Projects" was submitted to the AU Assembly of Heads of State, which endorsed it at its January 2014 meeting.

OBJECTIVES, SCOPE AND METHODOLOGY

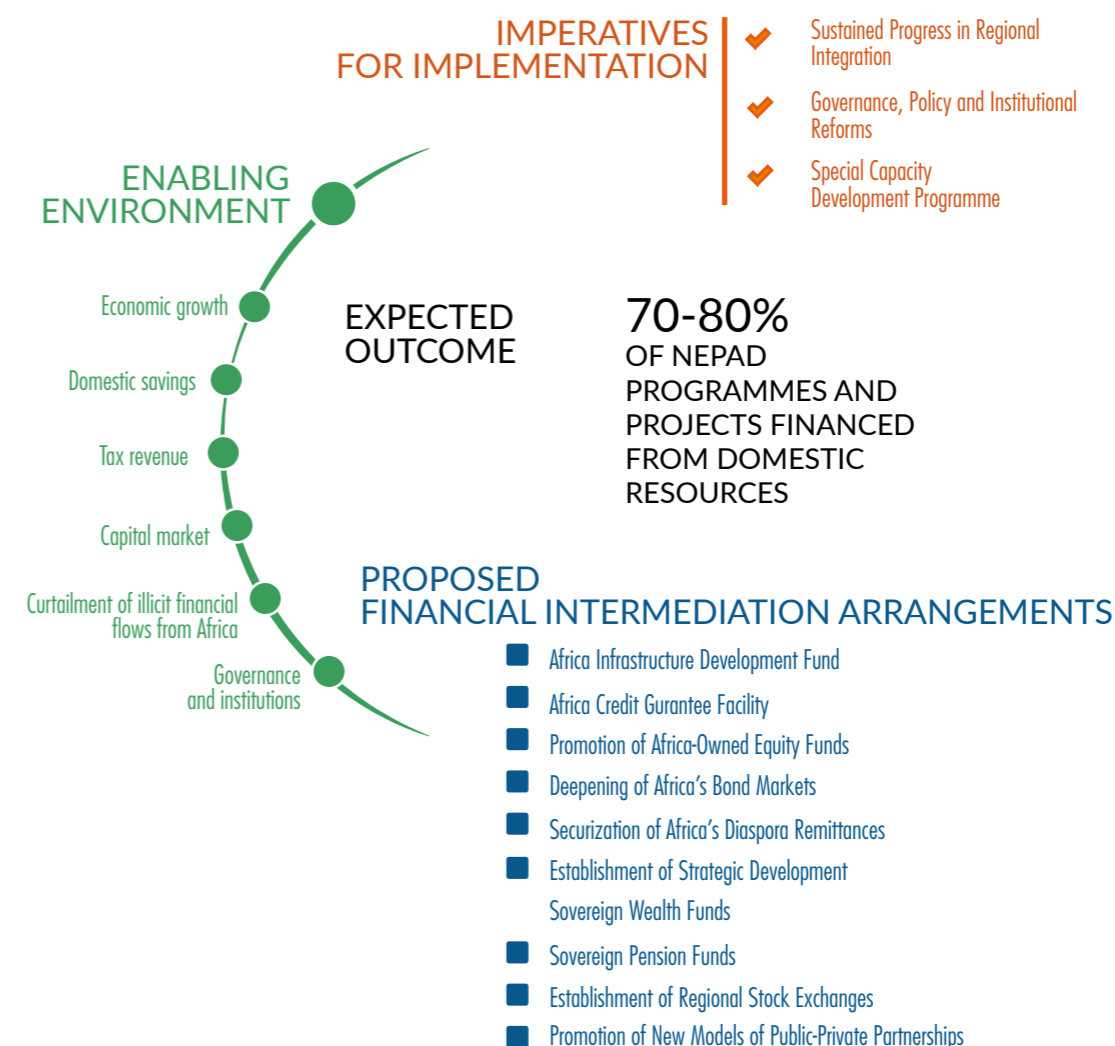
The specific objectives were to:

- Review the present state of development finance on the continent and identify financial intermediaries, instruments, policy measures and practices that would facilitate the mobilization of domestic financial resources for national and regional programmes and projects.
- Identify and recommend viable financial intermediaries and instruments and special purpose vehicles (arrangements) that could enhance the implementation of specific NEPAD programmes and projects.
- Articulate the imperatives for robust operationalization and effective implementation of the recommended infrastructure financial intermediation arrangements, instruments and policy measures.

The study had a continental coverage. The analysis was informed by country case studies¹, which provided insightful experiences from Botswana, Cameroon, Ethiopia, Namibia, Kenya and South Africa. The report was prepared based largely on a desk review of documentation. It drew heavily on publications produced by AUC, AfDB, DBSA, ECA, EU-Africa Trust Fund, IMF, OECD, UNCTAD, the World Bank, policy and research centres in and on Africa, as well as data and information gathered on

¹ Some of the country case studies were ongoing at the time this report was prepared. The case studies were contribution by UNDP to the study.

FIGURE 2. KEY ELEMENTS OF DOMESTIC RESOURCE MOBILIZATION PROPOSAL



Source: ECA, 2015.

the Asian bond market development experience; performance of Africa's bond markets; and securitization of workers and Diaspora communities' remittances in developing regions. Responses to a survey questionnaire, discussions held with officials responsible for the key domestic resource mobilization instruments and documentation provided by countries surveyed, also provided valuable data and information for the study.

FUNDAMENTALS IN THE MOBILIZATION OF DOMESTIC RESOURCES IN AFRICA

Based on the assessment of the sources of its financial resources and enabling environment there is sufficient evidence that the fundamentals exist for the continent to raise more financial resources domestically to implement its development programmes and projects. In addition to the fundamentals, Africa's resource potential is enormous and strongly confirms that the continent has the means to finance its own development. Elements of this evidence include the following:

- a. Africa generates more than US\$520billion annually from domestic taxes; has public pension fund assets that are growing impressively; earns more than US\$168billion annually from minerals and mineral fuels; and has more than US\$400billion in international reserves held by its Central/Reserve Banks. The continent's Diaspora remittances climbed to US\$40billion in 2012 and have the potential to raise up to US\$10billion annually through securitization. Stock Market Capitalisation in Africa rose from US\$300billion in 1996 to US\$1.2trillion in 2007. Banking revenues are estimated at about US\$60billion and there is high liquidity in the banking sector. Some ten African countries today have established Sovereign Wealth Funds. Africa's Private Equity Market is worth about US\$30billion.
- b. Illicit financial flows from the continent reached US\$854billion over the period between 1970 and 2008. If curtailed, such flows are financial resources that will be available for the implementation of national and regional development programmes and projects.

All these point to resources that could support development programmes and projects, if appropriate instruments and vehicles are deployed.

The key imperatives for implementation of the recommendations put forward in this study consist of Sustained Progress in Regional Integration; Policy, Governance and Institutional Reforms; and Capacity Development. The evidence is strong that there is significant progress on all three fronts, just as much as there are daunting constraints and challenges. There is however a strong sense of optimism that Africa's path is defined by the progress being achieved, and this needs to be scaled up.

The ability of a country or region to mobilize domestic resources to implement development programmes and projects is determined by the size of economic activities that it generates, its economic growth performance, capacity to raise and manage tax revenues and the efficiency of its financial system. Economic activities are driven by public and private investments, which rely on savings mobilized by the financial system, and the size of the fiscal space created by the public sector, which is also determined by the economic growth performance.

ENABLING ENVIRONMENT – SOURCES OF FINANCIAL RESOURCES

Economic Growth

To generate financial resources from the domestic economy, a country's economy will need to grow. Growth is a pre-requisi

te as it creates the wealth from which revenue can be generated. Poverty levels and inequalities in incomes must fall progressively; socio-economic infrastructure, which encourage and support investments, and efficient social services, must be available to create the condition for sustainable development. This fundamental condition is required to develop the activity base for the generation of domestic resources. On this score Africa is making a respectable progress.

Current statistics puts no less than six African countries among the world's fastest growing ten economies over the decade, 2001 and 2011 (Angola, 11.1%; Nigeria, 8.9%; Ethiopia, 8.4%; Chad, 7.9%; Mozambique, 7.9%; and Rwanda, 7.6%). Forecasts by the IMF indicate that seven Africa countries are likely to occupy the top ten places over the next half decade, 2011-2015 (Ethiopia, 8.1%; Mozambique, 7.7%; Tanzania, 7.2%; Republic of Congo, 7.0%; Ghana, 7.0%; Zambia, 6.9%; and Nigeria, 6.8%). It has been observed that over the past decade, the un-weighted average growth rate was about the same for Africa and Asia. It has also been proposed that if Africa can sustain at least 5% annual GDP growth rate for the next two decades, step up investment in economic and social infrastructure, human resource development (health and education) and harness the emerging demographic dividend, Africa will become a global growth pole before 2034 (AUC, ECA, 2012). Given these prospects, there is a strong likelihood that Africa will surpass Asia in growth in the next decade. [See Box 1]

Current statistics also demonstrate that the region's economies are responding to effective development policies as evidenced by the rebound from the slump

Box 1. Africa Regional Economic Growth Performance

Over the past 20 years, the regions and countries achieved positive annual real growth in gross domestic product (GDP). Performance however varied widely across sub-regions and countries. For instance, countries such as Ethiopia, Rwanda, Tanzania and Uganda, with average annual GDP growth rate of over 9.6% in 2008, were strong indications that results are being achieved in the region. Countries in the East Africa sub-region were the fastest growing economies in Africa and the developing world. Economic growth in North Africa has been robust. The growth in the region ranged between 4% and 6%, while for the Central African region there was overall modest positive annual real growth in GDP.

In other sectors of the continent's economy, the regions and countries made some good progress. Regulatory reforms and investment programmes in the energy, transport, water and ICT sub-sectors produced tangible results, which made a difference in the well-being of the people. For instance, in addition to the extensive ICT penetration in all the regions, road links between Uganda and Tanzania through Bukoba and Mutukula, and Kenya and Ethiopia through Garissa and Moyale, were developed, thus facilitating movement of goods and services between these countries. Free movement of people is still however constrained by slow integration process. Thus, on the whole, there is progress, which provides a reassuring base for the mobilization of domestic resources.

which resulted from the recent global recession², and growth prospects remain strong and very promising³. The rebound of African economies has been driven largely by prudent economic policies prior to the crisis. Other measures included better policy coordination and the incorporation of the MDGs and performance indicators into African

² An uneven recovery across the region: Southern Africa, which was hardest hit in 2009, is recovering more slowly than other regions with an average growth of almost 4% in 2010/2011. East Africa, which best weathered the global crisis, is projected to again achieve the highest growth with more than 6% on average in 2010/2011. North and West Africa are expected to begin to grow at around 5% and Central Africa at 4% during the same period.

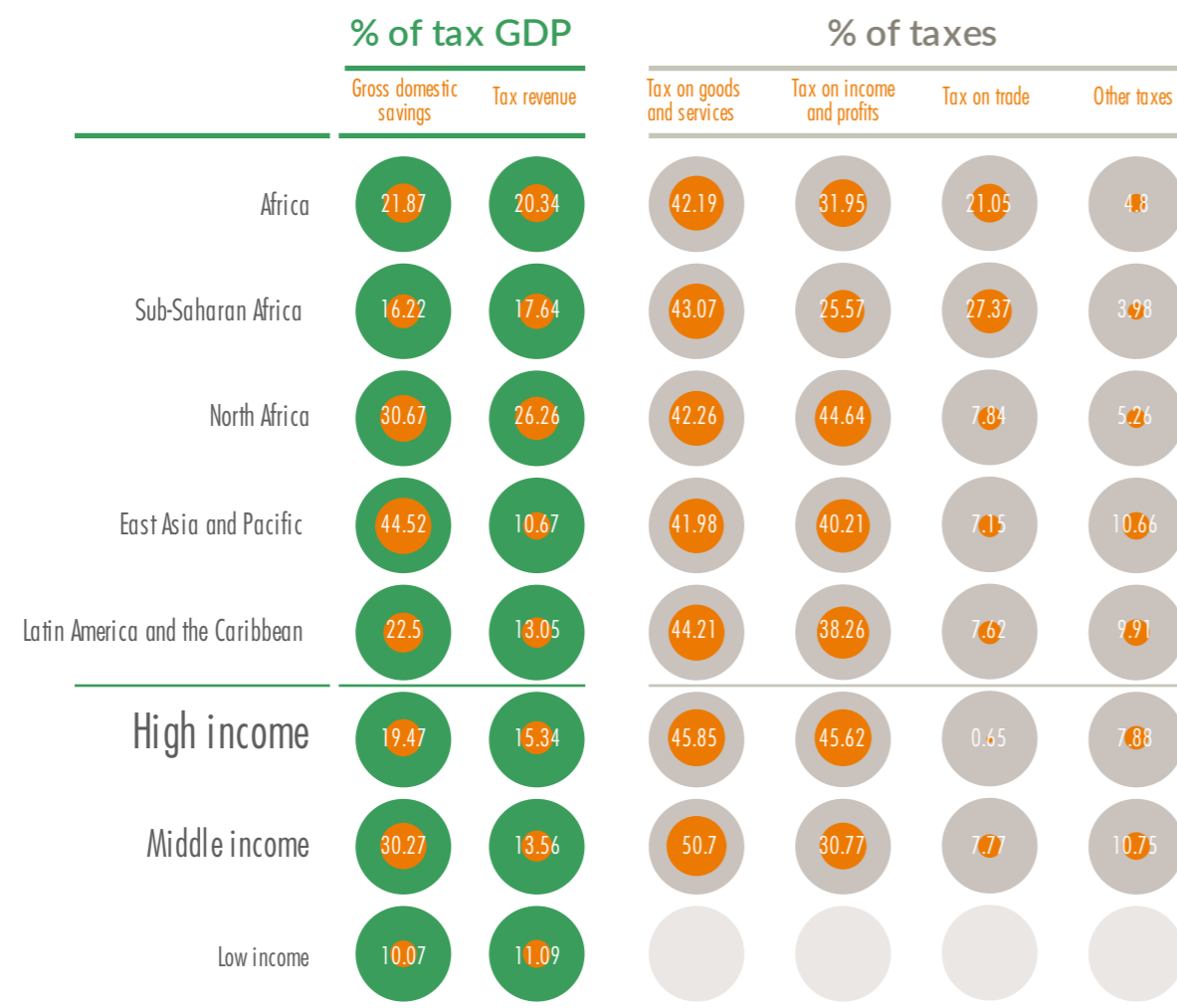
³ The recent global financial and economic crisis brought to a halt a period of relatively high economic growth in Africa. Though on a strong rebound, African economies have suffered an impact, which could make it more difficult for some of the countries to meet the Millennium Development Goal of halving the number of people living in poverty by 2015. This is due to the fact that while, overall there is resilience in weathering the crisis, recovery has been uneven across the region. Also, an uneven recovery is expected across sectors. In 2009, Africa's export volumes declined by 2.5% and import volumes by about 8%. Sectors such as mining and manufacturing were particularly exposed to the fall of commodity prices and global trade in goods and services (AEO, 2010).

countries' development strategies. Despite the promising development, a number of countries in the region still face structural growth problems which need to be addressed. Nonetheless, on balance African countries have the potential to generate significant domestic financial resources from the encouraging economic growth performances. Development programmes and policy adjustments will need to be supported over a fairly long period of time to sustain the present growth.

Domestic Savings

Compared to other developing regions, private domestic savings in Africa are low and the continent is under-banked. Domestic savings to GDP is about 22% over the period 2005-2010 compared to 46% in East Asia and the Pacific and 30% for middle income countries (See Figure 3). This is partly due to the large informal sector whose transactions do not pass through the formal banking system; low incomes due to the high level of poverty and inadequate incentives for low income earners to use formal banking services; as well as entry barriers due to high minimum deposits and balance

FIGURE 3. GROSS DOMESTIC SAVINGS AND STRUCTURE OF THE TAX SYSTEM IN AFRICA. 2005-2010 AVERAGE (AS PERCENTAGE OF GDP AND TAXES)



Source: ECA

requirements and cost of maintaining an account. Also, given the low rate paid on savings accounts relative to the cost of borrowing from the banks, the spread discourages savings and does not encourage borrowing for investment especially by SMEs. Average deposit rate stands at 6%, whereas average lending rate is about 20%. The banks therefore have high liquidity but no customers to lend to. While the nature of bank deposits limits the extent to which they can finance projects, the need for a better working relationship between the financial sector and the public sector is crucial. Unlike the case of the banks, the private sector on the continent is investing in government debt instruments: 39 African countries are issuing treasury bills, while 27 are offering treasury bonds. Thus, while there is the prospect of a rapid growth of the bond market on the continent, savings mobilization through the banking sector will need incentives.

Tax Revenue and Tax Administration

Africa has a good potential to raise more domestic resources from efficient tax administration systems. The average tax to GDP ratio is higher than that in other regions. Over the period 2005-2010, the ratio was 20% compared to 15% in high income countries; 13% in middle income countries; and 11% for East Asia and the Pacific. This however does not mean that all countries on the continent generate tax returns at the average rate (See Figure 3). Countries such as Central African Republic, Republic of Congo, Ethiopia, Liberia, Nigeria and Sudan have ratios that are less than 10%. The lesson emerging from country experiences is that, if African countries want to increase tax revenue further, they should not rely on increasing the tax rate. Rather, they should focus on expanding the tax base, improving tax administration, and tapping relatively underutilized sources of taxation such as property and environmental taxes. The establishment of independent tax agencies to address issues of tax administration capacity has been successful in a number of countries, including Malawi, Rwanda, Tanzania, Uganda, South Africa, and Zambia (NEPAD, UNECA 2012). In this context, South Africa remains an outstanding example (See Box 3).

Government tax revenue constitutes the most significant source of domestic resources for the implementation of development programmes on the continent and there is significant potential for scaling up returns (See Figure 4). There is still more to be done to bring the large informal sector within the tax net. Addressing this sector will need innovative policies and instruments such as tax statutory tax declarations but exemptions for low-income earners, tax incentives for small companies reinvesting in local business; increased efficiency in tax collection; and support from the banks to encourage greater use of the banking system.

Tax revenue in Africa as a percentage of GDP has been relatively high compared with other regions, increasing slightly from 26.6 per cent in 2009 to 27 per cent in 2011 (UNECA, AfDB, AUC 2012). This has been driven, amongst other factors, by wide-ranging tax reforms centering on indirect taxation and Value Added Tax (VAT). Indeed, in the wake of a general reduction in trade-related taxes under WTO guidelines, the expansion of VAT has served to fill this revenue generation gap, and has been easier to implement and administer than direct income or profit taxes⁴.

The trend of tax type for some seventeen⁵ African countries for which recent disaggregated taxation data is available is illustrated in Figure 5. Between 2004 and 2010, indirect taxation as a per cent of government revenue increased slightly from an average of 29.8 % to 30.7 per cent, direct taxation from 20.7 % to 24.2 % and taxes on trade decreased from 16.2% to 14.1%.

In contrast to the improving aggregate figures on taxation in Africa, in 2009 tax revenue as a percentage of GDP was significantly lower for other regions (See Figure 6). Tax revenue stood at 11 per cent of GDP for East Asia, and at 13.7, 13 and 11.1 per cent for high, middle and low income country averages, respectively. These were all well below the rate of 26.6 per cent for Africa (UNECA,

⁴ See Bahl, Bird 2008

⁵ Benin, Burkina Faso, Democratic Republic of Congo, Cote D'Ivoire, Egypt, Ethiopia, Ghana, Kenya, Mali, Morocco, Seychelles, Sierra Leone, South Africa, Togo, Tunisia, Uganda, Zambia.

AfDB, AUC 2012). Yet, Africa's seemingly higher average tax revenue masks important differences at the country level as several countries are still below the 15 per cent threshold considered necessary for low income countries (UNECA and OECD, 2012). Tax ratios are even below ten per cent for countries such as the Central African Republic, the Republic of Congo, Ethiopia, Liberia, Nigeria and Sudan (NEPAD, UNECA 2012). Furthermore, while tax revenue as a percentage of GDP is relatively high, the low absolute levels of government revenue generated by this must be recognized. Indeed, with low levels of GDP relative to the developing regions of comparison, even with high taxation as a percentage of GDP, African governments are left

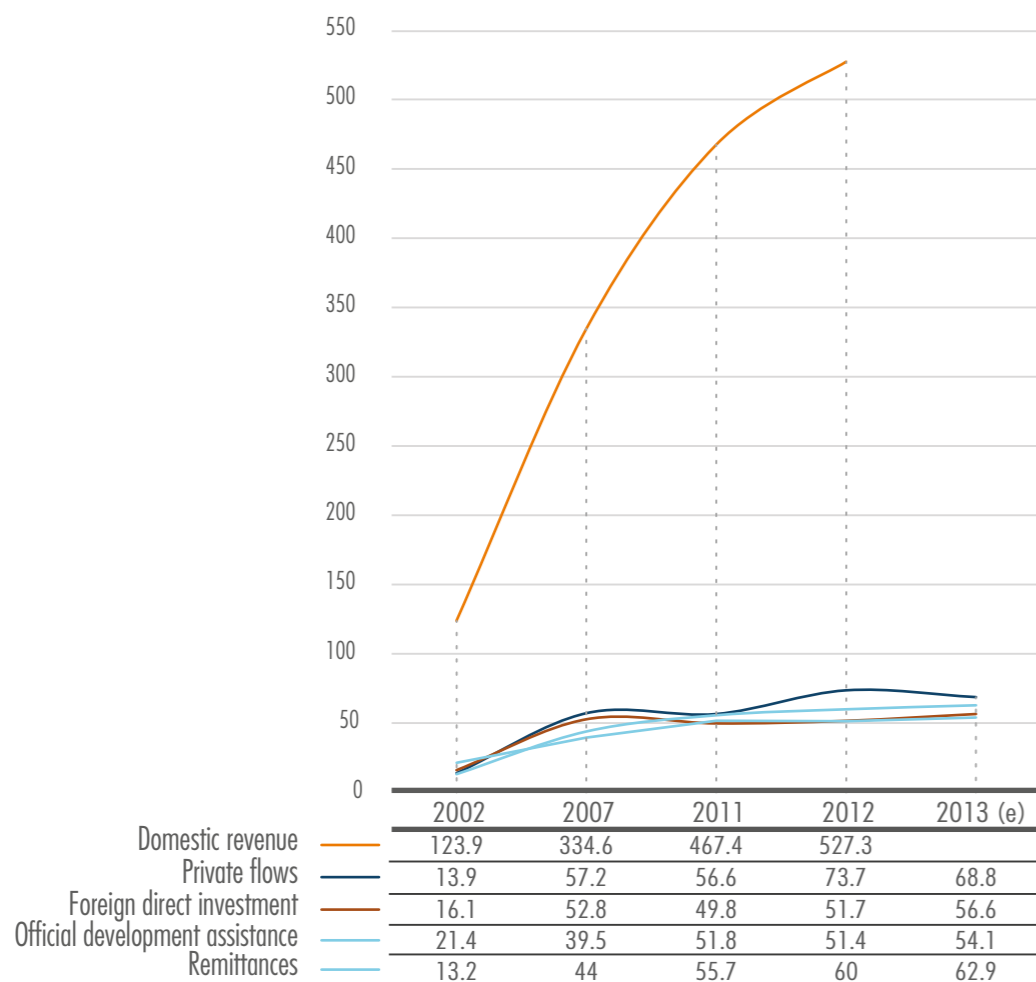
with fewer funds to apply towards development programmes. There is also a wide gap between tax capacity and actual tax revenues raised due to tax administration challenges.

There are a number of factors responsible for the inadequate generation of government revenues across Africa which must be addressed if taxation is to play a larger role in domestic resource mobilization. The high level of informal employment and business in Africa prevents the registering and payment of taxes by much of the economic activity across the continent. Low levels of incomes even amongst formally registered firms and individuals decreases the base from which income and

consumption taxes may draw. Insufficient tax administration capacity at national and local levels limits the ability of the State to collect revenue even from formal and registered economic transactions

(See Box 2). While tax holidays are an innovative means to attract investment to the continent, the granting of excessive holidays and havens, particularly to multinational corporations (MNCs) in

FIGURE 4. DEVELOPMENT FINANCE IN AFRICA. 2002-2013 (US\$ BILLIONS)



Source: ECA and OECD 2012.

Box 2. Addressing challenges in tax administration

A number of African countries depend heavily on aid, but this is not the dominant source of finance for the continent's development programmes. Indeed it is an erroneous perception that the continent's development is aid-driven. On the contrary, the largest source of finance is from domestic resources – savings and taxes. Tax revenues are rising, but more still needs to be done. Efforts need to be geared towards broadening and deepening the tax base and not increasing tax rates.

In this connection, a number of challenges need attention. The extent of the informal, or shadow, economy hampers efforts at broadening the tax base. Informal-economy activities range from small-scale informal traders, such as hawkers and unregistered small businesses, to registered businesses that avoid declaring profits and criminal syndicates that profit from activities such as drug trafficking and the smuggling of counterfeit goods. A second challenge for tax administration is the huge loss of revenue from assets that are held offshore, typically by wealthy individuals who make use of tax havens in the rich industrialized countries against which very little has been done by OECD countries. Data on revenues lost to developing countries from evasion, avoidance and the use of tax havens vary widely. For Africa, illicit financial flows considerably exceed the level of aid received annually. Like cost of remittances, tax evasion by multinationals is a major challenge that is undermining Africa's tax administration system. Rich countries in the OECD need to step up efforts at disclosure standards and international partnerships should be more responsive to the challenge of illicit financial flows from Africa. Secrecy and practices of tax havens in rich countries should be

decisively addressed.

Tax administration must address this significant revenue leakage, which occurs as the result of illegitimate shifting of profits to jurisdictions where lower rates apply through transfer-pricing manipulation and by resorting to a host of sophisticated and advanced tax planning and avoidance measures especially by multinational companies. Third, there is need for African countries to revisit the nature and duration of incentives granted to investors and related issues, which tend to weaken the tax administration system, create considerable cost and complications, and create loopholes for corruption to thrive. Equal treatment of taxpayers is central to boosting the credibility of revenue administration, simplifying tax systems, broadening the tax base and encouraging voluntary compliance by local and multinational taxpayers.

Fourth, improving the governance framework for the revenue authority is an overarching prerequisite for effective and efficient tax administration. To this end, the adoption of the semi-autonomous revenue authority model for revenue administration is an institutional framework that is yielding significant benefits. It is rapidly becoming the norm. It allows for separate operational and human resources management policies and procedures from the regular government ministries and departments, and effective oversight by competently constituted governing boards with public and private sector representation.

SOME ENCOURAGING RESPONSES

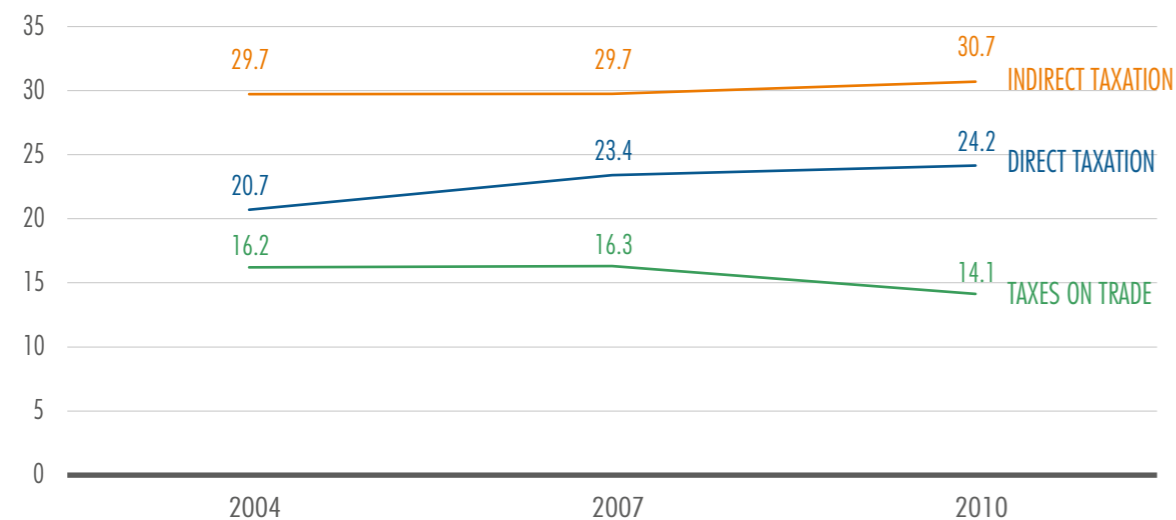
The challenge of illicit financial flows points to the need for a stronger and more effective international partnership and multilateral cooperation framework for decisive action. In this direction,

there have been some encouraging responses recently, which need to be enhanced. The G20 has agreed to sign the Multilateral Convention on Mutual Administrative Assistance in Tax Matters, which allows for the exchange of tax information between countries, and to help developing countries counter abusive transfer pricing. It has also called for multinational companies to be fully compliant and transparent in their dealings with developing countries, and welcomed the call for the imposition of legally binding transparency requirements on mining and oil companies, similar to what exists in the United States under the Dodd-Frank Act. The G20 is also encouraging all countries to join the Global Forum on Transparency and Exchange of Information in Tax Purposes. Although this is a voluntary mechanism, information is critical to greater transparency. In addition, the Financial Action Task Force – an international agency that combats money laundering – agreed in February 2011 that those who facilitate money laundering linked to tax crime could be charged.

African governments should therefore take necessary steps through various international platforms and engagements, including the African Partnership Forum, to vigorously pursue the implementation and monitoring of these initiatives. A continental mechanism should be put in place to lead engagement on tax jurisdictions on the continent and Africa's major trading partners on issues such as tax havens, transfer pricing and enhanced transparency particularly in the extractive industries sector. The mechanism should provide a continental front for a big push on major financial centres to take more decisive steps to address recovery of Africa's stolen assets.

Source: Africa Progress Report, 2012

FIGURE 5. FORMS OF TAXATION IN AFRICA. 2004-2010
(AS PERCENTAGE OF GOVERNMENT REVENUE)



Source: UNECA calculations based on World Development Indicators 2012.

the extractive sector, effectively excludes the most profitable activities from taxation at an appropriate rate, given the high profits on African commodities.

Improvement of taxation for financial resource mobilization will need to address the above-mentioned constraints and challenges in order to maximize returns to government tax revenue. To attract the informal sector into the formal sector that is taxable innovative measures and incentives are required. Providing business support and information, particularly to SMEs, is one strategy for drawing firms to register formally, given the benefits for their competitiveness, productivity and market access.

Poor tax administration capacities can be strengthened with innovative tax implementation schemes. Greater utilization of IT by tax authorities can lower the high transaction costs confronting many governments, amounting to as much as five per cent of revenue collected (UNECA 2012a). The outsourcing of tax collection to semi-autonomous institutions has been one means to improve efficiency in tax collection in many countries, including Malawi, Rwanda, Tanzania, Uganda, South Africa, and Zambia (See Box 3). (NEPAD, UNECA 2012). However, the context in which tax collection is outsourced must be taken into account, with careful evaluation undertaken before autonomous

agencies are created, as these have not proven to be a panacea in all cases (UNECA 2012a).

As previously noted, a key point for tax reform is to increase the coverage of existing taxation by improving administration capabilities and broadening the tax base, rather than by increasing tax rates. Businesses across the continent highlight that high taxes already hinder their operations, and still higher rates may deter future investment and lead contributors to view the system as unfair. Improving perceptions of the tax system, that it is fair and efficient, will in fact serve to improve tax compliance as well (UNECA 2012a). The ability to tax current business and income must be enhanced in the short-term, as formalization incentives will provide a larger tax base in the medium- and long-term which tax authorities must be prepared for.

The excessive granting of tax exemptions, particularly for MNCs engaged in extractive activities, must also be revisited both to increase available tax revenues and improve perceptions of fairness of tax systems. In many cases, MNCs negotiated very advantageous tax exemptions, but would continue operating even when faced with a marginally higher rate due to the high profits and returns on doing business in Africa. Re-negotiations would require concerted political will and enhance negotiation techniques on the part of African states. Exemptions should be

maintained, however, for those firms re-investing in local production and employment, as well as in skills and technology transfer.

Lastly, improved tax collection must be coupled with measures to ensure that new government revenue is used for the benefit of the citizens through social expenditures and development projects. This shall be the means to cement a long-term relationship between the tax authorities and their tax base. These measures will facilitate enhanced revenue generation through currently existing channels of taxation, and bring in new ideas to improve taxation and raise availability of financial resources for NEPAD programmes and projects across the continent.

Capital Market

In addition to financial resources from the banking sector and revenues from taxation, other sources from which domestic resources can be mobilized are pension funds, which hold a great deal of financial resources on the continent, and national and regional stock exchanges. Twenty national and one (21) regional stock exchanges are currently active on the continent. Market capitalization is growing. Between 1996 and 2007, it rose from US\$300billion to US\$1.2 trillion. Yet, the stock market is still at an early development stage in Africa. The Johannesburg Stock Exchange is Africa's most advanced stock market and ranks as one of the top 20 globally. The availability of long-term development finance will benefit a great deal from the emergence of robust capital markets, which include stock and bond markets. It is on this ground that measures to promote capital market development, including the emergence of regional stock exchanges, are very much needed. In the light of the recent experiences and the on-going financial crisis, the promotion of capital market development at national and regional levels should be undergirded by strong and effective regulatory institutions as well as necessary policies to discourage unwholesome practices and speculative tendencies.

Box 3. Major Tax Revenue Sources in South Africa

South Africa generates about 90% of its consolidated revenue from tax. During the 2011/2012 fiscal year tax revenue amounted to R742.6billion (approximately US\$100billion). Tax to GDP ratio hovers around 24% and 27% and the cost of tax administration (cost of administration/tax revenue) varies between 0.89% and 1.17%. Channel for payment of taxes that has increased collection for SA has been eFiling (electronic channels), which accounts for 64.6% of payments, followed by payment at banks and then SARS offices.

Main Tax Revenue Sources:

- Personal income tax
- Company income tax
- Value-added tax
- Custom duties (export and import duties) or shared customs union revenues
- Levies

Category of Taxes

- Taxes on incomes and profits (generates 57% of tax revenues)
- Capital gains tax
- Taxes on payroll and workforce (skills development levy)
- Taxes on property
- Donations tax
- Estate duty
- STT levy on transferred security
- Transfer duty
- Domestic taxes on goods and services
- VAT
- Turnover tax on micro businesses
- Specific excise duties
- Ad Valorem excise duties
- Fuel levy
- International air passenger departure tax
- Electricity levy
- Environmental taxes:
 - Plastic bag levy
 - Incandescent light bulb levy
 - Carbon dioxide levy on motor vehicles emissions
 - Taxes on international trade and transactions

Non-tax Revenues

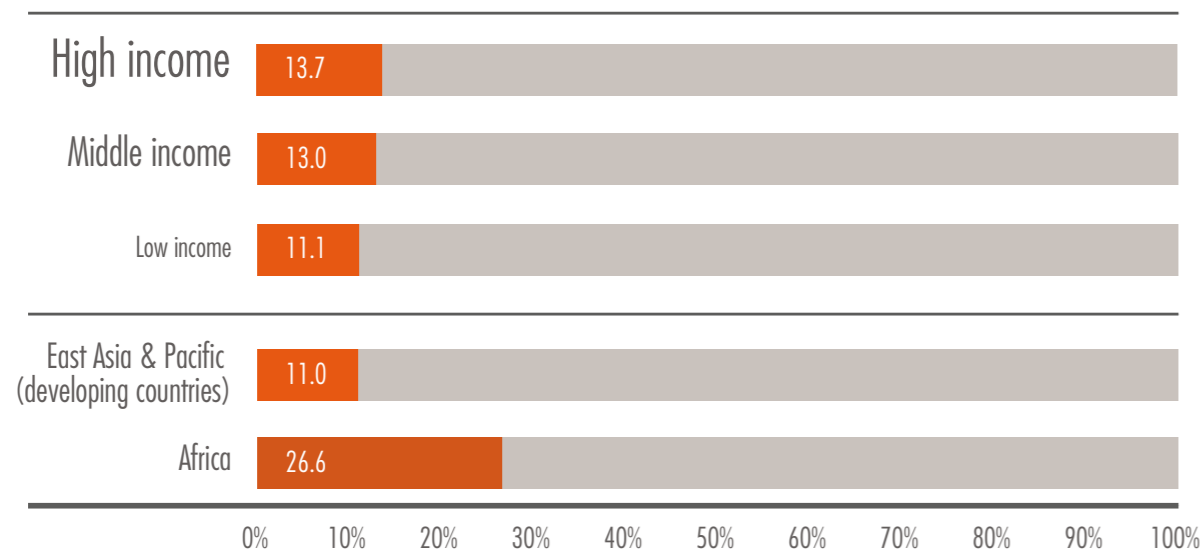
- Royalties from mineral resources
- Mining leases and ownership

Other sources

- Domestic borrowings
- External borrowings (loans)
- Sovereign bonds

Issues being currently addressed include drive for further modernization of the tax system, responsive tax policy and compliance-enhancing measures.

FIGURE 6. TAX REVENUE BY REGIONS AND INCOME LEVELS (AS % OF 2009 GDP)



Source: African Statistical Yearbook, World Development Indicators 2012.

Curtailment of Illicit Financial Flows

Africa's domestic resource mobilization efforts will also get a significant boost if illicit financial flows from the continent are curtailed. These constitute all money that is illegally earned, transferred, or utilized. Among these are i) proceeds of theft, bribery and other forms of corruption by government officials; (ii) proceeds of criminal activities including drug trading, racketeering, counterfeiting, contraband, and terrorist financing; and (iii) proceeds of tax evasion and laundered commercial transactions. It has been estimated that that laundered commercial money through multinational companies constitutes the largest component of Illicit Financial Flows (IFF), followed by proceeds from criminal activities, and lastly corruption. Estimates from a variety of recent studies show that, between 1970 and 2008, Africa was compromised to about US\$854 billion in illicit financial flows, which amounts to a yearly average of about US\$22 billion in lost financial resources.

The foregoing points to aspects of the capacity of the continent to raise more financial resources from domestic sources. Tapping these sources require an enabling environment, especially supportive governance, policy and institutional frameworks. How well has the continent fared in these?

While there are various ways to measure IFF, studies have consistently shown that billions of dollars

illicitly leave the continent annually. Estimates from various recent studies show that, between 1970 and 2008, Africa lost about US\$854 billion in illicit financial flows; corresponding to a yearly average of about US\$22 billion. Moreover, as shown in Figure 7, the trend has been increasing over time and especially in the last decade, with annual average illicit financial flows of US\$50 billion between 2000 and 2008 against a yearly average of only US\$9 billion for the period 1970-1999. Suffice to note that all these estimates are considered to be conservative, as they exclude various forms of IFF such as proceeds from smuggling and mispricing of services.

In terms of sectoral distribution, a high level of IFF from Africa is concentrated in the extractive industry. Estimates by UNECA⁶ show that, over the period 2000-2010, more than half (56.2%) of the IFF from Africa came from oil, precious metals and minerals, ores, iron and steel, and copper. Moreover, these are highly concentrated in very few countries. Other sectors that attracted a high level of IFF include edible fruit and nuts, electrical machinery and equipment, iron and steel, fish and crustaceans, apparel and cocoa.

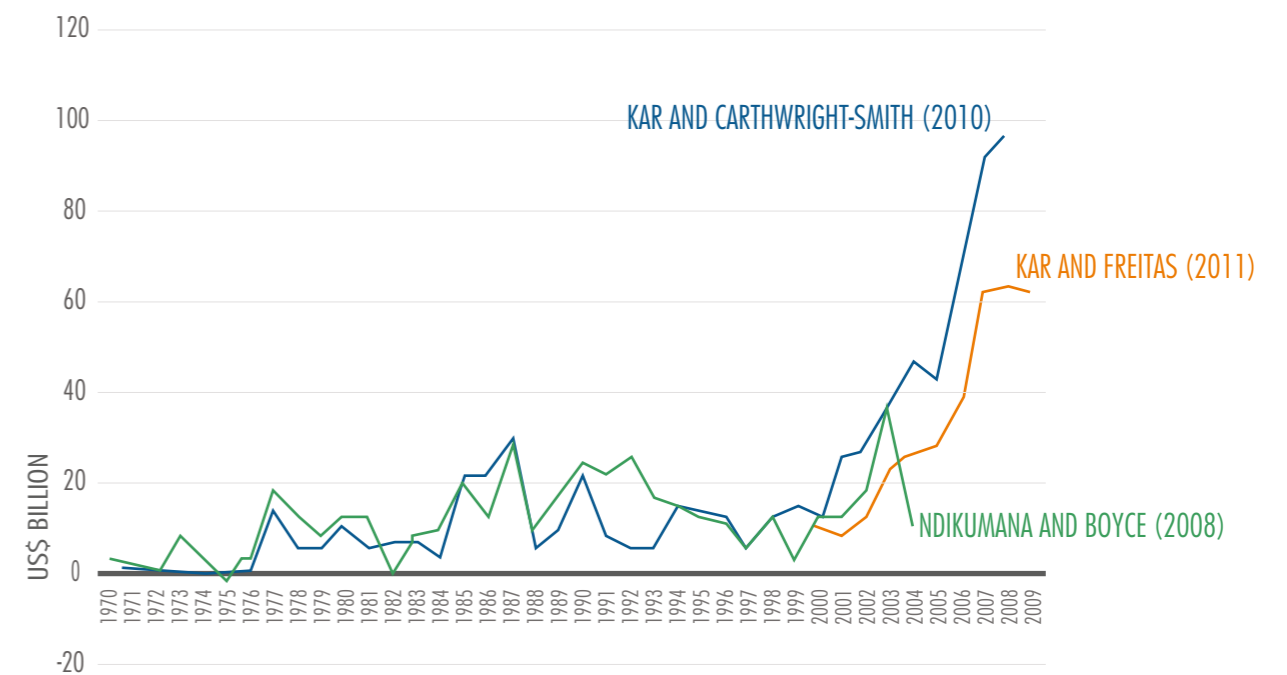
There are various channels through which IFF

⁶ The estimates from the UNECA study are also conservative, focusing on trade mis-pricing aspect of illicit financial flows.

negatively affects domestic resource mobilization and, ultimately, economic growth and opportunities for structural transformation. As outlined in UNODC (2011), these channels include distortions in the resource allocation from high-yielding investments to investments that run a low risk of detection; distortions of prices, notably in the real estate sector; distortions of consumption and impact on imports; distortion of exports and potential problems with investment and economic growth; unfair competition; risks of crowding out licit activities and negative impact on foreign direct investment; corruption; risks of real sector volatility; strengthening of skewed income and wealth distribution; distortion of economic statistics and thus potential errors in economic policy decision-making; and undermining the credibility of legal institutions.

To the extent that it impacts negatively on tax revenue collection, IFF also perpetuates Africa's economic dependence on external aid. A key indicator of Africa's economic dependence is the level of ODA in the government budget. For some African countries, ODA amounts to as much as 70 % of total government revenue. Total ODA inflows into Africa, excluding debt relief, increased in nominal terms to US\$50 billion in 2011 from US\$ 17.4 billion in 2002. In comparison, Africa loses roughly the same amount annually through IFF-most of which could have been taxable. Thus, illicit outflows are a catalyst for increased external borrowing, which creates further debt service burdens thereby compromising public investment. By limiting domestic public resource mobilisation, IFF constrains the African countries' efforts to enhance national ownership and public accountability for

FIGURE 7. ILLICIT FINANCIAL FLOWS FROM AFRICA.1970-2009 (US\$ BILLIONS)



Source: UNECA (2012), "Illicit Financial Flows from Africa: Scale and Development Challenges"

development programmes through use of domestic resources to finance development projects.

IFF has a significantly detrimental effect on Africa's economic development efforts. It drains the much needed hard-currency reserves, deprives the country of investment opportunities, narrows taxable base, distorts wealth distribution and discourages domestic competition, among other things. Ultimately, IFF contributes to limited job creation and broad-based growth due to low investment and slow industrial expansion.

Several policy options have been suggested to stem IFF from Africa.

First, there is need to raise awareness among African policy makers and other stakeholders on the magnitude and development impact of these activities on the continent. In this respect, the establishment of the High Level Panel on Illicit Financial Flows from Africa, chaired by President Thabo Mbeki, is a key initiative by the African Union Ministers of Finance/Economic Planning. Several other regional initiatives, like the African Regional Anti-Corruption Programme (2011-2016) and the African Tax Administrative Forum (ATAF) can also be useful conduits for creating awareness and sharing best practices for tackling IFF.

Second, there is need to develop and improve institutional frameworks that encourage greater levels of transparency and accountability in both the private and public sectors. At the regional level, this framework could be obtained through the establishment of an African Convention on Transparency or support to an existing international transparency convention. At the global level, this could also entail requiring all multinational corporations, whether listed on the securities/stock exchange or not, to file reports to some national authority on their operations, including staffing, sales, financing, tax obligations etc. on a country-by-country basis.

Lastly, and related to the second issue, there is need for African policy makers to engage their international counterparts to cooperate and strengthen the global regulatory and institutional frameworks to combat IFF. In this respect,

several initiatives already exist, such as United Nations Resolution 55/188 on the illegal transfer of assets and the World Bank's Stolen Asset Recovery Initiative, but which require political will as well as the cooperation of the West, for their effective implementation.

From the foregoing, it is evident that the continent's development environment, especially the financial resource context, has the key elements or fundamentals to support a robust domestic resource mobilization drive. Some of these, as demonstrated by the findings from the country surveys undertaken as part of this study, already support the implementation of some national and regional development programmes and projects. What is required now, for enhanced results, are appropriate and innovative instruments, policy measures and political will.

ENABLING ENVIRONMENT – GOVERNANCE AND INSTITUTIONS

A country's governance and institutional setting provides the key elements of the enabling environment for investments, which promote growth and thus make domestic revenue mobilization possible. As earlier noted, economic growth on the continent shows that macroeconomic and sectoral policies and policy reforms are working. Like effective and responsive policies, the governance and institutional frameworks are critical in the management of a country's economic and social resources for development. Central to good governance is the process of decision-making and implementation, the capacity of governments to formulate and effectively implement policies and programmes, space and capacity for political participation, effective and efficient public institutions and systems as well as peace and security.

Some of the key elements include effectiveness and efficiency in public sector management, accountability and responsiveness of public officials to the citizenry, existence of the rule of law, public access to information and transparency, equity

and inclusiveness. Good governance and effective public institutions provide the foundation on which countries' growth and development rests. There is strong evidence of sustained progress in the pursuit of good governance and the emergence of effective institutions on the continent. The governance climate is conducive to sustainable growth and development, and Africa is poised to address continuing challenges and constraints in its governance environment. Some of these require concerted efforts and need strengthening for results to be achieved in the implementation of the recommended strategies and instruments in enhanced mobilization of domestic resources.

Given the foregoing, there is sufficient evidence that the fundamentals exist for the continent to substantially raise more financial resources domestically to implement its development programmes and projects. But does Africa have the resource potential to support an effective resource generation drive?



DOMESTIC FINANCIAL RESOURCE POTENTIAL IN AFRICA

OVERALL STATUS

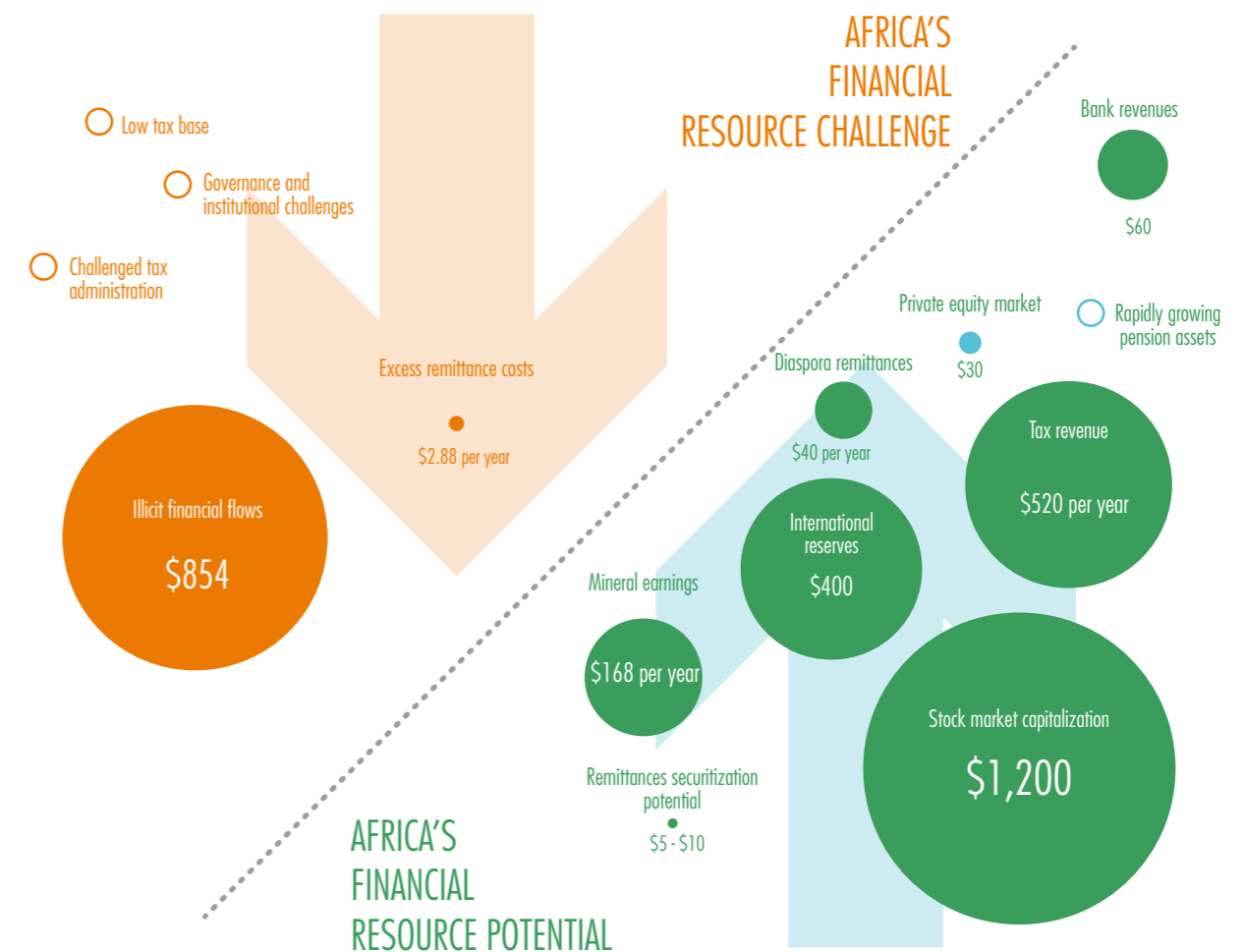
Africa's resource potential is enormous and strongly confirms that the continent has the means to finance its own development. Evidence to this effect consists of the following, among others (See Figure 8):

- African countries raise more than US\$520 billion annually from domestic taxes as against US\$59 billion that the continent receives in private flows and US\$50 billion on Official Development Assistance (ODA). This is an indication that there is a huge potential in tax revenue, if tax administration could be improved.
- The size of Africa's pension funds' assets is growing at an impressive pace. For instance: South Africa saw assets grow from US\$166 billion in 2007 to US\$277 billion in 2011; Nigeria from US\$3 billion in 2008 to US\$14 billion in 2010; and Namibia's pension funds' assets are put at N\$16.3 billion (US\$1.840 billion). Kenya's pension funds account for wealth estimated at Kes397 billion (US\$4.564 billion).
- Africa earns more than US\$168 billion annually from minerals and mineral fuels and has more than US\$400 billion in international reserves held by its Central/Reserve Banks. Africa's Diaspora remittances climbed to US\$40 billion in 2012 and represented a significant portion of total global remittances of US\$351 billion during the year. The World Bank estimated that in the next decade, the amount remitted by Africa's Diaspora could grow to US\$200 billion. She also has the potential to raise between US\$5 billion and US\$10 billion annually in the international capital market through securitization of remittances from its Diaspora communities.

- Stock Market Capitalisation in Africa rose from US\$300 billion in 1996 to US\$1.2 trillion in 2007. Some 39 African countries issue Treasury Bills and 27 offer Treasury Bonds. With more than 700 bonds worth US\$206 billion issued by African countries as at December 2011, the emergence of respectable bonds markets is within reach. Banking revenues are estimated at about US\$60 billion and there is high liquidity in the banking sector. No less than ten African countries today have established Sovereign Wealth Funds.
- Illicit financial flows from the continent reached US\$854 billion over the period between 1970 and 2008. If curtailed, such flows are financial resources that will be available for the implementation of national and regional development programmes and projects.
- The Private Equity Market in Africa is worth about US\$30 billion. In 2011 PE firms raised 1.5 billion for transaction in Africa.
- Banking revenues are estimated at US\$60 billion across the continent.

The resource potential of these sources of development finance and the encouraging performance of some of them thus far in contexts where they have been applied, this report is highly optimistic that within the next decade, Africa could robustly respond to a considerable portion of its infrastructure deficits, which today stand between the continent and the advancement of its economies to middle income level.

FIGURE 8. AFRICA'S FINANCIAL RESOURCE POTENTIAL AND CHALLENGES



Source: ECA 2015.

CASES AND TRENDS IN NATIONAL DOMESTIC FINANCIAL RESOURCE MOBILIZATION IN AFRICA⁷

Botswana

Botswana has financed its national and regional development projects mainly using domestic resources rather than foreign capital or aid inflows. The government's sustained efforts at building savings from several years of fiscal and current account surpluses, following robust growth in diamond revenues, have resulted in relatively high national saving, which has steadily increased over the years. Thus, national saving has not been a constraint to financing national investment.

Foreign financial flows have remained modestly low. The sum of foreign financial inflows to the country, both private (foreign direct investment, remittances) and public (borrowing, official development assistance, grants) has been below 2% of GDP since 2007. Therefore, there is scope to step up domestic resources through public borrowing, subject to satisfying fiscal sustainability and macroeconomic stability.

Botswana raises substantial tax revenues. The tax-to-GDP ratio has averaged about 36% over the years, which is considerably higher than that of South Africa (36%) and Mauritius (18%). Mineral (diamond) revenues account for much of the total tax revenue, and therefore the public budget and investment spending is also highly dependent on the mining sector. This presents a challenge to Botswana's domestic resource mobilization efforts because of the sector's dependence on international economic developments that have proved volatile in recent years.

Botswana is one of 18 African countries that have a Natural Resource Fund – the “Pula Fund”, originally established in 1993 under the Bank of Botswana Act (1975). The Fund holds savings

from accumulated fiscal surpluses and inflows of additional government debt. Presently, Pula Fund assets are invested in long-term instruments overseas across a mixture of long-term income securities and equities. The Fund has mainly served as a revenue stabilization fund, and is also a holding ground for subsequent domestic investment when productive opportunities for such investments are identified. Existence of the Fund is an opportunity for Botswana to raise additional resources for financing development projects.

There is also scope to tap on a number of financial instruments to mobilize development finance. The financial sector has expanded over the years, and featured new entrants, mergers and acquisitions, and orderly exits. It features three broad categories: commercial banks and other deposit taking institutions, other financial corporations, and the offshore banking sector. Other financial corporations include insurance companies, pension funds and other institutions such as the Botswana Stock Exchange and stock brokerage firms, asset managers, micro finance institutions and collective investment undertakings.

There are also statutory development finance institutions, and the Motor Vehicle Accident Fund. The banking sector depository is historically dominated by commercial banks, which on average held 98 percent of total deposits and 92 percent of total advances from 2001 to 2010. In the non-banking sector, life insurance companies and pension funds provide a wide range of savings and protection products and collectively constitute one of the largest and deepest non-bank financial sectors in sub-Saharan Africa.

Botswana's economy therefore provides considerable opportunities for the government to leverage on several instruments to mobilize funds for financing both regional and national projects related to the NEPAD development agenda.

Kenya

The state of underdeveloped infrastructure in most of the African countries continues to be a major concern of individual African countries, regional bodies such as African Union, NEPAD, ECA and international development institutions. It is generally agreed that one of the underlying factors for the existing slow development of key infrastructural facilities in transport, energy, water, agriculture, industry and other sectors is the limited domestic financial resources and heavy dependence on limited external resources which are often conditional and unreliable.

The case study on Kenya is aimed at identifying measures that have high a potential for rapid domestic resource mobilization in Africa to meet the growing demand for resources to finance national, NEPAD and other regional development projects and programmes. Utilizing both available secondary materials and primary data/information from interviews with key actors and stakeholders in both the supply and demand sides of the equation, the Kenyan case study attempts to consolidate the country's experiences in domestic resource mobilization and knowledge with regard to strengthening resource mobilization and creating the fiscal space to finance critical national and regional development projects and programmes.

Kenya inherited a well-established financial services sector from the British colonial government at independence in December 1963. Recognizing the strategic role of financial services in the country's development programmes, the new government decided to build on the foundation inherited and today, Kenya's financial services sector is a leading one in Africa in terms of volumes and diversity of financial instruments and services.

In the last decade, there have been well focused efforts to mobilize domestic financial resources for major national and regional projects and programmes towards implementing the country's Vision 2030. The country has been able to mobilize domestic resources using a wide range of financing instruments available in the Kenyan market, to finance an impressive proportion of the country's

recurrent and development budgets-as high as over 90% for recurrent budget and over 50% for development budgets.

One of the features of Kenya's capital and financial services is its degree of diversification of fairly well-established institutions and instruments of mobilization of domestic resources. Kenya's capital and finance market today boasts one of the oldest and fairly well-established stock exchange markets in Africa; a banking sector with about 43 commercial banks with their 1,143 branch network, and a number of non-bank financial institutions; an insurance industry, ranked 4th in Africa and 71st globally in 2006; a well-established capital market managed under the Capital Markets Authority (CMA); an active inter-bank and money market facilitating trade in short-term inter-bank lending ; the Kenya Post Office Savings Bank (KPOSB), providing an important channel for banking services, especially to the country's rural areas which are not adequately banked; microfinance institutions which have provided commercial credit facilities to the small and medium enterprises. The sector also has one mortgage finance company, six deposit taking microfinance institutions, 4 representative offices of foreign banks, 118 foreign exchange bureaus and two credit reference bureaus (CRBs).

Furthermore, the market has strong pension funds, which today form an important player in the country's government securities market, where pension funds account for about 23% of the outstanding government securities and 11.9 percent of quoted equity in the Nairobi Stock Exchange (NSE) market capitalization; Development Finance Institutions (DFIs) which provide credit facilities to key sectors such as agriculture, industrial and commercial sectors, as well as industrial estates, which are not adequately catered for by the private financial institutions; the Kenya Revenue Authority (KRA,) whose mandate is to raise government revenue through various forms of taxation. Tax revenue collected by KRA in the last decade has grown rapidly and has played a key role in reducing government's dependence on external financing to less than 7% in recent years.

⁷ The country case studies and trends for this report were made possible through the support of UNDP.

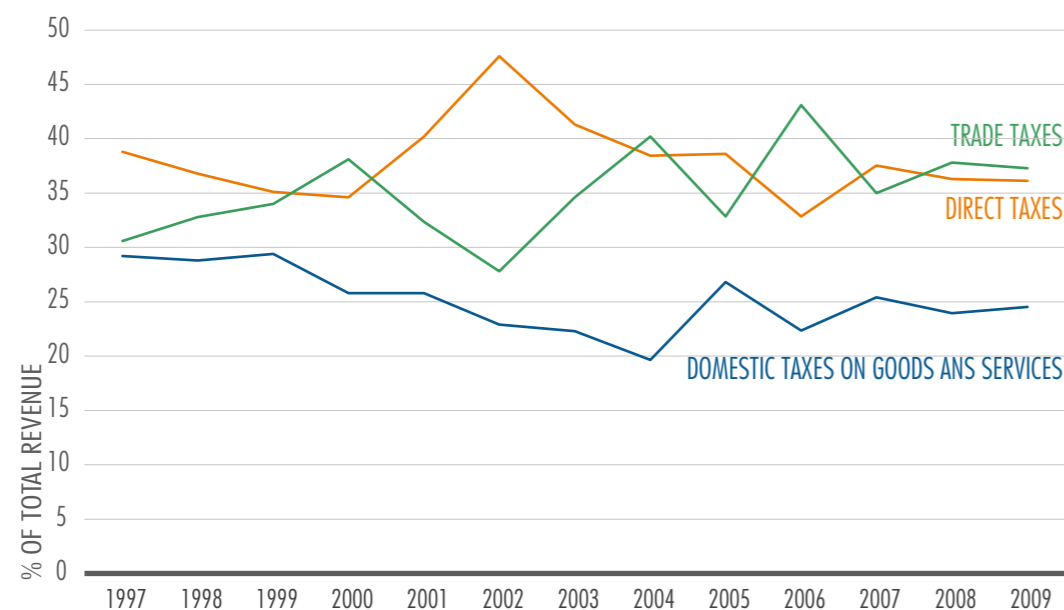
Kenya has recorded impressive growth in the banking industry due to various restructuring and financial reforms carried out in the sector aimed at increasing the volume of and access to credit facilities as well as the penetration of banking services with commercial banks branch networks doubling from 512 in 2003 to 1,197 by mid-2012. This has increased credit facilities to large national and regional projects as well as small communities which were previously unable to readily access credit facilities and banking services. Simplification of collateral requirements for borrowers was one of the reforms that had a huge impact in terms of enabling low income people and women to access credit facilities by using their pay slips, for instance instead of land title deeds which had placed women at a disadvantage due to cultural norms relating to land ownership. As a result of various innovations micro accounts increased by more than 800% within a decade from 1.6 million in 2003 to 16 million by the end of August 2012. Commercial banks remain the main source of credit in the country in the form of bills, loans and advances which rose from ksh 447.7 billion to ksh 8,888.5 billion between 2006 and 2010.

The insurance industry has similarly recorded impressive performance in the last 10 years. The industry was in 2006 ranked 4th in Africa and 71st in the world. Kenya's insurance industry is today a key player in the supply of funds for investment for national and regional projects. In the case of domestic investments, government securities have continued to be the most preferred investment channel for insurance funds throughout the last 10 years, and the private sector has been the main consumer of loans and advances.

Namibia

As is evident from Figure 9 Namibia's tax revenues come mainly from taxes on incomes and profits and trade taxes in the form of SACU revenues. Domestic taxes on goods and services (VAT and excise taxes) contribute the smallest share. It can also be seen that the share of trade taxes has been unstable over time and that the share of domestic taxes on goods and services has been falling gradually over time. Although taxes have been volatile their trend is generally upward. It can be said that the overall rising tax/GDP ratio over time is explained by the

FIGURE 9. COMPONENTS OF TOTAL REVENUE IN NAMIBIA. 1997- 2009 (AS PERCENTAGE OF TOTAL REVENUE)



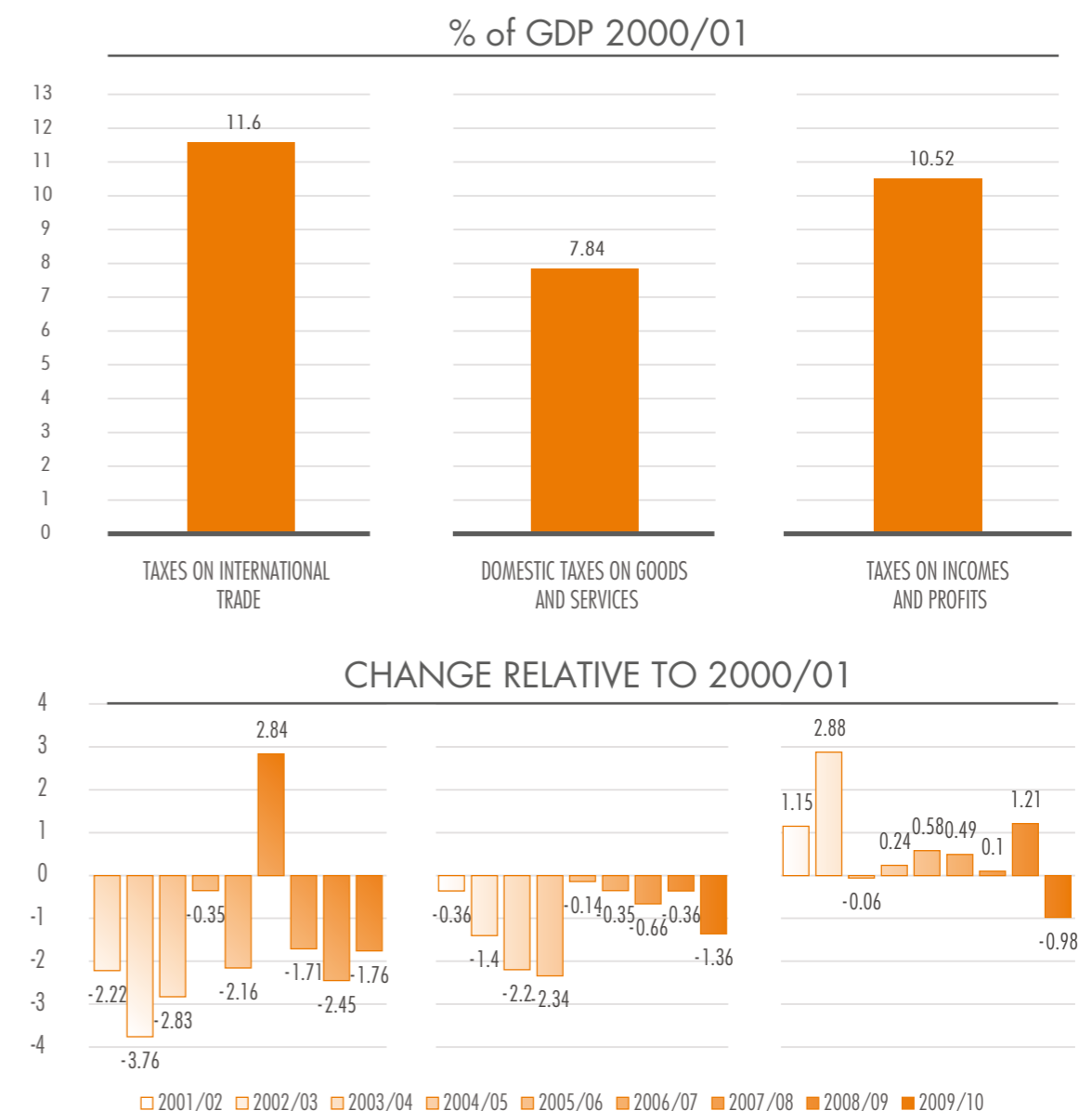
Source: Namibia Ministry of Finance (compilation of data for many years).

compensating revenues in the form of direct and trade taxes.

Figure 10 breaks down overall tax revenues into three components: taxes on international trade, domestic taxes on goods and services, and taxes on incomes and profits. The reason behind this partitioning has been given above. The same figure shows the percentages of these components at the reference point which was chosen to be the fiscal

year 2000/01 and then subsequent changes in time with reference to 2000/01. It is evident that there was a drop in trade tax revenue as a percentage of GDP relative to the base period. Domestic taxes on goods and services as a percentage of GDP also show a drop relative to the base period. Initially the country managed to find compensating revenue in the form of taxes on incomes and profits. Over time the increases in direct taxes/GDP were offset by the drops in

FIGURE 10. COMPOSITION OF NAMIBIA TAX REVENUE (AS PERCENTAGE OF 2000/01 GDP AND CHANGE RELATIVE TO 2000/01)



Source: Source: Author's calculations based on Namibian Ministry of Finance data

both trade taxes and VAT and excise taxes and this explain the observed fall in overall tax revenue as a percentage of GDP since 2006.

Namibia's Tax effort analysis - The observed rate of taxation in countries including Namibia can be broken down into two components: a rate of structural taxation (tax potential, capacity to contribute), which is dependent on structural factors not related to economic policy, and tax effort, which is determined by the tax mobilization policy. In other words a country's tax potential can be defined as the rate of taxation one would normally expect given the country's structural features. The difference between the observed taxation rate and this tax potential is attributed to economic policy. It is therefore a measure of tax effort.

The structural factors which determine the rate of structural taxation include the level of development. This aspect can be viewed in terms of three variables: per capita GDP, the sectoral composition of output measured by the share of agricultural value added, and the degree of monetization of the economy measured by the ratio of aggregate money supply (M2) to GDP. It is expected that a higher level of development of a country, the greater will be its capacity to collect revenue. Brun et al., (2009) discuss a number of possible explanations for the expected positive correlation between the level of development and a country's capacity to collect tax revenues. They argue that from the demand side, a higher level of development involves an increase and diversification of the demand for public goods that may make taxpayers more willing to pay more taxes. On the supply side, it has been argued that an increase in the level of development increases the economy's capacity to contribute in the form of higher tax revenues. The extent of trade openness also influences the rate of structural taxation positively. Revenue from international trade is believed to be easier to tax than domestic earnings or consumption (Brun et al., 2009).

The evaluation of tax potential involves panel estimations of a large group of countries over a considerable period of time. Such estimations involves regressing tax revenue/GDP on such structural factors as the ratio of imports in GDP,

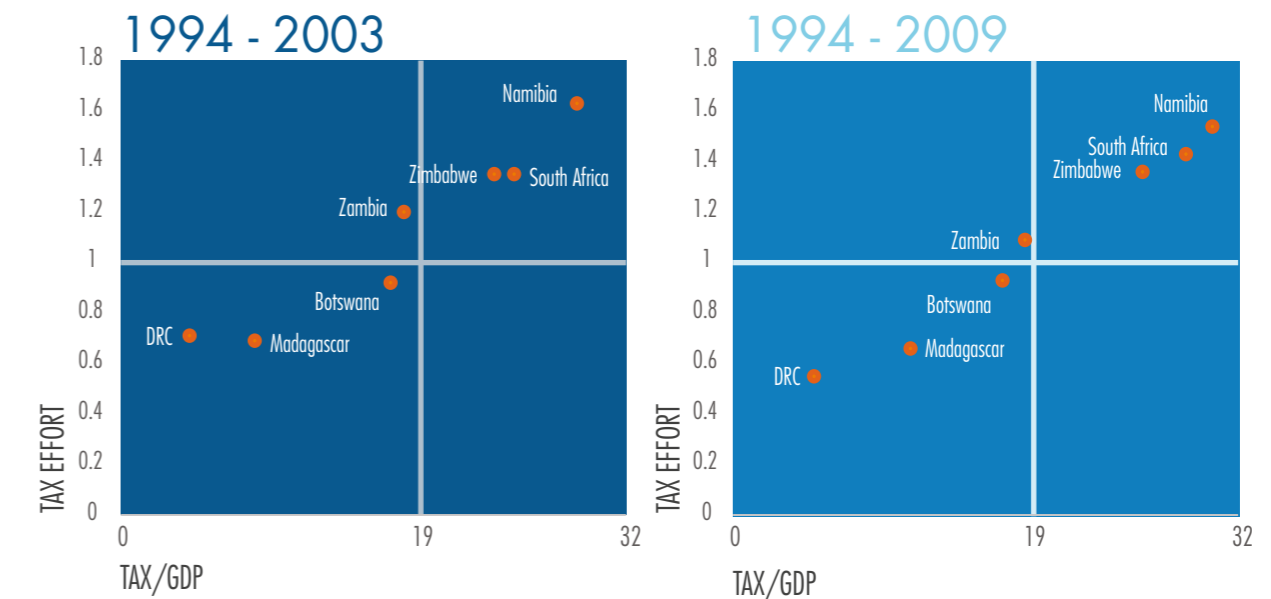
per capita GDP, and share of agriculture value added in GDP. This study will not estimate tax effort for Namibia. It relies on two studies by Le, Moreno-Dodson, and Rojchaichanthorn (2008) and Le, Moreno-Dodson, and Bayraktar (2012), which included Namibia in their sample of countries.

In a cross-country study of 104 countries Le, Moreno-Dodson, and Rojchaichanthorn (2008) provide important insights into how African countries are doing in terms of tax mobilization. Their study covers the period 1994-2003 and included several African countries, including Namibia. They defined taxable capacity as the predicted tax-GDP ratio estimated from a regression after taking into account the country's specific characteristics. They defined tax effort as the index of the ratio between the share of actual tax collection to GDP and the predicted taxable capacity. They used their estimation results as benchmarks to compare taxable capacity and tax effort in different countries. They used one as a benchmark for tax effort and 19 percent (the median of the tax/GDP ratios in the country sample) as a benchmark for tax collection. A country is classified as low collection if its tax/GDP ratio is below the 19 percent threshold. They classified countries into four groups based on their actual tax collection and attained tax effort: low collection and low tax effort, low collection and high tax effort, high collection and low tax effort, and high collection and high tax effort. Namibia was classified in the high collection and high effort group.

Figure 11 shows the tax collection and tax effort levels in the Southern African Development Community member countries which have been included in the country samples in the two studies by Le, Moreno-Dodson, and Rojchaichanthorn (2008) and Le, Moreno-Dodson, and Bayraktar (2012). It is evident that Namibia has the highest tax collection levels in the group of countries.

Although governments do not have a direct control over private savings they can contribute to its mobilization indirectly by creating a conducive environment. This can be done through adopting appropriate economic policies. The ability of the private sector (households and firms) to save depends to a large extent on their capacity

FIGURE 11. TAX COLLECTION AND TAX EFFORT IN SOUTHERN AFRICAN DEVELOPMENT COMMUNITY. 1994-2003 AND 1994-2009 (AS PERCENTAGE OF GDP AND TAX EFFORT INDEX)



Source: Le, Moreno-Dodson, and Rojchaichanthorn (2008) and Le, Moreno-Dodson, and Bayraktar (2012).

to generate income. The government can influence private savings by creating an enabling environment for private sector development. One way of achieving this is by reducing the high costs of doing business which discourage private investment and have negative effects on income and savings. Another way of promoting private sector development involves public investment in infrastructure. This will reduce transaction costs thereby creating incentives for private investment and savings.

Private savings can also be boosted by a well-developed domestic financial system. The Namibian financial system is dominated by a few large banks which focus on short-term lending and do not cater for the long-term financing needs of investors. Financing of deposit insurance schemes through fiscal policy actions could help increase confidence in the financial system and help to increase deposits and savings. Market incentives can also be used to strengthen domestic financial institutions

that will boost savings. One way in which this can be done is the development of markets for long-term government bonds. The Namibia government should also influence private savings by promoting linkages between formal and informal financial institutions. Such linkages will improve access by small-and-medium enterprises (SMEs) to financial services.

Development of capital markets can contribute to domestic resource mobilization in Namibia. The development of capital markets in Africa is said to be constrained by limited market size, weak financial market infrastructure, lack of equity capital, absence of regulatory frameworks, weak governance and lack of investor confidence in stock exchanges. It has been observed that saving performance, measured by the gross domestic savings (GDS), averaged 16% of GDP between 1990 and 2011. This figure falls short of the investment requirement, measured by gross fixed capital formation, which averaged around 20% of GDP over the same period.

As previously noted, in terms of tax revenue mobilization, Namibia was classified in the high collection and high tax effort group in studies by Le, Moreno-Dodson, and Rojchaichanthorn (2008) and Le, Moreno-Dodson, and Bayraktar (2012). For countries listed in this group, Le et al., (2008) and Le et al., (2012) argued that the existence of high tax collection does not mean that their tax structures or administrations can be regarded as conforming to international best practices. They also argued that in many of these countries, tax regimes remain highly complex and inefficient. There are widespread deductions, exemptions, and incentives are granted in major direct income taxes. They suggested that in these countries tax reforms should be sought in order to lower overall tax burden in countries with excessively high taxes. In Namibia, companies are taxed differently depending on their activities. There are also numerous deductions for various forms of expenditures and exemptions for manufacturing companies for periods up to 10 years. The two studies on Namibia further argued that reform activities should primarily aim to enhance the economic efficiency of existing taxes, reduce tax-induced distortions and improve the business climate through further rationalizing the tax regimes, rebalancing the tax mix, and simplifying the administration procedures.

In terms of revenue mobilization, it was observed that Namibia was able to raise its revenue/GDP ratios by at least 2 percentage points only 6 times in the entire period between 1990 and 2011. These increases in the revenue ratios could not however, be sustained over time. These findings imply that there is limited scope for the economy to raise extra resources to fund national and NEPAD projects.

Empirical literature suggests that the principal determinants of tax share in GDP include among other things the sectoral composition of value added; the overall level of industrial development (as measured by per capita income); and the importance of international trade in the economy (Stotsky and WoldeMariam, 1997).

Studies have shown that country-specific factors appear to be important determinants of tax share (Stotsky and WoldeMariam, 1997). This study makes a number of recommendations in order to enhance domestic resource mobilization. These include ways in which private savings can be boosted, as well as the need to maintain macroeconomic stability as a way of fighting capital flight.

PROPOSED DOMESTIC RESOURCE MOBILIZATION INSTRUMENTS AND ARRANGEMENTS

Guided by the foregoing, resource potential and following a careful review of various development finance options, this study puts forward various instruments for the mobilization of additional domestic financial resources on the continent. Some of these, such as infrastructure corporate bonds are being used to finance large projects, however projects bonds, are currently being piloted for implementation but without supportive market and appropriate credit enhancement instruments, thus rendering them ineffective despite their potential. Others, including Private Equity Funds and securitization of Diaspora remittances, are relatively new in the African context and therefore require appropriate policy and institutional frameworks or enabling environment as well as the political will to cause them to come into being.

SUPPORT FOR THE ESTABLISHMENT OF AN AFRICAN INFRASTRUCTURE DEVELOPMENT FUND, SUCH AS THE AFRICA 50 FUND

AIDF is a continental Fund established to finance infrastructure projects on the continent. It will be implemented by means of an institutional framework, which provides for common (pooled) technical and operational support in the development and implementation of infrastructure projects. AIDF will lend to African countries and RECs for infrastructure projects. Start-up projected annual lending could be put at \$500 million and reaching \$1 billion by 2016. A mechanism will be in place to determine the share

of national and regional projects to be financed, with at least 40% of fund resources devoted to regional projects especially within the PIDA framework. It is envisaged that the average size of the infrastructure project to be financed would range between \$50 million and \$100 million or more. These will be financed by Fund resources, which will leverage co-financing from the African Development Bank, other regional banks, private equity funds, pension fund and sovereign wealth funds, other private sector investors and international partners

AIDF Capital may consist of components including equity from country government shareholders and regional development banks as well as debt instruments including bonds to be purchased by various investors, from pension and private equity funds; Central banks using a portion of their international reserves; Sovereign Wealth Funds and Commercial banks. The equity contributions could be made in agreed tranches over a period of time, possibly three years, while it is envisaged that the Fund becomes operational only after the first tranche of the paid-in capital has been fully contributed.

The Fund will focus on providing financing for long-term sovereign infrastructure projects and sovereign-guaranteed infrastructure projects, as well as public portions of PPP projects. Operation may start with the equity component of the capital.

After three years of operation and a track record established, AIDF debt instrument (AIDF infrastructure bonds) could be issued. The targeted investors are the Central/Reserve Banks using foreign exchange reserves, pension funds and private equity funds, among others. As debt issue requires credit rating on the debt instrument, AIDF will seek appropriate guidance from credit rating advisory institutions. In addition, AIDF will seek support of the IMF for recognition of its debt instruments held by central banks as eligible international reserves.

Accordingly, the endorsement and support of all regional and continental institutions for the Africa50 Fund initiative is a good start for the drive by African countries to scale up the mobilization and utilization of



Box 4: The proposed African Infrastructure Development Fund

AIDF / A50F will issue Infrastructure Bonds that will be guaranteed by the African Credit Guarantee Facility. The AIDF governance and administrative structure will be determined along with the pricing of AIDF Lending and Return to Equity and Bond Holders in a separate operational plan. The African Union will decide on the host country and provide necessary political support and guarantees. A special legislation will be enacted by the host country to accord the Fund required privileges.

domestic financial resources for regional development projects. The proposed AIDF with respect to the Africa50 Fund is ideally a complementary initiative⁸.

This is necessary to ensure international marketability of AIDF bonds. It is also important to ensure the liquidity of the bonds. The AIDF governance and administration structure will be determined along with the pricing of AIDF Lending and Return to Equity and Bond Holders in the operational plan for the study findings.

It is considered appropriate for the AIDF administration to be registered as a limited liability company and accorded exemptions from taxes and foreign exchange regulations. A special legislation will be enacted by the host country to accord the Fund required privileges. The African Union will decide on the host country and provide necessary political support and guarantees. At the outset, the AfDB, DBSA, ECOWAS Fund, CEMAC and other regional institutions and banks will assist to provide the full range of project development and management activities. AIDF governance structures will however take responsibility for administering the Fund which could include a constituted Board of Governors as the policy and decision making body. As AIDF is expected to pool technical and knowledge resources, this will reduce operations cost and will have salutary effects on returns to investors (equity and debit) and reduce the cost of borrowing from the Fund.

DEVELOPMENT OF AFRICA'S CREDIT GUARANTEE FACILITY (ACGF)

Trust is paramount in financial intermediation and the commitment of savings to long-term investment. Without confidence in institutions issuing bonds and an appreciation that interest and principal will be paid to bond holders on maturity uptake of debt instruments like Diaspora bonds will remain low. Perception of risk of default is critical to successful bond issue. Hence the need for Credit Guarantee Facility for bond-financed national and regional development programmes and projects, especially those put forward by PIDA. The Africa's Credit Guarantee Facility (ACGF) will provide guarantees on bonds issued by special purpose vehicles to raise finance for the implementation of PIDA projects. The aim is to underwrite PPPs and less-than-investment-grade private companies that would otherwise have difficulty in raising long-term finance from both local and international capital markets.

ACGF will bolster the confidence of investors in Diaspora bonds, private equity funds with African origin, investment of pension funds and the use of international reserves of central banks. It will encourage international institutional investors in bonds issued by African institutions; improve credit rating for bond issuers, and lower interest payable. ACGF's bond guarantee operations will enable African companies to access bond markets as well as expand and diversify their sources of debt capital.

ACGF will be intergovernmental but will be set up as an autonomous limited liability facility. It will have equity capital contributions by all African countries

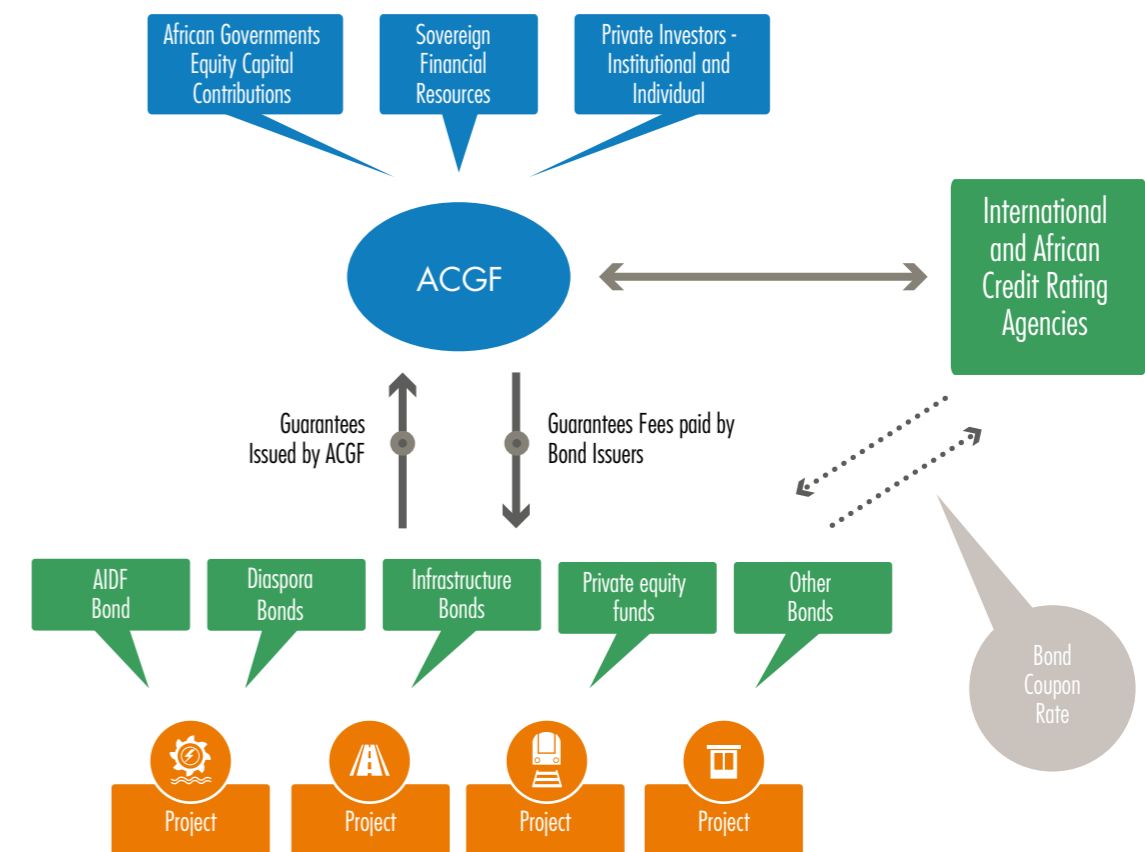
and possibly international institutional investors. The guarantees issued by ACGF will be irrevocable and there will be unconditional commitment by the Facility to pay bondholders in the event of default by the issuers on the maturity of the bonds. This commitment will be backed by ACGF's equity capital. Bond issuers using the Facility will pay a guarantee fee upon the signing of a guarantee contract. Based on this contract, a bondholder becomes a beneficiary of the guarantee in the event of a default by the bond issuer to make coupon and principal payments when they fall due.

The Facility will operate on the basis of eligibility criteria for bond issuers. These will be entities from African countries with acceptable credit and operational profiles based on an assessment to be carried out by ACGF. The projects must be

on the PIDA priority list and satisfy sustainable development requirements.

Bond issuance that will be considered for ACGF guarantee will be limited to a maximum value of \$150million for a single issue and a tenor of up to 10 years. The approval process will consist of some key stages: preliminary assessment of the potential bond issuer; submission of a formal application backed by detailed information and conduct of due diligence assessment by ACGF operations team with clear recommendations; endorsement of recommendations by the Operations Committee of the Governing Board and approval by the Governing Board.

FIGURE 12. THE AFRICAN CREDIT GUARANTEE FACILITY



Source: Authors.

⁸ Outcomes of the Tunis Roundtable on Africa50 Fund outcomes of the July Roundtable on Financing Africa's Infrastructure

PROMOTION OF AFRICA-OWNED PRIVATE EQUITY FUNDS

Africa's private equity market is valued at between \$25 billion and \$30 billion and is dominated by external fund managers and firms. Only a few of them are African-owned. Given the rapidly growing importance and role of the market, it is desirable for African investors to begin to show visible presence. As Africa's capital markets are at present characterized by thinly listed equities, it is evident that a significant share of the development finance to close Africa's infrastructure financing gap will come from private equity funds. With PEF being a new form of investment on the continent, it requires new forms of regulation, and the enabling environment needs to be developed. To promote Africa-owned PEF in the market, the continent will need to draw on the financial potential of its own resources, including pension funds. The continental exposure of pension funds has so far been extremely limited and the current policies are largely responsible for this.

DEEPENING OF AFRICA'S BONDS MARKETS

Promotion of Infrastructure Bonds

Infrastructure bonds are financing instruments issued to raise long-term finance for infrastructure development. The issuance of long-term debt instruments by African countries, specifically infrastructure bonds, to raise finance for infrastructure development is growing on the continent and a number of countries have had varying degrees of success: Ethiopia, Kenya, Nigeria and South Africa are among countries that have successfully issued bonds. Because of the short-term maturity of loans offered by the banking sector, these are not suitable for financing long-term investments in infrastructure development. Hence deepening viable and vibrant bond markets is critical for development. To make Africa's bonds markets work to raise development finance, attention needs to be paid to superior returns

on bond coupons held by investors; low borrowing cost; tax-exempt status for returns from investment on infrastructure bonds (returns on investment in infrastructure bonds in Kenya are tax-exempt); vigorous marketing of issues; and development of credit guarantee facility like ACGF to protect bond holders against default in interest and principal payment on maturity.

Promotion of Diaspora Bonds

Diaspora bonds are debt instruments issued by a homeland government to raise development finance from its Diaspora communities as an alternative to borrowing from the international capital market, multilateral financial institutions or securing bilateral loans from governments. The practice of issuing Diaspora Bond goes back to the early 1930s by Japan and China, and continuing into the present day with the State of Israel Bond as a most outstanding case, mobilizing close to US\$25 billion over three decades. The Resurgent India Bond issued after the sanction the country faced following its test of a nuclear bomb, raised close to US\$11 billion from the Indian Diaspora, demonstrating the significance of the Diaspora communities of various countries.

In view of the importance of Africa's Diaspora communities in the growth and development of the continent, the African Union in 2007 pronounced Africa's Diaspora as the 6th Region of the continent, determining its size as challenging. Following the World Bank, if the Diaspora is regarded simply as "foreign-born population", then conservatively, the size of Africa's Diaspora was 30.6 million in 2010. If unrecorded migrants are added, the figure rises sharply.

Africa's Diaspora remitted home more than US\$40 billion in 2010. If unrecorded flows are added, annual remittances have outstripped the US\$40 billion mark annually since 2010. This makes remittances a respectable source of finance for development in recipient countries. It has been estimated that Africa's Diaspora earns about US\$53 billion annually. If each of the 30.6 million members of the Diaspora were to invest US\$1,000 in his/her country annually, the continent could raise about US\$3 billion annually for the financing of development programmes and

projects. Mobilization of this fund is possible through the issuance of Diaspora bonds – debt instruments marketed to members of the Diaspora. The bonds could be sold in smaller denominations of between US\$50 and US\$1,000 to small investors and much larger denominations to wealthier migrants and institutional investors. Estimates suggest that Africa could raise between US\$5 billion and US\$10 billion annually.

In Africa, Ethiopia has made two issues. Kenya, Nigeria, Rwanda and Zimbabwe are in the process or have done so. Countries with large Diaspora communities are encouraged to try Diaspora bonds as an instrument for raising development finance. Success factors that need consideration include:

- Development of a system of guarantee by regional and multilateral development banks to enhance creditworthiness of the bonds, given the high perception of political risks that can lead to default, and assure investors of full payment when the bonds mature. This is where the role of the proposed ACGF becomes vital.
- African Embassies and Consulates overseas should play a more robust role in the marketing of the bonds.
- Careful macroeconomic management strategy to ensure exchange rate stability, as large foreign exchange inflows at issue and outflows at maturity could potentially lead to exchange management challenges.
- Incentives are needed to promote uptake of the bonds. Withholding tax on interest earned should be avoided and countries the migrants reside in should be persuaded to provide exemption of interest incomes from taxation or at least a tax break.

Box 5. African Financial Markets Initiative (AFMI)

The African Financial Markets Initiative (AFMI) is an initiative of the African Development Bank (AfDB) that was launched in 2008. It is aimed at contributing to the development and deepening of domestic financial markets in Africa, and, through that, contribute to domestic resource mobilization by increasing the availability of financing options on the continent. The AFMI is made up of the African Financial Markets Database (AFMD) and the African Domestic Bond Fund (ADBDF).

The *African Financial Markets Database (AFMD)* is a comprehensive database that provides updated information on African domestic bond markets. It achieves this through (1) improving the availability and transparency of African fixed income markets-related data; (2) reconciling and standardizing data produced by several institutions, using different concepts and methods; and (3) supporting efforts to improve the quality of financial statistics on the continent.

The *African Domestic Bond Fund (ADBDF)* is a fund that is designed to invest in African local currency denominated sovereign bonds and thereby reduce African countries dependency on foreign currency denominated debt. It is also aimed at encouraging the deepening of domestic bond markets through investments in longer dated debt, thereby contributing to enlarging the investor base in African domestic bond markets.

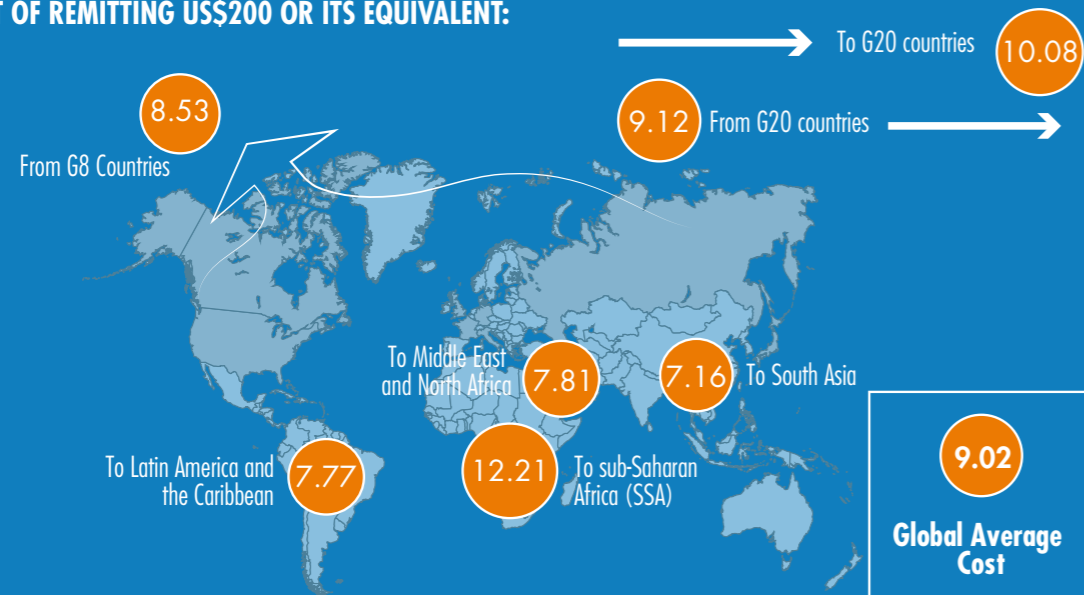
The ADBDF is supported by two additional components, namely the African Domestic Bond Index and the Regional Multi-disciplinary Working Groups. The African Domestic Bond Index represents African local currency denominated fixed-income markets, and currently comprises indices of nine countries (Botswana, Egypt, Ghana, Kenya, Morocco, Namibia, Nigeria, South Africa and Tunisia). The Regional Multi-disciplinary Working Groups are platforms for policy dialogue, knowledge sharing and South-South collaboration, and are designed to identify synergies between bond market development initiatives, including project funding and Stakeholder Technical Assistance needs.

A full diagnostic feasibility study in 2011 provided a quantitative classification and rankings of levels of development of African domestic bond markets in terms of (1) macroeconomic environment (monetary and fiscal policy); (2) legal and regulatory framework; (3) bond market infrastructure; (4) issuers and issuing strategy; (5) investor base; and (6) active participation of economic agents. Based on this criterion, countries' bond markets are ranked as highly developed with global significance if they post a score of above 80 points; Advanced, if the score is above 50 but less than 80 points; Developing, if the score is greater than 40 but less than 50 points; and Nascent, if overall score is less than 40 points. Eighty percent of African countries are classified as Nascent.

Box 6. Africa – Cost of diaspora remittances and losses in financial resources

During the first quarter of 2013, the World Bank estimated the following as the cost of remitting US\$200 or its equivalent

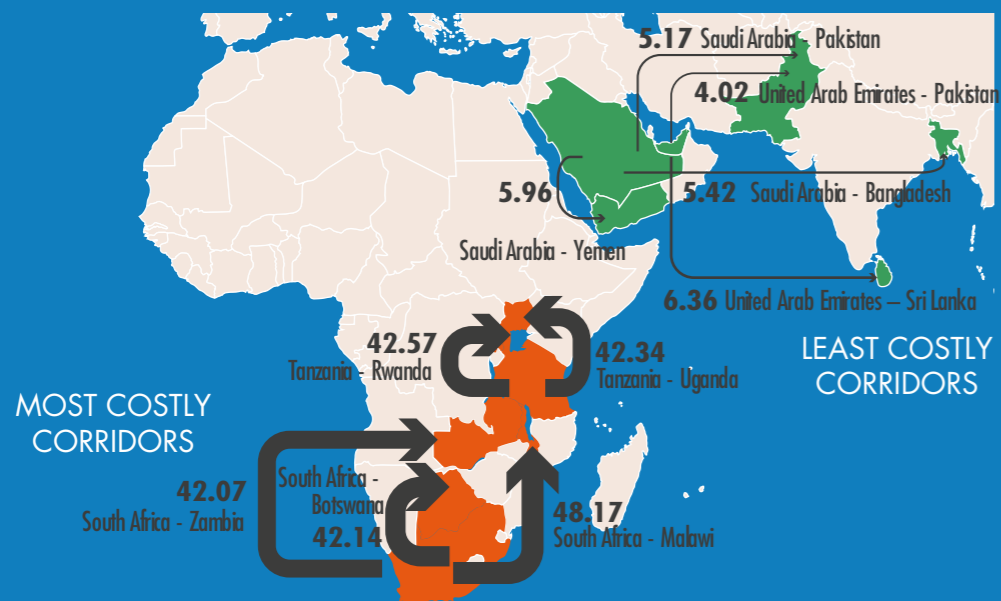
COST OF REMITTING US\$200 OR ITS EQUIVALENT:



This means sub-Saharan Africa is the most expensive place to send money to in the world, while South Asia, Latin America and the Caribbean as well as the Middle East are the cheapest. The implication is that sub-Saharan Africa is losing a great deal of financial resources in Diaspora remittances to the international money transfer networks. Available statistics also show that African countries are also the most expensive corridors in Diaspora remittance costs.

AFRICAN COUNTRIES AS MOST COSTLY CORRIDORS IN DIASPORA REMITTANCES

Average Cost of Remitting US\$200



Average cost includes transaction fees and exchange rate margin.

Sources: Global Remittances Working Group, World Bank 2013; Think Africa Press, Bringing Down the Cost of Remittances, 11 October 2012.

SECURITIZATION OF AFRICA'S DIASPORA REMITTANCES

If properly managed, remittances from Africa's Diaspora could provide a valuable source of development finance. It is in this context that this study explores securitization of these remittances as a mechanism for raising long-term finance in addition to the benefits that they bring to recipients on the continent. Securitization is essentially the sale of assets to a special purpose vehicle or "SPV" that then incurs debt secured by the assets. For purposes of securitization, a key feature of remittances is that they are a type of future cash flow – a stream of cash generated by the ongoing business of a bank. In a future flow securitization a bank seeking to raise funds sells the first right to receive a particular future income stream to an SPV that is incorporated and located offshore.

The SPV then issues debt instruments (remittance-backed bonds) that are collateralized by the future income stream. The SPV passes the proceeds of the issuance through to the originating bank as consideration for the first right to receive the cash flow. The bank seeking to raise capital is the "originator" or the "originating bank." The SPV is the "issuer" of the debt instruments. The parties that purchase the debt instruments from the SPV are the "investors." Securitization of worker remittances, like any securitization, is a method of raising capital that can be applied in a range of ways and could be beneficial to development. Remittance-backed bonds have been performing very well. International rating agencies note that these bonds outperform their rating class and will continue to perform well even during global credit crises.

Within the G20 group South Africa is the costliest country to send money from. It has an average of 20.72%. The cheapest is Russia (3.93%)

- Thus, on the whole, Africa is losing significant financial resources from Diaspora remittances through traditional money transfer networks as a result of high cost of remittances.
- Remittance fees are at least three times those in Asia and the minimum charges are excessively high
- Some of the causes can be traced back to the anti-competitive practices imposed by early international transfer networks on their agents across the continent.
- In response to the high transaction cost due to the anti-competitive practice, African governments have made some progress in redressing some of the obnoxious exclusivity clauses in long term contracts signed by African agents on their commitment to early international transfer networks. African governments will however need to ensure that all such exclusivity clauses that are still in operation with financial institutions and service providers on the continent are repelled and their status closely monitored by financial sector regulators.
- The 2009 pledge by the World Bank with the support of G8 Heads of State to reduce the average global cost of remittances from 10% to 5% by 2014 is yet to result in any appreciable reduction in the African context. Achievement of this pledge in Africa will enable the continent to save more than US\$2.884billion annually in Diaspora remittance costs.

Source: Remittance Prices World Wide, the World Bank, Issue No. 5, March 2013

ESTABLISHING STRATEGIC DEVELOPMENT SOVEREIGN WEALTH FUNDS

A Sovereign Wealth Fund (SWF) is a state-owned fund that is established from balance of payments surpluses, official foreign currency operations, the proceeds of privatisation, governmental transfer payments, fiscal surpluses, and/or receipts resulting from resource exports like crude oil. Each fund has a specific reason for being created, as well as its objectives. SWFs tend to prefer returns over liquidity and thus have a higher risk tolerance than traditional international reserves. Proceeds from investments made by sovereign wealth funds can be used to fund development projects or in some cases, be used as savings for future generations. On the continent, over 10 countries have sovereign wealth funds⁹. There is likely to be an increase in this number as African countries now want to see the surpluses from natural resources harnessed and converted into sovereign wealth for developmental uses or even for future generations.

In particular, the **Strategic Development SWF** is a fund that can be customized and utilised to promote specific national economic or development goals. Given that most sovereign funds have a commercial objective which is to earn a positive risk-adjusted return on their pool of assets, however an SDSWF is targeted at sole utilization of promoting national economic development goals. Proceeds from SOEs can be paid into the SDSWF. According to the SWF Institute, the Government of Kenya is considering establishing an SDSWF from the profits of State-owned Enterprises (SOEs) to fund such an SWF.

Of the 54 countries in Africa, at least 13 have sovereign wealth funds (See Figure 13). There is likely to be an increase in this number as African countries now want to see the surpluses from natural resources harnessed and converted into sovereign wealth for developmental uses or even for future generations. Sovereign Wealth Funds in Africa are usually originated in mineral resources. However, these funds can originate from other government

surpluses, but this does not preclude governments from looking at savings in the economy. For example, the Nigerian Sovereign Investment Authority (NSIA) is a result of the replacement of the Excess Crude Account (ECA). The NSIA will receive monthly funding of a significant portion of oil and gas revenue above the budgeted revenue and approved by the Nigerian National Assembly (Parliament)¹⁰. The 3 funds operating within the NSIA are: a) Stabilization Fund; b) Nigerian Infrastructure Fund and c) Future Generation Fund.

Algeria established its SWF as far back as 2000. By far Algeria's most significant exports, financially, are petroleum and natural gas. Hydrocarbons provide Algeria with almost two-thirds of government income and over a third of GDP. The stabilization fund was set up in 2000 to insulate the Algerian economy from price volatility in gas and oil commodity prices. Algeria's SWF, officially known as Fond de Regulation des Recettes or the Fund for the Regulation of Receipts (FRR), currently holds about US\$ 54.8 billion dollars. Sudan, Equatorial Guinea and São Tomé and Príncipe, which hit oil very recently, all have SWFs.

The United Arab Emirates (UAE), one of the leading countries with SWFs, has over \$875 billion in its fund. That nation relies on oil exports for its wealth; therefore, it devotes a portion of its reserves to a sovereign wealth that invests in other types of assets that can act as a shield against oil-related risk¹¹. Indeed, there is a variety of purposes that inform the creation of SWFs. For example, a Fund such as the Mubadala Development Company¹², is active in promoting such national development goals as education and industry diversification. For clarity in results of SWFs, the SWF Institute proposed a separation of social and capital-growth development.

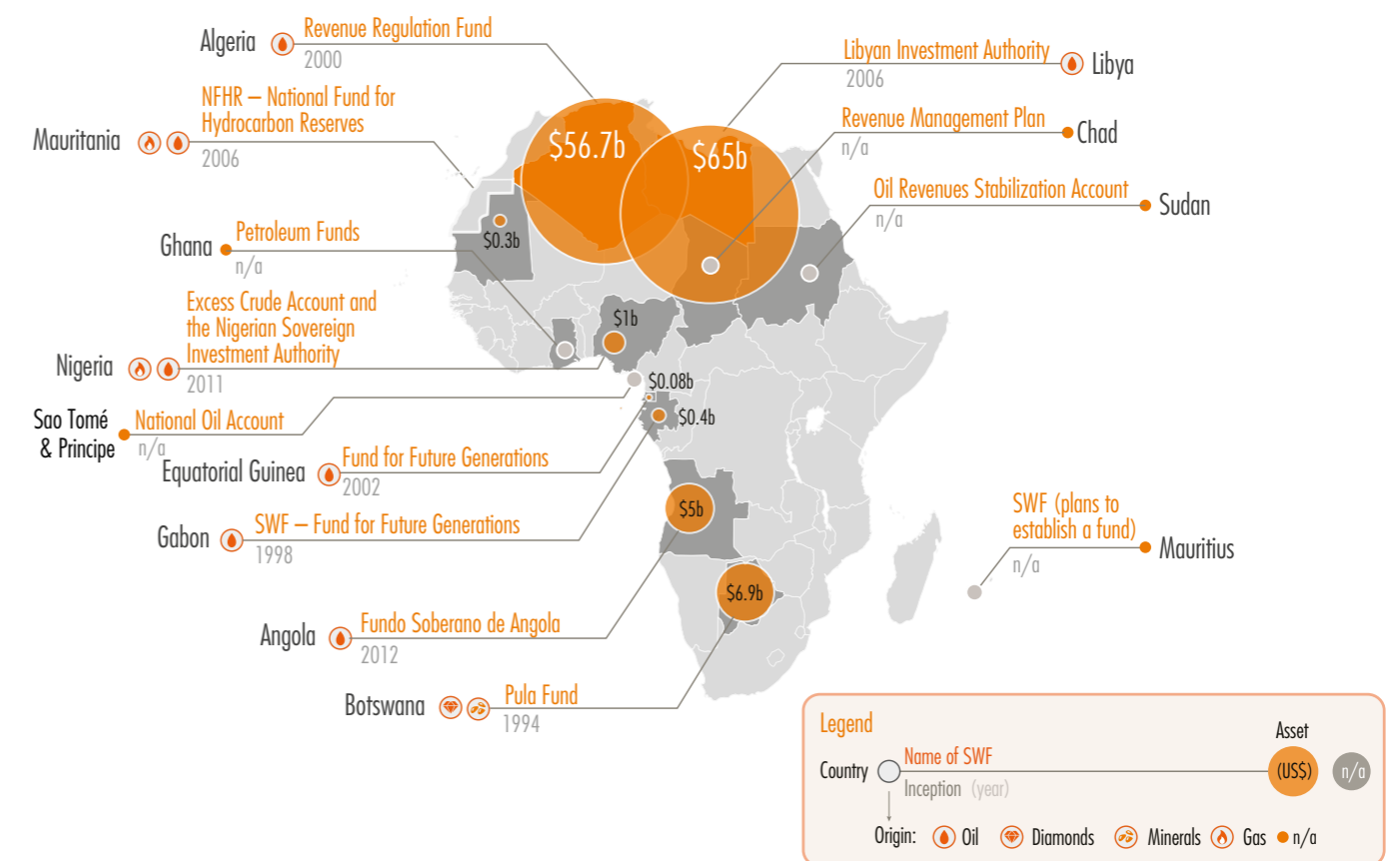
Trends show that as more and more countries build up their currency reserves or surplus oil revenues, they will want to seek greater returns. Recently, SWFs have grown, fuelled by rising commodity prices, especially oil and gas. These rising prices

10 SWF Institute.

11 SWF Institute.

12 SWF Institute.

FIGURE 13. SOME MAJOR SOVEREIGN WEALTH FUNDS IN AFRICA



Source: Culled from global list in the SWF Institute website.

Box 7. Sovereign Wealth Fund

A Sovereign Wealth Fund (SWF) is a state-owned fund or entity that is commonly established from balance of payments surpluses, official foreign currency operations, the proceeds of privatisation, governmental transfer payments, fiscal surpluses, and/or receipts resulting from resource exports, such as oil. Each fund will have a specific reason for being created, and its objectives. Sovereign wealth funds exclude, among other things, foreign currency reserve assets held by monetary authorities for the traditional balance of payments or monetary policy purposes, state-owned enterprises (SOEs) and in the traditional sense, government-employee pension funds (funded by employee/employer contributions, or assets managed for the benefit of individuals. Some funds also invest indirectly in domestic industries. SWFs tend to prefer returns over liquidity, thus they have a higher risk tolerance than traditional foreign exchange reserves.

Origination

- Commodities: created through commodity exports, either taxed or owned by the government
- Non-Commodities: Usually created through transfers of assets from official foreign exchange reserves

Common objectives

- Protect and stabilise the budget and economy from excess volatility in revenues/exports
- Diversify from non-renewable commodity exports
- Earn greater returns than on foreign exchange reserves
- Assist monetary authorities dissipate unwanted liquidity
- Increase savings for future generations
- Fund social and economic development
- Sustainable long term capital growth for target countries
- Political strategy

Source: Sovereign Wealth Fund Institute.

have also had a positive effect on African countries, especially oil producing countries.

This study report highlights the following specific SWF vehicles that could be applicable in the African context.

- **Sovereign Wealth Enterprises (SWE)** are investment vehicles that are owned and controlled by sovereign wealth funds. These vehicles allow greater flexibility for SWFs. A sovereign wealth fund could have a strict investment mandate in place but the SWE has its own rules. For example, a state owned enterprise can be the same as a SWE if it is put directly under the control of a SWF.
- **Strategic Development Sovereign Wealth Fund (SDSWF)** are sovereign wealth funds that can be utilised to promote national economic or development goals. It is commonly accepted that most sovereign funds have a commercial objective which is to earn a positive risk-adjusted return on their pool of assets. However a SDSWF can be used solely to promote national economic or development goals. Proceeds from SOEs can be paid into the SDSWF. According to the SWF Institute, the Government of Kenya is considering establishing a SDSWF from the profits of State-owned Enterprises (SOEs) to fund such a SWF.

Through pooling resources from investments of SWFs or from their SOEs, African countries could consider the possibility of a regional Strategic Development Sovereign Wealth Fund for financing NEPAD programmes and projects.

ESTABLISHMENT OF REGIONAL STOCK EXCHANGES

Capital markets offer countries some mechanisms for raising long-term capital for development. The markets represent the long end of the maturity spectrum of financial instruments. The impact and economic benefits of fully functional capital markets will change the continent's financial landscape and make available additional investment funds and resources from internal sources. Major benefits include low cost of borrowing, liquidity, reduced cost of financial transactions, risk transfer, and improved corporate governance. Across the continent, 20 national and one regional stock exchanges are active. With the exception of the South African Market, African stock markets are characterised by relatively small capitalisation and liquidity levels. If fully functional, stock markets provide cheap sources of long term finance; opportunity for improved management of financial risk and diversification; Improved Capital Allocation; Savings mobilization; and improved Corporate Governance. For African stock markets to meet the expectations of raising adequate resources for national and regional programmes, governments and the private sector should address the challenges relating to lack of width and depth; issues of weaknesses in governance structures; and capital flight.

To this end, an environment which facilitates free movement of funds is of vital importance. In addition, there is a need to raise the level of domestic incentives and encourage the development of attractive financial products. Recent experiences and the on-going financial crisis make it imperative for the promotion of capital market development at national and regional levels to be safeguarded from the consequences of unwholesome practices and speculative tendencies on the part of operators in these markets. Accordingly, strong, effective and autonomous regulatory institutions, as well as policies to discourage such practices and tendencies, should be put in place. In general, the primary purpose of these regulatory institutions and policies should be to ensure that the capital

markets at national and regional markets provide long-term capital in the form of bonds and equity and not provide opportunities for foot-loose speculators bearing 'hot' money. Again, the experience of South Africa in this regard deserves careful study and possible adaptation to domestic realities throughout Africa.

PUBLIC-PRIVATE PARTNERSHIPS

A Public-Private Partnership (PPP) is a contractual arrangement between a public agency and a private sector entity to share the skills and assets of each sector to finance, construct, renovate, manage, operate or maintain infrastructure facilities or services for the use of the general public. In addition to the sharing of resources, each party shares in the potential risks and rewards in the delivery of the facility and/or service. The structures of PPPs vary depending on the public sector's objectives and needs, as well as other factors such as the legal and institutional environment, accepted industry norms, and the financial realities of the proposed transaction (See Figure 14).

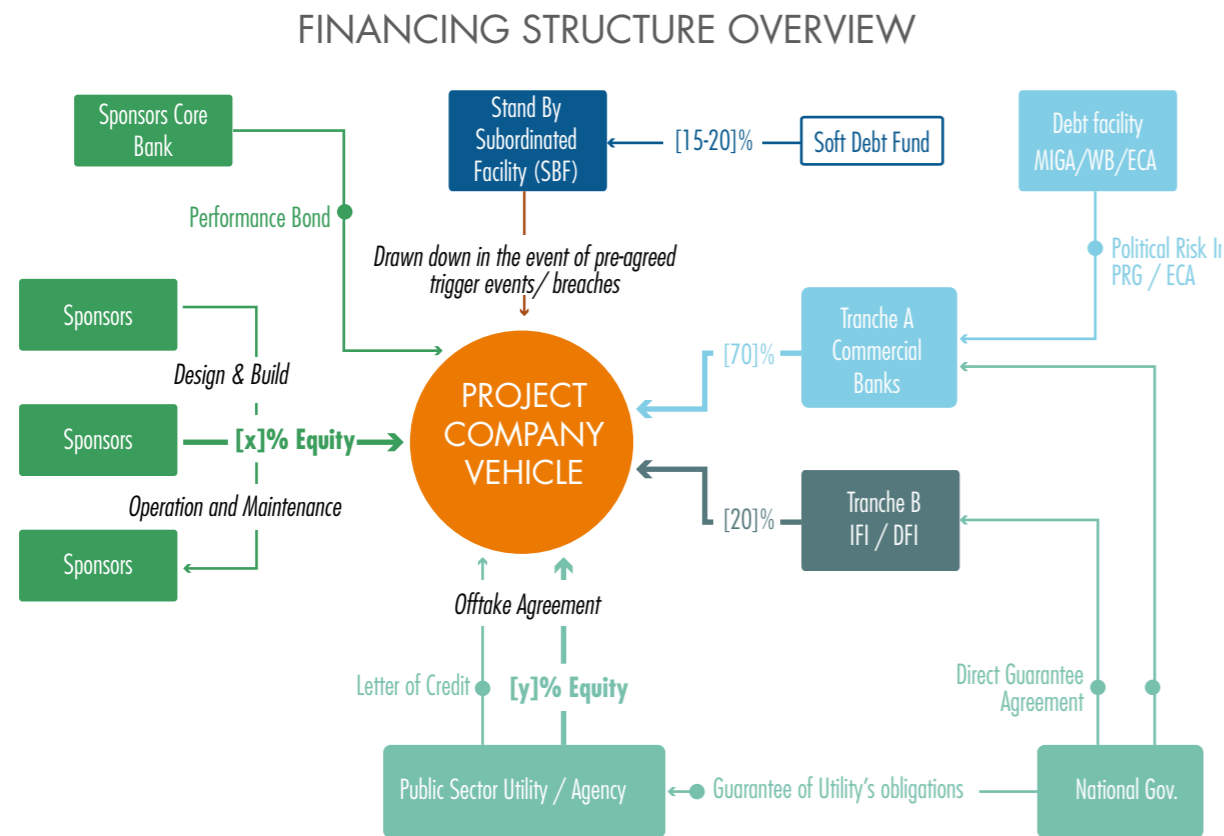
There are four basic public-private partnership structuring approaches based on project ownership and operation. Whatever form they take, successful PPPs have a number of features in common. First, they all involve some form of risk-sharing between the public and private sector. Second, the rationale for their creation is always the same, namely, to engage complementary strengths to improve efficiency in the generation and performance of public services.

Every PPP is a new mixture of partners, needs, technologies, goals and intended beneficiaries and where the right partners come together the synergies they achieve can lead to results well beyond the reach of any one organization alone. PPPs have the potential to bridge the fiscal gap through an infusion of private capital and can improve timeliness in the delivery of goods and services, increase innovation in the provision of these services, share risks, and

provide better value for money. PPPs have been successfully implemented in a number of African countries, but new models need to be encouraged on the continent. The principal features that the new financing models need to offer include the following:

- Replacing private sector equity, wholly or in part, by some form of concessional equity or subordinated debt, thus allowing for a cheaper cost for the end user. The returns expected by private equity investors, which include the conservative pricing of uncertain future risks, usually results in public sector services that, when priced with a fully cost reflective tariff, are unaffordable in emerging markets.
- Creating a reliable refinancing process through which, as soon as possible after project completion, senior debt providers have the opportunity to reduce or remove their exposure to the project.
- Enabling domestic or Diaspora investors to invest in long term, low risk and stable domestic infrastructure assets through properly structured project bonds.
- The project bonds will be structured through a "Re-Financing Vehicle" set up, for instance, by Sovereign Funds supported by the development finance institutions, which will purchase the private bank debt which is outstanding after the first or second year of the bedding-in period following construction completion.
- The Re-Financing Vehicle will then issue project bond on a limited recourse basis (i.e., the bond holders will be remunerated from the project cash flow).
- The function of the Re-Financing Vehicle will be to use the proceeds of the project bonds to purchase the senior debt and to issue and sell the project bonds.

FIGURE 14. ILLUSTRATION OF NEW FINANCING MODEL FOR PPP¹³



1. A Total Equity amount of [10]% is injected into the SPV: [x]% by the Sponsors and [y]% by the Public Sector Utility / Agency ("PSU").
2. In order to reduce the financing cost (and the cost of services/output for the end user), a stand-by subordinated financing facility ("SBF") provided by a Soft Debt Fund is put in place, and sized to provide the required amount for pre-agreed events (such as cost overrun, Debt Service Reserve Account, Maintenance Reserves, etc.)
3. The funding for the construction and all the other project costs will be provided from (i) a debt facility put in place by commercial lenders (Tranche A), together with IFIs/DFIs (Tranche B) on a pari-passu basis, and (ii) drawdowns under the SBF (subordinate to both Tranches A and B).
4. The Sponsors and/or Private Equity Funds will provide all the completion guarantees and performance bonding that are usual within a conventional project finance structure. The PSU will provide the SPV with a Letter of Credit covering [3] months of payments.
5. Political [and commercial] risk will be covered through insurance policies provided by (e.g) MIGA, financial guarantees provided by the World Bank, or through ECA cover.

Note: Unless otherwise stated, figures are expressed as a % of Project Cost.
 Source: anthony_sykes@gb.smbcgroup.com, Sumitsomo-MITSUI Bank Corporation

¹³ This proposed PPP structure is yet to be implemented as some experts contend, that it shifts all the risks away from Commercial Banks, which is not desirable. It is considered that the new PPP proposal should retain risks commensurate with the remuneration being requested.

Box 8. Successful PPP Project: DAKAR-DIAMNIADIO TOLL-HIGHWAY

The Dakar - Diamniadio Toll-Highway, the first PPP project achieved in Senegal, is a model of successful PPP in infrastructure. The project affords a 30-year concession to SENAC SA, as the private operator, to ensure the overall mission of Designing - Construction, Financing, Operationalizing - and Transfer. The project was preceded by comprehensive studies on its financial and economic profitability and compliance with environmental and social requirements.

FINANCING. The financial model was built on various options to seek the best economic balance. The financing plan of investment costs was as follows: (1) Public financing corresponding to subsidies granted by the State, and (2) Private financing provided by the private operator and its lenders. Several financial institutions became involved once the project's profitability was clearly demonstrated.

RISKS MANAGEMENT. The main risks assumed by the State are the following: (1) expropriation procedures; and (2) Indexing subsidies following a price revision formula. The main risks assumed by the private operator are related to: (1) traffic risks; (2) design -construction risks; and (3) 100% servicing and maintenance costs.

REMUNERATION. The private operator is entitled to collect tolls as a form of remuneration by applying the rates specified in the contract. In return, the private operator is responsible for the operating system, including: Operating costs (equipment, staff, etc.), Costs of servicing, maintenance, and renewal; Financial expenses related to debt; Taxes and charges. The State share of the profits generated is determined based on a mechanism preserving the economic balance of the concession.

PUBLIC ACCEPTANCE. Studies on the acceptability of the toll show that the project was favourably









accepted by 80% of the public

USERS SATISFACTION. There is high level of user satisfaction in terms of services which conform to international standards. Urban mobility is significantly improved with the distance time between Dakar and Diamniadio reduced from 90 minutes to 25 minutes on average. All economic stakeholders in the area benefit from real profits.

CHALLENGES MITIGATION. A significant involuntary population displacement affected more than 3,000 families without major challenges and according to the rules and procedures required by the TFP, including the World Bank policy OP 4.12.

INTERNATIONAL RECOGNITION. The Toll-Highway has been recognized by the World Bank and the NEPAD Agency as an innovative project. Therefore, the project is regularly cited in international meetings on PPPs.

FIGURE 15. TYPES OF PUBLIC-PRIVATE PARTNERSHIP STRUCTURING APPROACHES

OWNERSHIP	OPERATION	TYPICAL PARTNERSHIP AGREEMENT TERM	TYPICAL MODEL	MODEL DESCRIPTION
 PUBLIC	 PRIVATE	3 TO 5 YEARS	OPERATIONS AND MAINTENANCE ONLY	Public partner contracts with private partner to provide and/or operate and maintain a facility or service. Public partner retains ownership and overall management of the facility. No investment by private partner.
 PUBLIC	 PRIVATE	5 TO 25 YEARS	DESIGN BUILD OPERATE	Single contract is awarded to the private partner for the design, construction, and operation of a capital improvement. Public partner maintains ownership of the facility and retains a significant level of oversight of operations. This arrangement maintains private sector involvement and can facilitate private-sector financing of public projects supported by user fees generated during the operations phase.
 PRIVATE	 PRIVATE	25 PLUS YEARS	DESIGN BUILD FINANCE OPERATE MAINTAIN OWN TRANSFER	Responsibilities for designing, building, financing, operating and maintaining are transferred to private sector partners. The private sector owns the asset until the end of the contract when ownership is transferred to the public sector
 PRIVATE	 PRIVATE	VARIOUS	DESIGN BUILD FINANCE OPERATE MAINTAIN OWN	Model is same as previous (3) except there is no transfer back to the public sector. Private sector retains ownership.

Source: Authors.

IMPERATIVES FOR EFFECTIVE IMPLEMENTATION OF PROPOSED DOMESTIC RESOURCE MOBILIZATION INSTRUMENTS AND ARRANGEMENTS

This study has put forward proposed arrangements, instruments and supporting governance, institutional and policy reforms aimed at bolstering the mobilization of domestic resources on the continent. The successful execution of these proposals requires means of implementation, which need to be properly sequenced over the short, medium and much longer terms. The means of implementation consist of technical and financial resources that will make possible the development of appropriate capacity within NEPAD Agency, ECA and other partner institutions on the one hand, and the countries that will be implementing the instruments and reforms, on the other. The means of implementation consist of three vital components, namely: Sustained Progress in Regional Integration; Policy, Governance and Institutional Reforms; and Capacity Development.

SUSTAINED PROGRESS IN REGIONAL INTEGRATION

Effective cooperation among African countries is central to the development of continental financing facilities such as the AIDF and the CGF and the harmonization of policy frameworks to facilitate their operationalization and the implementation of regional infrastructure projects. Therein lies the need for Africa to accelerate progress in regional integration. This awareness is strong on the continent and has been a driving force behind the numerous regional cooperation initiatives and the emergence of regional economic communities.

Commitment to regional cooperation and integration is exemplified by the creation on 25 May 1963 of the Organization of the African Union (OAU), not long after many African countries had attained political independence. The OAU was formally transformed into the African Union on 26 May 2001. In 1980 African countries adopted the Lagos Plan of Action (LPA) with the set objective of achieving effective regional integration through national and collective self-reliance. The Abuja Treaty, which was signed in 1991, provides for the creation of a continent-wide African Economic Community (AEC) by 2027. The treaty committed the continent to a path of economic integration. The adoption of NEPAD in 2001 is a strong acknowledgement of the need for African countries to pool resources and enhance regional integration and development in order to improve international competitiveness. In November 2010, the 6th Ordinary Session of the Conference of African Ministers of Trade adopted a recommendation to fast track the establishment of a Continental Free Trade Area for which the proposed instruments hold enormous prospects.

Progress in Regional Integration: African countries have taken a wide range of concrete actions towards deepening regional cooperation and integration. Some of the main actions taken and the progress made include the following:

Regional level: The transformation of the OAU into the AU set in motion actions to deepen progress towards regional integration and create a common market on the continent required for the proposed instruments to thrive. The main goal of the AU is to improve the quality of life of African citizens through integration, cooperation and development (AUC 2009). This has been followed by various actions in support of the integration agenda. These include the 9th AU Ordinary Session held in 2007, which adopted a declaration to accelerate economic and political integration of the African continent, including the formation of a Union Government for Africa with the ultimate objective of creating the United States of Africa. The declaration also called for the rationalization, strengthening and harmonization of the activities of the RECs so as to lead to the creation of an African Common

Market. This will greatly facilitate the emergence of An African Bonds Market.

Regional institutions have been set up and strengthened. Among these are the AUC and the NEPAD Planning and Coordinating Agency. The Pan African Parliament has also been established and is facilitating the building of broader consensus on the regional integration agenda. The setting up of other key regional institutions, which include the African Investment Bank, the African Monetary Fund and the African Central Bank, is being accelerated. The eventual emergence of these finance institutions will provide appropriate regulatory frameworks for instruments such as the AIDF, the CGF, the operation of Private Equity Funds across the continent, as well as regional stock exchanges.

The Minimum Integration Programme (MIP) has been developed to streamline and fast track the integration process. The MIP will, among others, strengthen convergence of RECs. Already RECs are being rationalized. This has led to the recognition by the AU of only eight RECs. These are: the Arab Maghreb Union (UMA), the Common Market for Eastern and Southern Africa (COMESA), the Community of Sahel-Saharan States (CENSAD), the Economic Community of Central African States (ECCAS), the Economic Community of West African States (ECOWAS), the East African Community (EAC), the Inter-Governmental Authority on Development (IGAD), and the Southern African Development Community (SADC). Other priorities of the MIP include infrastructure and energy; free movement of people, goods, services and capital; peace and security; agriculture, trade and industry. PIDA is an integral element in enhancing physical integration of the region. Effective implementation of the MIP will significantly promote the effectiveness of the proposed financing instruments.

In order to promote shared and collective responsibility, the African Charter on Democracy, Governance and Elections was adopted by AU Heads of State and Government in 2007. This charter serves as a resolve and firm basis for collective and united action when required. In addition, in 2009, African Heads of State and Government also adopted the African Charter on Statistics. This Charter, among

others, is serving as a policy framework and advocacy tool for statistical development in Africa.

Thus, progress is being made to strengthen Africa's regional integration, and this will have significant beneficial impact in the implementation of the instruments proposed in this study.

Constraints and Challenges: In spite of the progress made, there remain a number challenges and constraints to accelerating regional integration in Africa. Among the main challenges is the multiplicity of RECs and overlapping memberships. The multiplicity of regional integration arrangements has made Africa's integration process unnecessarily complex and duplicative, thus leading to inefficient use of resources. This is compounded by RECs' ambitious programmes vis-à-vis their limited planning, implementation and financing capacities. Other constraints and challenges include: fear of losing sovereignty; conflicts in some Member States; lack of a self-financing mechanisms; ineffective compensation mechanism; weak institutional capacity for implementation of the integration agenda at the national level; low intra-RECs trade; and inadequate physical integration. Thus, while African countries have made significant strides in setting up institutional arrangements for regional integration, physical integration is lagging behind. Therefore, the achievement of desired regional integration development outcomes such as increased trade and mobility of goods and labour is being hampered.

The challenge is thus to mobilize financial resources to scale up and maintain critical infrastructure such as road and railway networks. The establishment of strong regional institutions such as the AU and the NEPAD Planning and Coordinating Agency, the ongoing rationalization of RECs, removal of trade barriers and expansion of programmes for physical connectivity and energy pooling are major initiatives and significant steps toward enhancing regional integration in Africa. These need to be scaled up and the NEPAD Agency adequately-resourced to support the regional integration process. Regional integration should be mainstreamed at the national level. In this connection, there is need to strengthen political will and to support African countries to

undertake and enforce national reforms including setting up the necessary institutional frameworks in support of the regional integration agenda. All these are pre-requisites for the effective launch and implementation of key domestic resource mobilization instruments such as the AIDF and the CGF that this study puts forward.

GOVERNANCE, POLICY AND INSTITUTIONAL REFORMS

There is a need for African governments to continue to strengthen the governance, policy and institutional environment in order to enhance domestic revenue mobilization and attract domestic and foreign investments. Good governance and effective institutions are overarching requirements for sustainable growth and development. They provide the desired level of investors' confidence for the proposed financing instruments to thrive. Good governance has been defined variously. Essentially, it is the manner in which public institutions exercise power in the management of a country's economic and social resources for development (World Bank, 1989: 60).

Central to this is the process of decision-making and implementation; the capacity of governments to formulate and effectively implement policies and programmes; the space and capacity for political participation, effective and efficient electoral systems; as well as peace and security. Some of the key elements include effectiveness and efficiency in public sector management; accountability and responsiveness of public officials to the citizenry; existence of the rule of law; public access to information and transparency; and equity and inclusiveness (World Bank 1992 and 1994). Good governance analysis examines relationships, which includes government and markets; government and citizens; government and the private sector; elected officials and appointed officials; branches of government; and between nation states and institutions. Good governance is the foundation on which countries' development rests. It unleashes the potentials and creativity of a people. It creates confidence for investment in a national economy, and the retention of capital and wealth.

The implementation of the instruments proposed in this study calls for the promotion of good governance and thus the implementation of appropriate governance and institutional reforms. This is because good governance is necessary for sound economic policies and improved infrastructure development. NEPAD, it will be recalled, calls for effective leadership, transparency and accountability in the use of public resources and good governance in the promotion of Africa's development. It calls for sound economic, political, democratic, and corporate governance including the institutionalization of commitments made at each of these levels. Good governance also requires stakeholders at all levels to play a role. Participation engenders collective ownership of a process and promotes a strong sense of commitment in the delivery of results. Stakeholders consisting of the government, the private sector, local communities, civil society, youth and youth organizations, women organizations and empowerment groups, academia and research institutions, among others, are all expected to be involved.

There is strong evidence of sustained progress in the pursuit of good governance and institutional reforms on the continent. The governance climate is conducive to development and Africa is poised to address continuing challenges and constraints in its governance and institutional environment. Some of these require concerted efforts. Current progress in governance and institutional reforms needs strengthening for results to be achieved in the implementation of the recommended strategies and instruments in enhanced mobilization of domestic resources.

It is equally worth noting that while broad-based participation of stakeholders is being encouraged on the continent, this has largely been at the level of policy institutions. Local communities, professional networks and civil society organizations are among stakeholders with very limited participation thus far. Youth and youth organizations are yet to have proper channels to express their needs and aspirations. Until recently, there has been declining level of engagement of youth in development, and this has been a matter of concern for decision-makers globally. As a result, the need to promote

youth participation is increasingly becoming a major challenge to governments.

A critical success factor in stakeholders' participation is active engagement in the full range of development and governance processes. To that end, it is necessary to strengthen existing platforms and mechanisms, establish more democratic deliberative institutions at all levels of decision-making through which all categories of stakeholders can actively participate in the development and governance process; and empower these institutions to promote stakeholder ownership of development programmes, enhanced citizen oversight over government activities for ensuring transparency and sharing of information as a means of enhancing effectiveness and efficiency of strategy, policy and programme formulation and implementation (UNECA, 2011).

ALTERNATIVE SOURCES OF FINANCING THE AFRICAN UNION – THE OBASANJO HIGH LEVEL PANEL RECOMMENDATIONS

The High Level Panel that was tasked by the African Union to look into alternative sources for financing the African Union presented its final draft report in May 2013. It proposed to the African Union five options of mobilising the funds as follows.

- **Private sector and other contributions**

A certain percentage of the revenue derived from the activities of the private sector and non-governmental organizations under the guidance of the African Union could be allocated to the financing of specific projects, such as combating pandemics (such as HIV/AIDS), or to some large-scale humanitarian actions within the framework of the African Union.

- **Levy on insurance premiums**

Impose a minimum levy of 0.2% on any insurance policy taken by an African citizen or enterprise operating in Africa, to be collected by insurance companies on behalf of the African Union

- **Levy on imports**

Impose a 0.2% tax on consumable goods imported outside the continent, excluding donations and exempted goods. The accruing amounts will be collected by Member States' Customs Services on behalf of the African Union.

- **Levy on international travel**

Impose a tax of US\$5 per ticket on flights to and from Africa. The accrued funds are to be collected with the help of IATA from its affiliated companies. In the case of companies not affiliated to IATA, individual Member States would have to collect the tax and transfer the funds into the AU's account.

- **Tourism and hospitality**

Collect US\$1 for each stay by tourists in an African hotel. Accrued funds would be collected on behalf of the AU by hotels in collaboration with the revenue agencies of Member States.

Impact of the proposals

Viability and sustainability of the proposed options

The Panel concluded that implementing each proposal would have minimal impact on the economies of Member States of the African Union and that the proposed instruments are viable and sustainable as an alternative source of income for the African Union. Elements of this are the following:

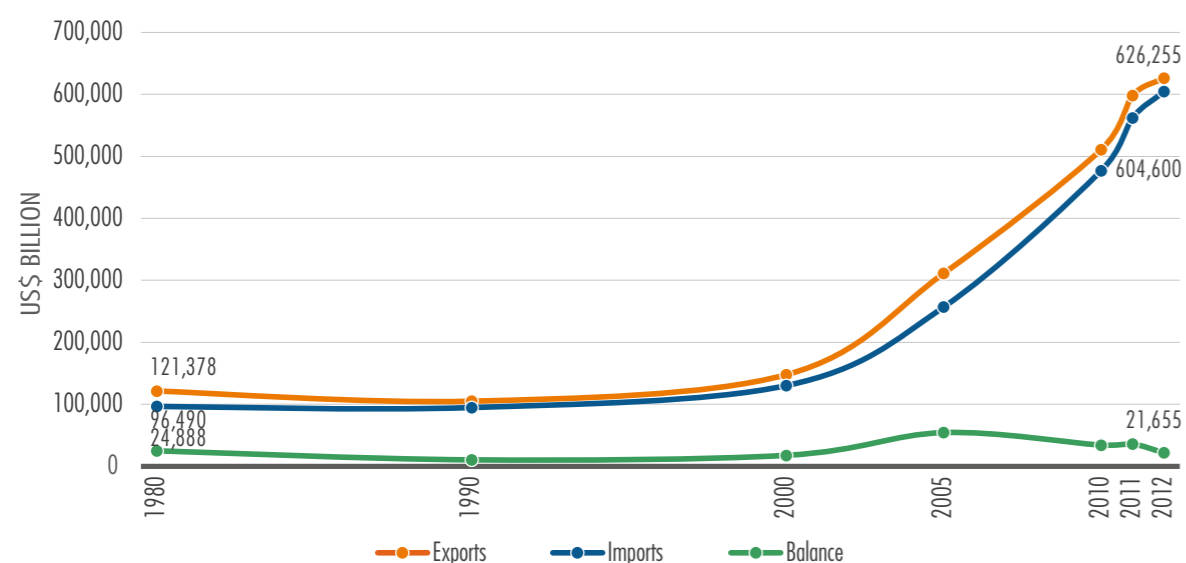
Imports

The volume of Africa's imports has more than doubled since 2005, reaching US\$600 billion in 2012, up from US\$250 billion in 2005 (See Figure 16). Several organisations are predicting that Africa's imports will continue to rise in the coming years.

Africa's insurance sector

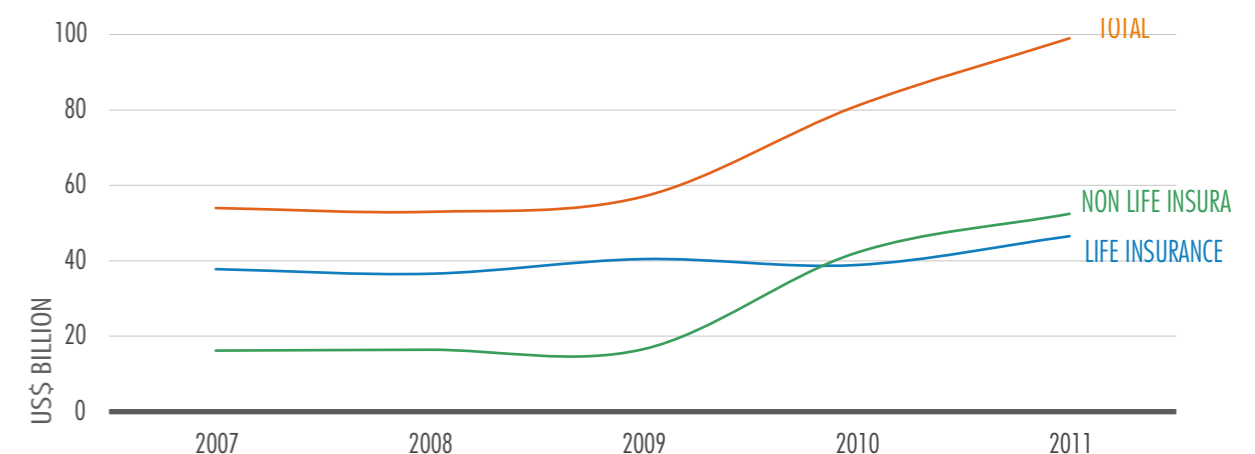
While Africa's insurance sector remains small, it has seen strong growth in recent years, with revenues rising to US\$80 billion and US\$100 billion in 2010 and 2011 respectively, up from an average of US\$50 billion during 2007-2009 (See Figure 17). Indications are that this growth will continue in the coming years.

FIGURE 16. EVOLUTION OF AFRICA'S EXTERNAL TRADE. 1980-2012 (US\$ BILLIONS)



Source: UNCTADstat

FIGURE 17. REVENUES OF AFRICA'S INSURANCE SECTOR. 2007-2011 (US\$ BILLIONS)



Source: Report of "the FANAF", February 2013

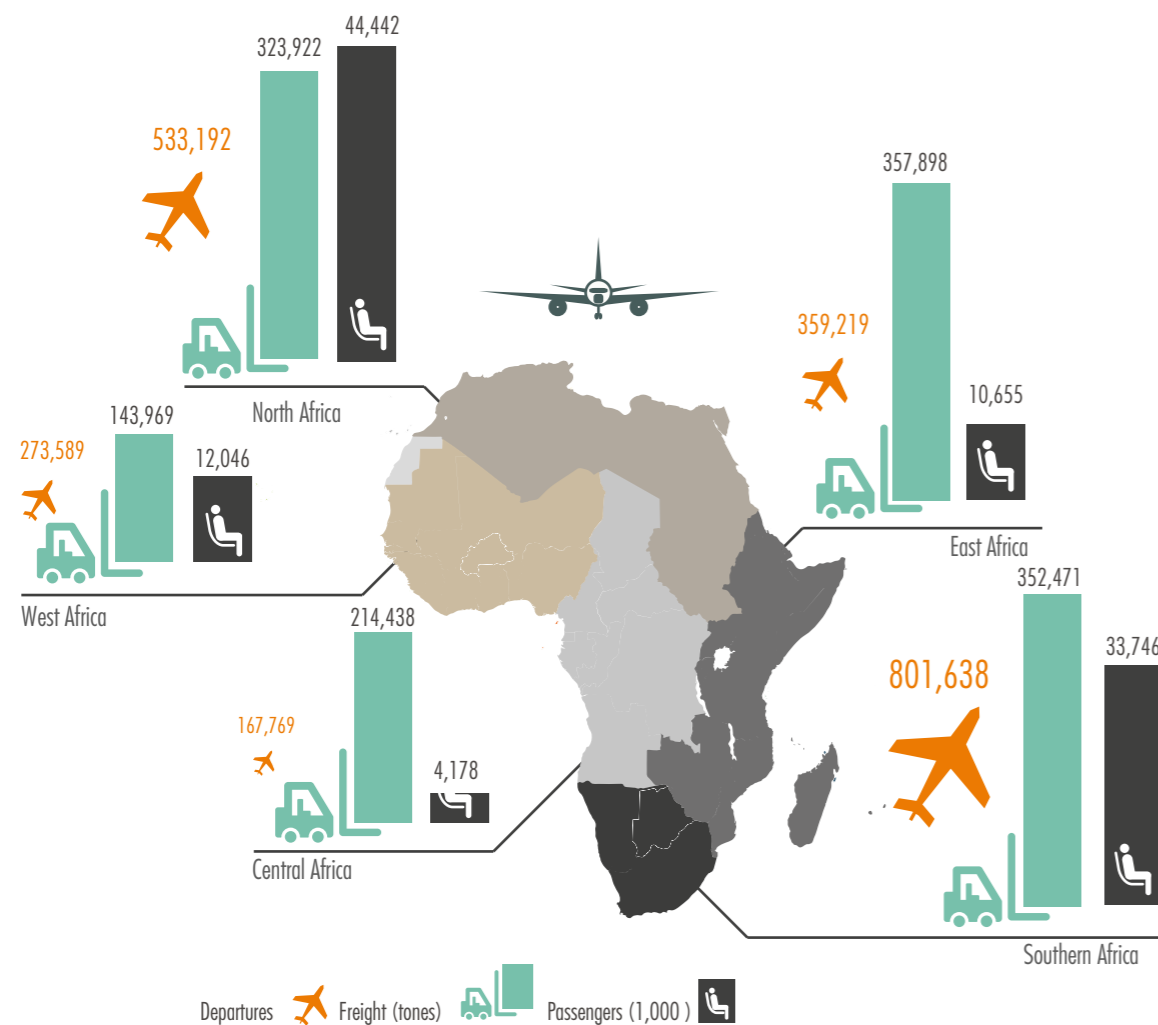
Air traffic in Africa

Africa's airspace has become very profitable for several African airlines in recent years, reflecting in part, rising economic activity on the continent. The volume of passengers departing African airports has experienced rapid growth in recent years (See Figure 18).

Tourism sector

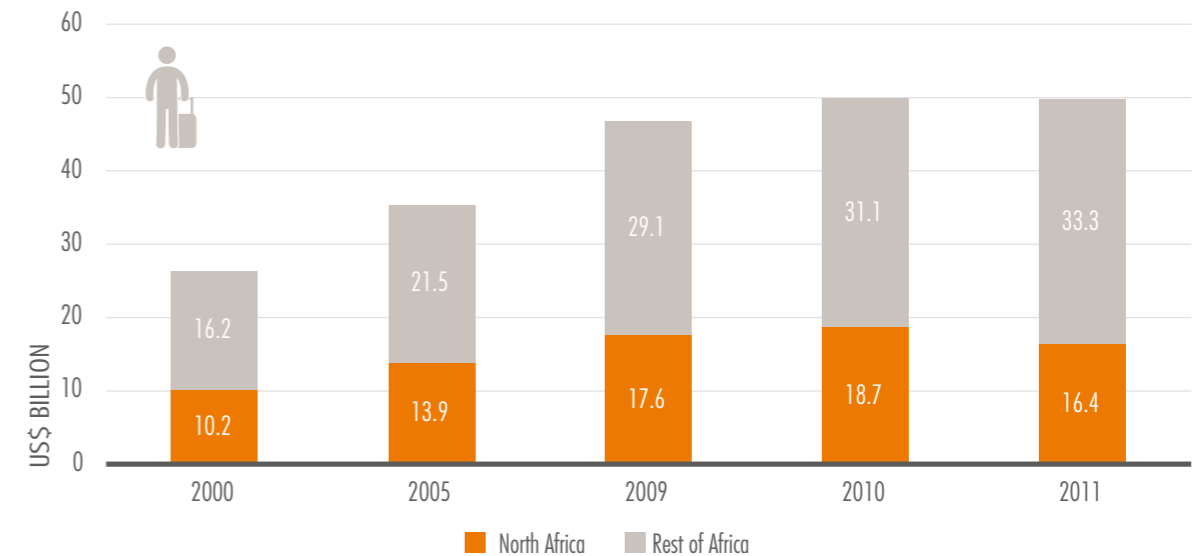
Africa has become one of the most popular destinations for many tourists in recent years and this has made the tourism sector the most successful sector in the last two decades, posting an average growth rate of 7.1% in arrived tourist and 12.5% in terms of tourism receipts (See Figure 19).

FIGURE 18. LEVEL OF AIR TRAFFIC IN AFRICA



Source: ACI & ICAO.

FIGURE 19. INTERNATIONAL TOURIST ARRIVALS. 2000-2011 (IN MILLIONS)



Source: World Tourism Organization (UNTWO).

c. Resources resulting from application of the proposals

The Panel demonstrates that implementing options (b) to (e) would generate revenues of US\$1.4 billion as shown in figure 20.

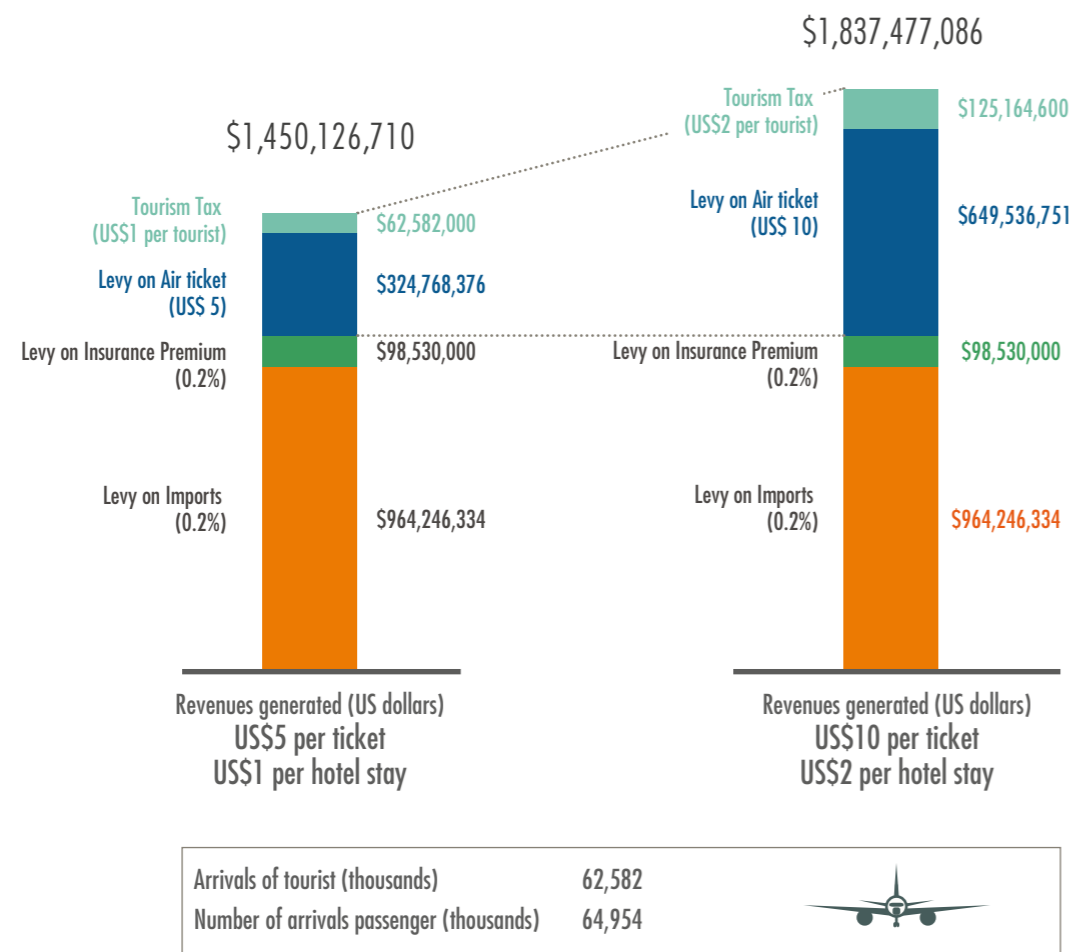
If the levy on air tickets were to be increased to US\$10 per ticket and hospitality levy increased to US\$2, additional revenues of US\$387 million could be raised without repercussions on the economies of the member states.

The Panel therefore proposed that the US\$2 hospitality levy and US\$10 per ticket be considered.

SPECIAL CAPACITY DEVELOPMENT PROGRAMME

Capacity is one of the most significant means for the implementation of commitments in the area of domestic resource mobilization. It provides the ability for setting priorities, developing programmes, designing appropriate implementation frameworks, and monitoring and evaluating the performance of each of the instruments. Thus, the present capacity development programme, including the NEPAD Capacity Development Strategic Framework (CDSF), must reflect the requirements for the delivery of the recommended frameworks and instruments for enhanced mobilization of domestic resources. It must respond to the need for effective leadership of the implementation process; appropriate behavioural changes by institutions and stakeholders; strong and responsive national governance and financial institutions; effective macroeconomic

FIGURE 20. RESOURCES RESULTING FROM THE APPLICATION OF THE PROPOSALS (US\$)



Source: Authors.

policies; a conducive environment for private sector participation in the implementation of instruments and reforms; and the space to innovate and generate new knowledge for continuous improvement.

The evidence is strong that there is significant progress on these fronts, just as much as there are daunting constraints and challenges. There is however a strong sense of optimism that Africa's path is defined by the progress being achieved, and this needs to be scaled up.

FINDINGS, CONCLUSIONS AND RECOMMENDATIONS

This study sought to examine the issue of inadequate financial resources for the implementation of national and regional development programmes and projects in Africa. To this end, it assessed domestic resource mobilization on the continent based on an extensive review of available data and information on experiences and trends in the mobilization of development finance; identified financial instruments and measures that have the potential to significantly enhance the implementation of national and NEPAD regional programmes and projects; examined resource facilities and special purpose instruments that could aid the implementation of selected NEPAD regional programmes and projects in agriculture and infrastructure; and proposed means of implementation for the recommendations put forward. What follows are the main findings, conclusions and recommendations of the study.

MAIN FINDINGS

After a careful and extensive review of the issues surrounding the present state of Africa's financial resource needs vis-à-vis the requirements for sustained implementation of national and regional development programmes and projects, this study presents the following major findings:

a. Development Aid has helped, but will not deliver sustainable growth and development results in Africa. The continent must continue to explore innovative sources of domestic finance for its development programmes and projects. The future of the continent lies in its ability to generate its own development finance. In any case, statistics shows that with more than US\$520 billion coming from domestic revenues as against US\$59 billion in private flows and US\$50 billion in ODA, Africa is indeed responsible for a significant proportion of its development finance. Yet, its development budget is inadequate to meet the needs of the continent's development programmes. The development

budget meets only a small portion of the financing requirements.

- b. The continent has the resource base to support the development and implementation of viable domestic finance instruments proposed in this study. Notable among these are Pension Funds, Diaspora Remittances, Earnings from Minerals and Mineral Fuels, International Reserves held by the Reserve/Central Banks, Liquidity in the Banking Sector, the growing Private Equity Funds market, and the potential resource flow from Securitization of Remittances, among others.
- c. In the implementation of Africa's development programmes, especially infrastructure, the private sector has so far played only a limited role. Given improvement in countries' enabling environment such as governance reforms, improved policy and regulatory frameworks, and the emergence of functional and effective public institutions, there is a need for the private sector to step up its participation in infrastructure development on the continent. To this end, public-private partnerships need strengthening and new models of such partnerships within the Africa context need to evolve. Also required are high-level platforms for public-private sector consultations, especially at the level of African policymakers and Chief Executives in the private sector as well as the leadership of civil society organizations.
- d. Efforts on the part of governments are required to enhance political stability, promote peace and security, strengthen public administration, raise confidence in the legal and regulatory frameworks, gain more ground in the war against corruption and invest more in capacity development in order to ensure that bankable projects are properly prepared and effectively implemented.
- e. Infrastructure development in Africa has the potential to raise GDP by 2% and develop the backbone for rapid industrialization, which in turn will boost the capacity to generate more domestic resources. Current infrastructure needs stand at about US\$93 billion

annually, out of which US\$45 billion is being mobilized, leaving an annual financing gap of US\$50 billion. The need for additional resources is compelling.

- f. African countries need to expand the fiscal space to support the implementation of national and regional development programmes by extending the catchment area for the mobilization of savings, expansion of the tax base and improvement of the capital markets. Policies to improve savings rates need to focus on macroeconomic stability, financial deepening through institutional reforms and innovative saving instruments, and interest rate management policy. An expanded tax base relies on implementation of tax reforms (reducing exemptions and simplifying tax administration), enhancement of public expenditure productivity and management of terms of trade related booms. A sub-regional approach to capital markets development should be vigorously promoted to boost local and foreign direct investment, and reverse capital flight.
- g. There is need to promote domestic savings, grow the banking pool, reach out to the large informal sector with appropriate financing instruments.
- h. The potential to raise more domestic resources from tax is high, given the encouraging tax revenue to GDP ratio, which is as high as

20% in some cases. What is however required is not increases in tax rates, but better tax administration and expansion of the tax base. It is in this context that, if properly managed and empowered, autonomous revenue agencies could generate remarkable results, as amply demonstrated by the South African Revenues Service (SARS). The need to continually revisit tax reforms at the level of each country, while drawing on good practices across the continent, cannot be over-emphasized. It has become necessary to draw attention to the huge revenue loss that is arising from extensive tax exemptions that a number of multinational corporations enjoy on the continent.

- i. A common framework for reform of laws to allow public pension funds to invest directly in Africa is long overdue. In a number of countries, current laws prohibit investment of public pension funds in Africa and in development projects on the continent. These laws run counter to the financing instruments proposed in this study.
- j. Curtailing illicit financial flows remains a major challenge that must be vigorously pursued. Various estimates have been put forward on such outflows from Africa. The amount is as high as US\$854 billion over the period between 1970 and 2008 with more than half of this occurring in the extractive industries sector.

- k. Instruments and measures that can support domestic resource mobilization include:

Africa50 Fund/AIDF; ACGF; Promotion of Africa-own PEFs; Deepening of Africa's Bonds Markets including through existing initiatives such as AFMI; Securitization of Africa's Diaspora Remittances; Establishment of Strategic SWFs; Strengthening of current NEPAD IPPF; Deepening national and promoting emergence of regional stock exchanges; encouraging syndicated bonds and loans; and improving the present PPP models.

- l. Efforts should be made to develop specific financing instruments and special instruments for NEPAD programmes and projects. These should provide targeted financial resources for National Agricultural and Food Security Investment Plans (NAFSIPs) under CAADP and infrastructure projects under PIDA. It is also necessary to raise finance for NEPAD Agency in order to enhance the level of effectiveness of its operation. The present level of funding is inadequate for the Agency to deliver effectively on its mandate.

CONCLUSIONS AND RECOMMENDATIONS

The proposals contained in this report are implementable. Africa has the institutions and capacity to turn them into concrete results. What is now required is directive from NEPAD Heads of State and Government Orientation Committee for NEPAD Agency with technical support from ECA and in collaboration with relevant institutions on the continent, to proceed.

To take Africa's efforts to the next level in the mobilization of domestic resources, this report recommends the following:

Impetus and Instruments for Mobilizing Domestic Financial Resources

Africa should set itself a bold target to move away over the next two decades from aid, which undermines the capacity to own its development agenda and processes. Over this period, the continent should, from its domestic resources, finance at least 70-80% of its infrastructural development projects and complete the PIDA Priority Action Plan (PAP) projects. The AU should set appropriate timelines for the achievement of this target.

The **following instruments** are recommended to step up the mobilization of domestic resources in Africa for the implementation of national and regional development programmes:

- Support initiatives to establish new Funds to finance the development of Africa's infrastructure, notably the Africa 50 Fund
- Explore with African Institutions the development of an African Credit Guarantee Facility (ACGF) as a credit enhancement mechanism to support financing projects
- Promotion of Africa-owned Private Equity Funds



- Deepening of Bond Markets in Africa
 - Promotion of Infrastructure Bonds
 - Issuance of Diaspora Bonds
- Promotion of Regional Stock Exchanges with strong and regulatory institutions to guarantee adequate safeguards against unwholesome practices and speculators
- Development of requisite institutions and frameworks for safe and sound Securitization of Remittances
- Establishment of Strategic Development Sovereign Wealth Funds
- Explore funding opportunities from existing Sovereign-backed Pension Funds;
- Exploration of New Public-Private Partnerships (PPPs) financing models
- Continued institutional support for the establishment of the Africa50 Fund by laying out clearly its synergy with existing instruments, including the proposal by AfDB on a Pan-African Infrastructure Bond.
- Propose an operational structure and guidelines for the ACGF to facilitate the establishment of a sustainable institutional process, while working with the African Financial Markets Initiative of the AfDB to actualize the ACGF.
- Present implementable reforms for promoting the growth of Africa-owned private equity funds across the countries, recommending incentives required and policy reforms that will facilitate the use of pension funds without compromising their fundamental essence.
- Develop a framework for an integrated African Bonds Market in consideration of the work of AFMI as well as best-practice operational guidelines for local currency denominated bonds and successful issuance of Diaspora bonds in the African context.
- Set out guidelines for promoting the emergence of Regional Stock Exchanges and the nature of financial policy reforms to support effective operation.
- Develop an operational framework for securitizing remittances, drawing on experiences thus far within the continent.
- Revisit the encouraging emergence of Sovereign Wealth Funds and explore mechanisms for orientating them towards strategic development programmes and investment in infrastructure bonds to be issued by AIDF.
- Subject documentation relating to the foregoing technical and operational frameworks to regional consultation processes; share and agree on technical details with ministries of finance, the central banks and other major financial institutions on the continent; and submit appropriate recommendations for the consideration of AU-NEPAD HSGOC.

The AIDF/Africa50 Fund and the ACGF should be set up as partner institutions and may be created and partly resourced by existing African financial institutions as proposed, with the Africa 50 Fund being set up by the AfDB with the endorsement of major regional and continental bodies, including the African Union, UNECA and RECs. To make these Fund Facilities fully functional, there is need to develop a new operational culture and system of innovations from the onset.

Continued support for the African Financial Markets Initiative (AFMI), an initiative of the African Development Bank (AfDB) that was launched in 2008, is paramount to strengthening DRM efforts in the operational direction of private equity funds and bond markets. AFMI is aimed at contributing to the development and deepening of domestic financial markets in Africa, and, through that, to DRM by increasing the availability of financing options. The AFMI is made up of the African Financial Markets Database (AFMD) and the African Domestic Bond Fund (ADBDF).

The NEPAD Agency and UNECA should be mandated to work out the technical and operational details of the proposed instruments and to this end carry out the following:

Countries should explore new models of PPPs that will work much better in the African context, and subject regional projects to rigorous bankability assessment. New models should offer lenders options for short-term maturity of their investments through reliable refinancing.

Where possible, countries could explore the possibility of establishing well-staffed and financed institutional arrangements to manage PPP projects. A Ministry, Division or Unit for PPPs with soundly qualified and experienced professionals – legal, technical and financial advisers – will go a long way in making PPPs work much better. This has been amply demonstrated by countries such as South Africa.

- The blending of commercial and development banking institutions' lending packages could be encouraged. This will enable banks to collaborate to syndicate loans that will first be financed by commercial banks and later transferred to development finance institutions.

- Syndicated bond offerings underwritten by a syndicate of banks and backed by a guarantee facility could be explored as one of the mechanisms for financing regional projects. When operational, the ACGF could take on the responsibility of providing guarantees for such offerings.



Facilities and Special Purpose Vehicles for financing Specific NEPAD Programmes and Projects

Comprehensive Africa Agriculture Development Programme (CAADP)

The **National Agricultural and Food Security Investment Plans (NAFSIPs)** resulting from the CAADP Compact process should form one of the bases for mobilizing finance for the agricultural sector in African countries. Financing instruments and vehicles amenable to this include the following:

- National Agricultural Research Funds for agricultural innovations systems.
- The NEPAD Impact Investment Fund for SMEs in African Fisheries and Aquaculture
- African Fertilizer Financing Mechanism (AFFM)
- National Irrigation Financing Schemes
- Nutrition Enhancement Funds
- PPPs in the development of agricultural equipment
- PPPs in agricultural financing with option to buy off shares held by the public sector once the project is fully operational and profitable

There is need to support the African Agricultural Finance Working Group to continually provide guides to innovative instruments in the financing of agricultural development projects.

Programme for Infrastructure Development in Africa (PIDA)

The **Programme for Infrastructure Development in Africa (PIDA)** and the Priority Action Plan provide the framework for regional level investment in infrastructure development on the continent. Financing mechanisms to be encouraged could include:

- Revamping of the Infrastructure Project Preparatory Fund (IPPF) to support upstream project development. Regional banks on the continent should be encouraged to contribute at least 2% of their net incomes to the IPPF.

- The AIDF should be encouraged to issue PIDA bonds to finance specific projects.
- Countries implementing cross-border projects should be encouraged to enter into Intergovernmental Memorandum of Understanding (IMoU) and appropriate instruments created for each project to raise the financial resources and oversee its effective implementation.
- The **Presidential Infrastructure Champion Initiative (PICI)** should continue to remain a high-level fast-track model for implementation of PIDA. A High Level AU Business Council (AUBC) should be established for enhanced engagement between policymakers and private sector investors and to facilitate the implementation of PIDA, including the PICI subset of projects.
- The emerging BRICS Development Bank should be explored at its formation stage to provide a window for the financing of selected PIDA projects.
- Private Equity Funds should be further explored to support special financing instruments for PIDA projects.

Carbon Finance Mechanisms

Carbon finance mechanisms should be explored in greater depth to support the implementation of some of the continent's projects. A number of African countries are now considering carbon taxation as a form of mobilizing additional financial resources and tackling the climate change challenge. Such countries have adopted carbon taxation on greenhouse gas emissions on the basis of per ton of CO₂ equivalent. Likewise, CO₂ emission taxes on new passenger cars and double caps and levies on plastic shopping bags are increasing across the continent.

Specifically, African countries should take greater advantage of external resources available in the Green Climate Fund (GCF), an entity of the UNFCCC mechanism designed to transfer funds from developed to developing countries, estimated at US\$100 billion annually, and the existing Clean

Development Mechanism (CDM). The CDM is one of the project based mechanisms of the Kyoto Protocol on climate change to assist non-Annex I countries to the UNFCCC in promoting sustainable development. AfDB is proposing a Green Facility for Africa (GFA) to manage resources allocated to the continent. The GFA is considered a watershed for Africa's climate finance .

A specialist team could be constituted to make appropriate recommendations with respect to mechanisms that will work.

Means of Implementation and Immediate Follow-up Actions

Three means of implementation are vital for translation of the proposals in this study to concrete results. These are a vigorous pursuit of sustained progress in regional integration; governance, policy and institutional reforms; and implementation of a special programme in capacity development. The following measures are recommended:

Sustained Progress in Regional Integration

- The emergence of an African Common Market in 2027 should be vigorously pursued. Within the next decade, the African Investment Bank, the African Monetary Fund and the African Central Bank should become operational to provide appropriate institutional base for the instruments proposed in this study.
- The Minimum Integration Programme (MIP) should be effectively implemented given the priority set for infrastructure and key components of the African Common Market.
- The NEPAD Agency should be adequately resourced to support the regional integration process. Regional integration should be mainstreamed at the national level. In this connection, there is need to strengthen political will and support African countries to undertake and enforce national reforms including setting up the necessary institutional frameworks in support of the regional integration agenda. This is a pre-requisite for the effective launch and implementation of key domestic resource

mobilization instruments such as the AIDF, the ACGF and the Regional Stock Exchanges.

Governance, Policy and Institutional Reforms

Governments should continue to pursue relentlessly programmes to raise the propitiousness of the enabling environment through governance reforms, refinement of the policy, legal and regulatory frameworks, functionality and effectiveness of public institutions and public service delivery. These have significant effects on the participation of the private sector in investment financing and infrastructure development. Resourcing the APRM and strengthening NEPAD Agency for effective implementation and monitoring of the resulting National Plans of Action will continue to yield good governance dividends. Good governance and effective institutions are overarching requirements for growth and development. They provide the desired level of investors' confidence for the proposed financing instruments to thrive.

A platform for regular consultation and collaboration between policymakers and executives in the financial sector is needed. Where this already exists, it should be further strengthened. This platform should be set up at the national, regional and continental levels. At the continental level, the High-Level AU Business Council could play the desired role. The platform will continually guide the development of innovative financial products and services to raise domestic savings and the mobilization of resources through appropriate instruments. It will also provide guides in the review of rates and financial policies to ensure that these are not left entirely to market forces, but appropriately guided without causing financial repression.

Countries which are underperforming in tax revenue collection and administration should invest more resources in building the capacity of their revenue agencies. Preference should be for independent revenue agencies that are well-resourced, technically competent, and enjoy appropriate mandates, as these are known to be performing in some countries. The South African Revenue Service (SARS) is a remarkable example, and it has a strong international reputation.

African countries should reform laws governing investment of public pension funds so that these funds can be invested in instruments and projects within the continent. NEPAD Agency should spearhead the development of appropriate policy guidelines that will standardize reforms across the continent.

- Current efforts to track, report, stop and repatriate illicit financial flows from Africa should be vigorously pursued. Repatriated funds will significantly augment available domestic resources for development programmes and projects.
- Efforts should continue to be made to improve the regulatory environment in the financial sector. NEPAD Agency should work closely with the Regional Economic Communities and related regional institutions to enhance coherence in regional policy and regulatory frameworks with a view to promoting standardization of regional policies and frameworks in the banking sector and financial markets. Effective regulatory frameworks inspire investors' confidence and promote investments.

Capacity Development

Present capacity development programmes on the continent, including the AU-NEPAD Capacity Development Strategic Framework (CDSF), should provide for requirements for the delivery of the recommended instruments and measures for enhanced mobilization of domestic resources.

As part of the human and institutional capacity requirements for implementing proposals in this study, the NEPAD Heads of State and Government Orientation Committee (HSGOC) is invited to undertake the following:

1. **Designate Lead Institutions:** To lead the process in the implementation of the recommendations of this study, the HSGOC will need to mandate specific institutions. To this end, a NEPAD Cooperating Partners Committee (NEPAD-CPC) comprising the AUC, NPCA, ECA, AfDB and other regional banks is proposed to be funded through existing respective resource portfolio

2. **Mandate Stakeholders Consultation:** There is a need to subject the recommended instruments as well as the policy and institutional reforms to regional consultations in order to harvest further ideas, knowledge and information that will assist in the development of the implementation frameworks and guidelines. Led by NPCA and ECA, NPIC could be directed to undertake the follow-up consultations.
3. **Establish a High-Level African Union Business Council:** The AU could consider the possibility of establishing a High-Level AU Advisory Business Council (AUBC) at the highest level of political authority. This could be convened at an appropriate time, possibly during regular Sessions of the Assembly of Heads of State and Government, to raise the participation of the private sector in the implementation of NEPAD regional projects. It is an expectation that the AUBC at this level could lead to the development of private sector consortia for the implementation of specific PIDA projects and the emergence of a private sector counterpart to champion key PIDA projects. The AUBC will also contribute to a continuous process of identifying policy and institutional reforms that could significantly raise the level of its participation in the implementation of NEPAD regional projects. The Council should be challenged to put forth, within 2-3 years, equivalent private sector Champions for strategic regional projects in the PIDA portfolio.
4. **Authorize the Development and Implementation of a Special Capacity Building Programme:** A special capacity building programme is proposed as part of the means of implementation to strengthen the human and institutional capacity of existing regional coordination institutions and bodies, particularly AUC, NEPAD Agency, AfDB and ECA and assist countries in the implementation of appropriate policy and institutional reforms. Thus, the programme will target capacity building at the level of the coordinating institutions and that of the implementing countries, as follows:

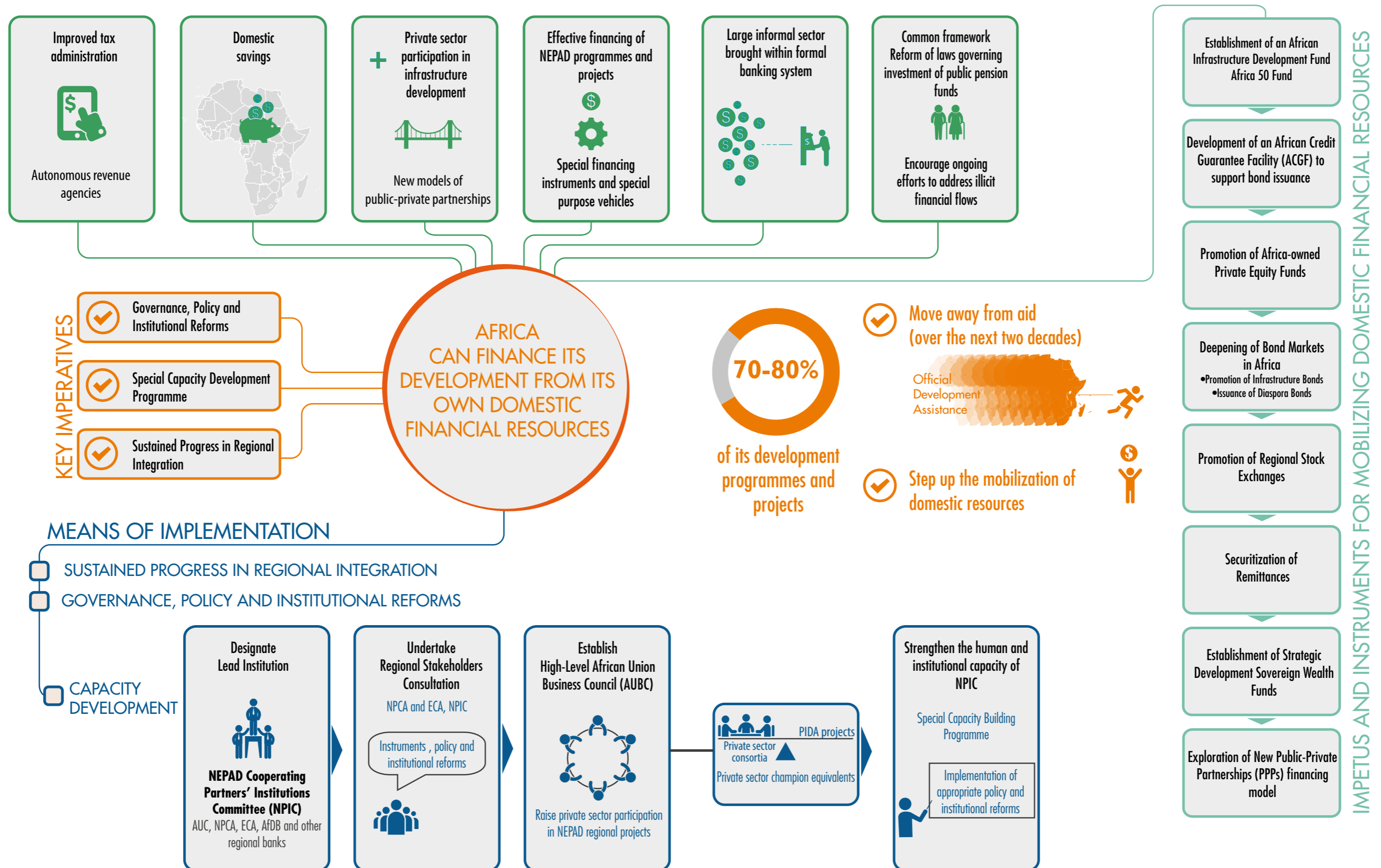
- **Strengthening of the Coordinating Capacity of NEPAD Agency and ECA:** The programme will need to enhance capacity in NEPAD Agency, ECA and other relevant NPIC institutions to guide the development of the institutional frameworks and operating guidelines, among others, in the implementation of the recommended instruments. This will require financial resources for programme implementation and dedicated professional capacity or Unit within NEPAD Agency to oversee and coordinate processes and work closely with countries to implement appropriate policy and institutional reforms.
- **Capacity for Policy and Institutional Reforms:** The national level component of the special capacity building programme will assist countries in the following areas, among others:
 - Review of legislations relating to the investment of Public Pension Funds, International Reserves held by Central and Reserve Banks, Sovereign Wealth Funds and similar financial resources on which some of the recommended instruments will draw as well as develop appropriate best-practice guidelines.
 - Establishment of the institutional framework, policy and operational guidelines for effective models of PPPs in the African context, Special Purpose Vehicles in the implementation of NEPAD regional projects, drawing on experiences that are working on the continent and regions with a similar development environment.
 - Facilitation of financial policy reforms that will provide appropriate guidelines for regulating Private Equity Funds, strengthening National and Regional Stock Exchanges, and guiding Bond Markets development and regulation, including emergence of secondary Bond Markets.
 - Establishment of national and regional-level monitoring and evaluation systems in the implementation of recommended instruments as well as policy and institutional reforms so

as to institutionalize a process for continuous innovation.

- Call on African Heads of State and Government to implement the Obasanjo High Level Panel recommendations on alternative source of funding of the African Union.
- Convene a High Level Financing Conference comprising African political and business leaders towards further support for the implementation of the outcomes of this study for AU and its NEPAD programmatic regional projects.

The immediate need is for lead institutions to be designated for the implementation of the recommended instruments and measures, stakeholders' consultation launched, a high level AU Business Council set up and a special capacity building programme put in place. The capacity building programme will strengthen the coordination capacity of the NEPAD Agency and ECA; assist countries to design and implement policy reforms to provide enhanced African exposure to their public funds through instruments such as the AIDF and infrastructure bonds; develop the institutional framework for effective models of PPPs in the African context; and explore more innovative special purpose vehicles for implementing NEPAD regional projects. The programme will also support interventions that will guide financial policy reforms at the country and regional levels and establish effective monitoring and evaluation system in the implementation of the instruments and measures proposed in this study.

FIGURE 21. CONCLUSIONS AND RECOMMENDATIONS



Source: Authors.

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ANNEXES

TABLE 1: AFRICAN INVESTMENT FUNDS

	Firm/Fund Manager & Base	Name & Size of Fund	Region / Description
1	African Infrastructure Investment Managers Ltd, South Africa	African Infrastructure Investment Fund I, established 2004 for R1.32billion African Infrastructure Investment Fund II, \$600million Kagiso Infrastructure Empowerment Fund; South African Infrastructure Fund (established 1996, fully committed R806million)	South Africa, Nigeria
2	Pamodzi Investment, South Africa	Pamodzi Resources Fund, US\$1.3billion	Africa - Pamodzi Investment is a South African investment company. Its S\$1.3billion Pamodzi Resources Fund is one of Africa's largest funds. The Fund targets resources & mine-to-market infrastructure in parts of Africa. Its investments include Anglo Inyosi Coal, Pamodzi Gold & Pamodzi Resources (Pvt) Ltd
3	Ethos, South Africa	Ethos I, II, III, IV	Africa
4	Inspired Evolution Investment Management, South Africa	Evolution One Fund	South Africa; Southern Africa - The Fund invests across Southern Africa in renewable energy, energy efficiency, biofuels, manufacturing, pollution & waste management, green chemistry, transportation & agribusiness
5	African Capital Alliance, Nigeria	Capital Alliance Private Equity Fund I Ltd, \$35million Capital Alliance Private Equity Fund II Ltd, \$100million Capital Alliance Private Equity Fund III Ltd, \$100million	West Africa
6	Advanced Finance and Investment Group, Mauritius	Atlantic Coast Regional Fund, US\$72million	Africa

	Firm/Fund Manager & Base	Name & Size of Fund	Region / Description
7	AIG	AIG African Infrastructure Fund, I, II	Africa
8	Alcazar Capital Partners, Dubai	Alcazar Capital Partners Fund, US\$300million	Sub-Saharan Africa, Middle East and North Africa
9	Dubai International Capital, Dubai	MENA Infrastructure, \$500million	Investing in Middle East and North Africa
10	Earth Capital Partners, UK	ECP Renewable Energy Fund I, \$1billion	Investing in Middle East and North Africa
11	Actis, UK	Actis Infrastructure Fund I, \$850million; Actis Infrastructure Fund II, \$752million; Actis South Asia Fund; Actis Emerging Markets 3, \$2.9billion; Actis China Fund 2	Investing in Asia and Africa
12	African Lion, Australia	African Lion Fund 1, 2 (\$34.6million), 3 (\$79.2million)	Africa - Fund 1 completed active investment in 2004, Fund 2 has completed its active investment stage with most of the \$34.6million invested. Set up in 2008, Fund 3 has commenced its active investment stage.
13	Altira Group (an asset management company that is part of the Angermayer/Brumm/Lange Group)	ADC African Development Corporation	Investing in Africa through the ADC African Development Corporation
14	Canadian Investment Fund for Africa, Canada	US\$212 million fund dedicated to making private equity investments in businesses throughout Africa	Africa
15	Catalyst Private Equity	Catalyst Private Equity Fund I	Middle East & North Africa
16	Cauris Capital Partners	Cauris Croissance ; Cauris Croissance II ; Cauris Investissement	Togo and Cote d'Ivoire
17	CDG Capital Private Equity	Carbon Capital Fund Morocco, Euro26.5million	Morocco
18	Denham Capital Management, USA		South Africa (investing in BioTherm Energy), Colombia, Trinidad, The Philippines, Brazil

	Firm/Fund Manager & Base	Name & Size of Fund	Region / Description
19	Development Partners International (investment adviser to ADP I, a private equity fund investing across Africa)	ADP I	Africa
20	EFG Hermes Private Equity	Horus I; Horus II, US\$155million Horus III; InfraMed Infrastructure Fund, euro1billion (with support of the European Investment Bank)	Africa, Middle East
21	Emerging Capital Partners (ECP) Africa, USA	AIG African Investment Fund (Africa Fund I), US\$407.6million ECP Africa Fund II, US\$523million; ECP Africa Fund III; Morocco Infrastructure Fund (jointly with Attijari Invest) West African Growth Sicar	Africa
22	EMP Global, USA	AIG Africa Infrastructure Fund (now managed by Emerging Capital Partners); EMP Africa Fund II (now managed by Emerging Capital Partners)	Africa
23	Fieldstone	African Energy Infrastructure Fund; AfDB has invested US\$30million in the Fund.	Africa - Fieldstone African Energy Infrastructure Fund launched in 2008 with Prescient, a South African investment management firm
24	Frontier Markets Fund Managers Limited	Emerging Africa Infrastructure Fund	Africa
25	InfraCo	InfraCo sub-Sahara Infrastructure Fund, US\$ 300 million	Africa - 400MW gas-fired Kpone power plan in Ghana; wind farm in Senegal and the Beyla hydropower project in Guinea - InfraCo is not a private equity firm but plays a significant role in promoting private sector investment in infrastructure.
26	Infra Invest	Argan Infrastructure Fund	Middle East, North Africa
27	InfraMed Management SAS	InfraMed Infrastructure, initial capital euro300million. Targets raising euro1billion	Middle East, North Africa
28	Instone Capital		Africa
29	Instrata Capital	Bunyah GCC Infrastructure Fund, US\$400million	North Africa, Middle East

	Firm/Fund Manager & Base	Name & Size of Fund	Region / Description
30	Lime Rock Partners, USA		North Africa, Central Asia
31	Mubadala, Abu Dhabi	Mubadala Infrastructure Partners Fund, US\$500million	Middle East, North Africa and Turkey
32	Reservoir Capital Group, USA		Africa
33	Postcriptum		Africa
34	Prescient Fieldstone Investment Managers	African Energy Infrastructure Fund	Africa
35	Private Infrastructure Development Group, UK	Emerging Africa Infrastructure Fund	Africa
36	Tuninvest - Africinvest Group	AfricInvest I, II, US\$550million	Africa
37	Zephyr, USA	Pan-African Investment Partner Fund I, II	Africa

TABLE 2: CREDIT RATINGS FOR AFRICAN ECONOMIES

Country	GDP 2011* (billion \$)	Debt in % of GDP 2011	Debt in % of GDP 2012	CAB 2011	CAB 2012	S&P Rating
Algeria	263.66	9.9	8.8	4.30	6.17	Nr
Angola	115.68	30.8	23.8	3.23	2.41	BB-
Benin	14.68	31.3	30	-0.69	-0.69	B
Botswana	29.71	17.2	16.1	-0.60	-0.60	A-
Burkina Faso	22.04	29.4	27.6	-0.93	-0.91	B
Burundi	5.18	35.2	33.3	-0.12	-0.17	Nr
Cameroon	47.25	12.8	18.5	-0.91	-0.84	B
Cape Verde	2.05	77.5	82	-0.25	-0.26	B+
Central African Republic	3.64	40.9	36.6	-0.20	-0.20	Nr
Chad	19.54	32.1	28.7	-0.40	-0.42	Nr
Comoros	0.84	n/a	n/a	-0.05	-0.05	Nr
Congo (ROC)	18.25	22.1	21.8	-0.04	-0.52	Nr
Congo, (DRC)	25.26	31.9	36.5	-4.26	-3.73	Nr
Côte d'Ivoire	36.07	90.5	62.5	-0.75	-1.11	Nr
Djibouti	2.23	55.4	52.8	-0.29	-0.29	Nr
Egypt	518.98	76.4	79.2	-9.00	-7.70	B
Eritrea	4.04	133.8	125.8	0.07	0.08	nr
Ethiopia	94.88	37.2	31.2	-1.80	-1.64	nr
Gabon	24.57	20.4	17.3	0.55	0.36	BB-
Gambia	3.50	68.7	74.8	-0.14	-0.14	nr
Ghana	74.94	43.3	42	-2.04	-1.72	B
Guinea	11.46	72.1	67.2	-0.17	-0.21	nr
Guinea-Bissau	1.93	45.2	43.8	-0.02	-0.04	nr
Kenya	71.43	48.9	46.5	-2.13	-2.36	B+
Lesotho	3.80	39.6	42.1	-0.34	-0.33	nr
Liberia	1.77	13.9	14.5	-0.54	-0.14	nr
Libya	37.49	n/a	n/a	13.23	19.70	nr
Malawi	13.90	42.4	42.6	-0.30	-0.21	nr
Malaysia	447.28	52.5	53.1	23.93	25.89	A/A-
Maldives	2.84	69.1	79	-0.22	-0.23	nr
Mali	17.87	30.6	27.1	-0.72	-0.73	nr
Mauritania	7.09	92.4	98	-0.96	-0.29	nr
Mauritius	19.28	50.6	51.2	-0.82	-0.77	nr

Country	GDP 2011* (billion \$)	Debt in % of GDP 2011	Debt in % of GDP 2012	CAB 2011	CAB 2012	S&P Rating
Morocco	162.62	54.3	56	-2.63	-2.35	BBB/BBB-
Mozambique	23.89	33.2	39.9	-1.06	-1.07	B+
Namibia	15.74	21.8	25.3	0.02	0.06	nr
Niger	11.63	18.9	21.6	-1.86	-1.04	nr
Nigeria	413.40	17.8	18.3	-5.55	-3.85	B+
Rwanda	13.68	23.4	25.1	-0.42	-0.38	B
Senegal	25.15	40.6	43.7	-1.37	-1.47	B+
Seychelles	2.25	83	84.2	-0.21	-0.20	nr
Sierra Leone	5.09	59.9	44.3	-0.10	-0.10	nr
South Africa	555.13	38.7	39.9	-16.89	-18.34	A/BBB+
Somalia						nr
South Sudan						nr
Sudan	89.05	73.1	108.9	-6.25	-6.69	nr
Swaziland	6.23	17.5	19	-0.14	-0.12	nr
Tanzania	63.89	44.3	47.7	-2.10	-2.00	nr
Tunisia	100.98	42.4	43.5	-2.17	-2.29	BB
Uganda	46.37	29.2	29.4	-0.79	-0.57	B+
Western Sahara						nr
Zambia	21.88	26	26.6	-1.01	-0.94	B+
Zimbabwe	6.13	70.3	68.8	n/a	n/a	nr

