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31 August 2013

Mobilizing Domestic Financial Resources for Implementing NEPAD National and Regional Programmes & Projects
- *Africa looks within*

NEPAD

NEPAD Planning and Coordinating Agency
Agence de Planification et de Coordination du NEPAD

United Nations
Economic Commission for Africa

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CONTENTS

ACKNOWLEDGEMENTS

"*Mobilizing Domestic Financial Resources for Implementing NEPAD National and Regional Programmes - Africa Looks Within"* is a knowledge piece resulting from the comprehensive study commissioned by the NEPAD Planning and Coordinating Agency and UN Economic Commission for Africa (ECA) in response to the request by the NEPAD Heads of State and Government Orientation Committee.

The Study report was prepared by the NEPAD Agency and ECA under the strategic guidance and oversight of the African leaders in the NEPAD Orientation Committee through the NEPAD Steering Committee (SC). The two lead institutions are appreciative of the supervision of the study findings and process by Dr. Ibrahim Assane Mayaki, Chief Executive Officer, NEPAD Agency and Dr. Carlos Lopes, UN Under Secretary General and ECA Executive Secretary. H.E. Nkosazana Dlamini Zuma, Chairperson of the African Union Commission provided leadership in sharpening the policy aspects of the study.

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NEPAD Planning and Coordinating Agency
& Economic Commission for Africa

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ABBREVIATIONS AND ACRONYMS

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 Regionales des Valeurs Mobilières
CAADP	- Comprehensive Africa Agriculture Development Programme
CAFRS	- Comprehensive African Fisheries Reform Strategy
CD	- Capacity Development
CDM	- Clean Development Mechanism
CDSF	- Capacity Development Strategic Framework
CERs	- Certified Emission Reduction
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
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
GP	- Global Partnership for Effective Development Cooperation
HLF	- High Level Forum on Aid Effectiveness
HSGOC	- NEPAD Heads of State and Government Orientation Committee
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
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
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
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
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

PREFACE

The return to growth in Africa in the course of the first decade of the new millennium led to the aspiration that the continent could possibly serve as a growth pole for global prosperity and the next frontier for investors. Undoubtedly, Africa is rising partly as a result of transformative governance that has witnessed policy reforms in political and socio-economic systems and prolonged boom in commodity prices. This has, in turn, enabled many African countries to experience higher growth rates. These changes have lifted Africa out of an era of Afro-pessimism to a new epoch of Afro-enthusiasm, accompanied by an amazing shift in demographic profiles, rapid urbanization, a strong voice of the continent's civil society and broad acceptance of the urgent need for sustainable development.

However, for the continent to realise its development goals, African leaders are addressing the development finance constraint, which underlies the enormous infrastructure gaps and other critical sectors to boost national development and regional integration. To thrust their economies into middle-income class, Africa requires a sustained flow of significant amount of finance for the implementation of development programmes at national, regional and continental levels. NEPAD, as an African Union strategic initiative, has put forward a number of well-designed programmes but is experiencing modest implementation due to a critical shortage of financial resources. Therefore, Africa's return to the path of growth will not be sustainable, if the continent still faces the inadequacy of domestic resources for development.

Official Development Assistance (ODA) is falling well short of pledges and commitments and is largely unfulfilled. Indeed, prior to and in the midst of the current difficult global financial crisis, many development partners have cut back on ODA. In 2011, Aid flows declined in real terms for the first time in many years. The imperative for additional development financing in Africa has led to a concerted search for alternative, innovative and more predictable sources. A number of initiatives have been launched during the past decade but with limited effect apart from the health sector. Hence, the availability of development finance on the continent remains scarce, leaving many attractive and potentially beneficial national and regional development programmes stunted at conception and design stages.

Thanks to its new growth trajectory, Africa has today increasingly become more attractive to new key partners in the global economy. The world may have its own particular interest in a rising Africa, but the growth that must matter for Africans is one that is primarily inclusive, equitable, balanced and anchored on their interests. On the basis of consensually identified priorities, Africans must own and drive the continental agenda utilizing their own financial resources to deliver the much-desired structural transformation. Fifty years of political independence with the establishment of the then Organization of African Unity (OAU) and its successor, the African Union (AU) ten years on, some African countries are still largely dependent on external resources for public finance and domestic investment. A fully sovereign Africa should exude self-reliance and value-driven partnership, not dependence. Therefore, the effective mobilization of requisite domestic resources to finance African-owned programmes and projects is most urgent and paramount.

Africa must now look more purposefully and decisively inwards to raise extra resources for stable growth and effective development. There is a dire need for a break with the past. NEPAD has long concentrated on traditional public investment schemes to finance its programmes and projects, a trend which is creating dependency on partner funding. However, the new financial landscape has changed radically in Africa over the last decade, which offers more opportunities to reduce this financial dependency. In furtherance of the AU core principles, Africa should regain the full ownership and leadership in the implementation of NEPAD programmes and projects to impact on the realization of the continent's development agenda.

This should be achieved by better engaging all stakeholders at national, regional and continental levels to mobilize more domestic resources as well as significantly improve the partnership with African private sector. From now, the success of NEPAD will depend on a well-articulated results-based strategy for Africa's transformation. Thus, policy and institutional reforms remain the fulcrum and cornerstone for a re-orientation of development by AU Member States and Regional Economic Communities that foster savings and other sources of domestic resources for investment.

The study is a collaborative effort by the NEPAD Planning and Coordinating Agency and the United Nations Economic Commission for Africa (UNECA) in collaboration with UNDP and other key partner institutions, under the guidance of the NEPAD Heads of State and Government Orientation Committee (HSGOC) through the NEPAD Steering Committee. It provides an overview of the recent developments and trends in Africa in the effort to mobilize domestic resources and recommends carefully thought-through instruments to foster the implementation of NEPAD national and regional programmes.

The thrust of the study is that Africa has enormous domestic financial resource potentials and should take advantage of its development opportunities, by looking within. This is doable and we therefore urge African leaders to give consideration to the recommendations put forth and to take appropriate and additional policy measures in order to attain Africa's development aspirations and effectively fund national and regional programmes through NEPAD.

The NEPAD Agency and UNECA as well as partner institutions, which effectively cooperated in the conduct of this study, are poised to support the technical processes of translating the core recommendations into concrete and measurable results.

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EXECUTIVE SUMMARY

I. OVERVIEW

Africa is today the fastest growing region globally and is on the threshold of sustained transformation required to move its economies from their current status to middle income level. To achieve this goal, three factors must come into play. These are quality and effectiveness of governance and institutions, effectiveness of development policies and availability of technical and financial resources to implement development programmes and projects. Statistics point to remarkable success in improvement in governance, institutions and development policies over the past decade. This achievement has been sustained and there is continuing improvement. The availability of resources however remains a significant constraint. The continent must now break with the past. Africa must look within for sustainable solution to its development finance needs. This is the thrust of this study that was mandated by NEPAD Heads of State and Government Orientation Committee (HSGOC) and conducted by NEPAD Agency, in collaboration with the United Nations Economic Commission for Africa (ECA). The study, which had a continental coverage and drew on country case studies[1] identified instruments and measures for domestic resource mobilization, as well as facilities and special purpose vehicles that could facilitate the implementation of specific NEPAD programmes and projects. It also put forward imperatives for operationalizing the recommended instruments and policy measures.

II. FUNDAMENTALS AND POTENTIALS IN THE MOBILIZATION OF DOMESTIC RESOURCES IN AFRICA

Based on the assessment of the sources 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 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.

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

III. FINDINGS, CONCLUSIONS AND RECOMMENDATIONS

This study reached the following main conclusions and recommendations:

III.1 Main Findings

a) Aid has helped, but will not deliver sustainable growth and development in Africa. The continent has the resource base to support the development and implementation of the domestic finance instruments proposed in this study.
b) The private sector needs to step up its participation in infrastructure development. New models of public-private partnerships will be helpful just as much as high-level platforms for public-private sector consultations.
c) Domestic savings should be promoted, the large informal sector brought within formal banking system and a sub-regional approach to capital markets development vigorously promoted.
d) Improved tax administration is required and tax base expanded. Increases in tax rates should be avoided. If properly managed and empowered, autonomous revenue agencies, as amply demonstrated by the South African Revenues Service (SARS), could generate remarkable results.
e) A common framework for reform of laws governing investment of public pension funds is required and ongoing efforts to address illicit financial flows should be encouraged as Africa lost about US$854billion over the period between 1970 and 2008.
f) Effective financing of specific NEPAD programmes and projects should draw on special financing instruments and special purpose vehicles. Also required is the need to raise finance for NEPAD Agency in order to enhance operational effectiveness.

III.2 Conclusions and Recommendations

Based on the foregoing, this report expresses the view that Africa can finance its development from its own domestic financial resources, if innovative instruments are deployed and supported by appropriate means of implementation. With strong and sustained commitment to good governance, effective institutions and a responsive policy framework, enhanced awareness and involvement of the continent's stakeholders, especially the private sector, and heightened consciousness of the need among Africans for Africa to own its development, the continent will define a new robust threshold for domestic resources that will enable the implementation of at least 70-80% of its development programmes and projects based on domestic resources. The resource potential exists and concrete results are within reach even within a short term period of three years. To take Africa's efforts to the next level in the mobilization of domestic resources, this report recommends the following:

III.2 (a) Impetus and Instruments for Mobilizing Domestic Financial Resources

- Africa should set itself a bold target to move away over the next two decades from development aid. The following instruments and financial intermediary arrangements are recommended to step up the mobilization of domestic resources on the continent:
    1. Support initiatives to establish new specialized Funds to finance the development of Africa's infrastructure, notably the proposed Africa Infrastructure Development Fund (AIDF) in the study and *the recently launched Africa 50 Fund, under the auspices of AfDB, with the support of the AU and UNECA*
    2. Development of an African Credit Guarantee Facility (ACGF) as a credit enhancement mechanism to support financing of projects
    3. Promotion of Africa-owned Private Equity Funds
    4. Deepening of Bond Markets in Africa

    - Promotion of Infrastructure Bonds
    - Issuance of Diaspora Bonds
5. Promotion of Regional Stock Exchanges
6. Securitization of Remittances
7. Establishment of Strategic Development Sovereign Wealth Funds
8. Strengthen the use of existing Sovereign-backed Pension Funds for development projects;
9. Exploration of new Public-Private Partnerships (PPPs) financing model

- The AIDF 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, contribute 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 (ADBF).
- NEPAD Agency and UNECA should be mandated to work out the technical and operational details of the proposed instruments, subject the frameworks to regional consultation processes and submit appropriate recommendations for the consideration of AU-NEPAD HSGOC.
- Countries should explore new models of PPPs. Where possible, they could consider the establishment of well-staffed and financed institution(s) to manage PPP projects.
- The National Agricultural and Food Security Investment Plans (NAFSIPs) resulting from the CAADP Compact process should form one of the basis for mobilizing finance for the agricultural sector in African countries. Financing arrangements and facilities amenable to this are recommended by the study, including specific funds like the Fisheries Impact Investment Fund.
- The Programme for Infrastructure Development in Africa (PIDA) provides the framework for regional level investment in infrastructure development on the continent with the Presidential Infrastructure Champion Initiative (PICI) as a key implementation model. This study puts forward appropriate financing mechanisms, including specific facilities and the issuance of project bonds for PIDA projects

III.2 High Level Policy Initiatives Promoting DRM in Africa

(a) Evolving Recommendations of the High Level Panel on Illicit Financial Flows (IFF)[2]

Africa's domestic resource mobilization efforts will receive a significant boost, if Illicit Financial Flows (IFF), from the continent are curtailed. These constitute all money illegally earned, transferred, or utilized. It is estimated that that laundered commercial money through multinational companies constitutes the largest component of Illicit Financial Flows followed by proceeds from criminal activities, and lastly corruption. Estimates from recent studies show that, between 1970 and 2008, Africa was compromised of about US$854 billion in illicit financial flows, which amounts to a yearly average of about US$22 billion in lost financial resources.

In this respect, the DRM study draws on the work of the High Level Panel on Illicit Financial Flows from Africa, chaired by former President of the republic of South Africa, H.E. Thabo Mbeki. The Panel is a key initiative of the AUC/ECA Joint Conference of African Union Ministers of Finance, Economy and Planning. The Panel is presently considering several policy options to stem IFF from Africa, which include the following:

[2] The Mbeki High Level Panel on Illicit Financial Flows (IFF) from Africa operates with the technical support of UNECA & AUC. The Panel's final report is expected in March 2014

- Need to raise awareness among African policy makers and other stakeholders on the magnitude and development impact of IFF activities on the continent, while welcoming several other regional initiatives, like the African Regional Anti-Corruption Programme (2011-2016) and the African Tax Administrative Forum (ATAF) to share best practices for tackling IFF;
- Develop and improve institutional frameworks that encourage greater levels of transparency and accountability in both private and public sectors. At the regional level, the establishment of an African Convention on Transparency is being proposed to support existing global transparency convention. At a global level, this could also entail requiring all multinational corporations, whether listed on the securities/stock exchange or not, to file reports to relevant national authorities on their operations, including staffing, sales, financing, tax obligations on a country-by-country basis;
- Necessity 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, like the United Nations Resolution 55/188 on the illegal transfer of assets and the World Bank Stolen Asset Recovery Initiative, with stronger political will and cooperation from advanced economies for effective implementation.

(b) Recommendations of the High Level Panel on Alternative Sources of Financing the African Union

In recognition of the imperative to address the challenge of inadequate funding of AU development programmes and projects, whereby about 90% of funds for continental projects come from external development partners, the AU Assembly established the High Level Panel, tasked to consider alternative sources for financing the African Union. Chaired by H.E. Olusegun Obasanjo, former President of the Federal Republic of Nigeria, the Panel presented its final draft report in May 2013 to the 21st African Union Anniversary Summit in Addis Ababa.

Key recommendations of the High Level Panel are also included in this report of as part of the proposed instruments of domestic resource mobilisation. Specifically, the Panel proposed to the African Union the following five options to mobilize African-owned funds for the sector-priority programmes of the Union:

(i) Private sector and other contributions

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

(ii) 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, which is to be collected by insurance companies on behalf of the African Union.

(iii) Levy on imports

To 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.

(iv) Levy on international travel

Impose a tax 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. In the case of companies not affiliated to IATA, the countries would have to collect the accruing funds and transfer them into AU’s account.

(v) Tourism and hospitality

Collect between US$1-US$10 for each stay in African hotels. Accrued funds would be collected on behalf of the AU by hotels in collaboration with the revenue agencies of Member States.

The High Level Panel observed 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

The report of the Panel further demonstrates that implementing options (ii) to (v) would generate revenues of US$1.4 billion as follows. Furthermore, if the levy on air tickets were to be increased to US$10 per ticket and hospitality levy increased to US$1, additional revenue of US$762 million would be raised without repercussions on the economies of the member states.

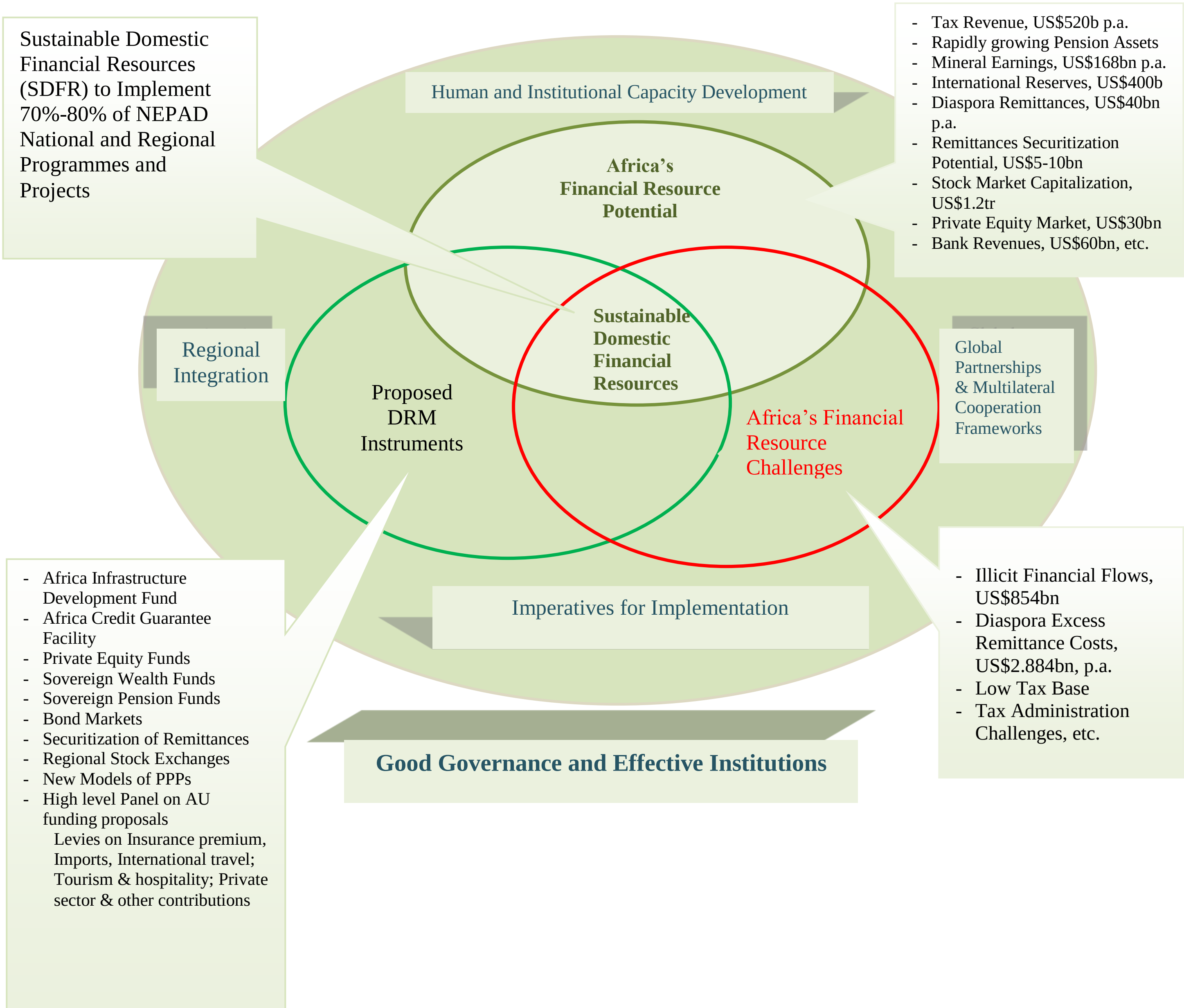
III.2 (c) Means of Implementation and Immediate Follow-up Actions

NEPAD HSGOC is invited to consider the following:

a) *Designate Lead Regional Institutions to* coordinate the process of implementing the recommendations of this study. To this end, a NEPAD Cooperating Partners Committee (NEPAD-CPC) comprising AUC, NPCA, ECA, AfDB and other regional banks is required. The activities of the CPC could be jointly led by NPCA and ECA. Further, Institutional Architecture for Infrastructure Development in Africa (IAIDA) mechanism can be considered as model for promoting active partnership amongst relevant agencies on regional programmes and other sectors.
b) *Mandate Stakeholders Consultation in order to* subject the recommended arrangements and instruments as well as the policy and institutional reforms to regional consultations. Led by NPCA and ECA, NPIC could be directed to undertake the follow-up consultations.
c) *Establish a High-Level African Union Business Council (AUBC)* to raise the participation of the private sector in the implementation of NEPAD regional projects, encourage the development of private sector consortia for the implementation of specific NEPAD regional projects and the emergence of a private sector counterpart to champion key PIDA projects.
d) *Authorize the Development and Implementation of a Special Capacity Development Programme* to strengthen the human and institutional capacity of NEPAD-CPC, especially NEPAD Agency and ECA and assist countries in the implementation of appropriate policy and institutional reforms.

Both the proposals suggested by the study and recommendations of the High Level Panels on IFF and alternative sources of funding for the African Union are implementable. Africa has the institutions and capacity to turn them into concrete results. What is now required is directive from NEPAD HSGOC for NEPAD Agency with technical support from ECA and in collaboration with relevant institutions on the continent, to proceed.

MOBILIZING SUSTAINABLE DOMESTIC FINANCIAL RESOURCES – KEY ELEMENTS OF THE PROPOSAL



THE STUDY REPORT

I. OVERVIEW

Africa is today the fastest growing region globally and is on the threshold of sustained transformation required to move its economies from their current status to middle income level. To achieve this goal, three factors must come into play. These are quality and effectiveness of governance and institutions, effectiveness of development policies and availability of technical and financial resources to implement development programmes and projects. Statistics point to remarkable success in improvement in governance, institutions and development policies over the past decade. This achievement has been sustained and there is continuing improvement. The availability of resources however remains a significant constraint. Inability to implement development programmes, including NEPAD programmes and projects, is largely the result of inadequate financial resources. The paradox of the situation, however, is that Africa is resource-rich and has a huge base of potential financial resources, which if harnessed is sufficient to meet a significant portion of the continent's development needs, especially in infrastructure. In spite of the beneficial impact over the years, Official Development Assistance (ODA) is not only insufficient to meet Africa's development needs, this source of finance will not be route to Africa's transformation. The continent must break with the past. It must rely on its own domestic financial resources. Africa must now look within for sustainable solution to its development finance needs.

This report presents a response to the domestic financial resource challenge facing the continent. It is the outcome of a policy study requested by NEPAD Heads of State and Government Orientation Committee (HSGOC). African Heads of State and Government have stressed the need to transform existing political will on domestic resource mobilization into concrete policy responses and actions. As part of the 10th anniversary of the adoption of the New Partnership for Africa's Development (NEPAD), African leaders emphasised at the 17th African Union (AU) Summit of June 2011 that mobilisation of domestic resources was critical for implementing programmes and projects identified and prioritized under NEPAD. The reliance of NEPAD on irregular voluntary contributions by very few AU Member States and the over-dependence on development partners' funding of NEPAD programmes is untenable. It is in this regard that NEPAD HSGOC directed NEPAD Agency, in collaboration with the United Nations Economic Commission for Africa (ECA), to undertake an in-depth study and propose implementable and viable financial intermediation arrangements, instruments as well as necessary policy measures to address this challenge.

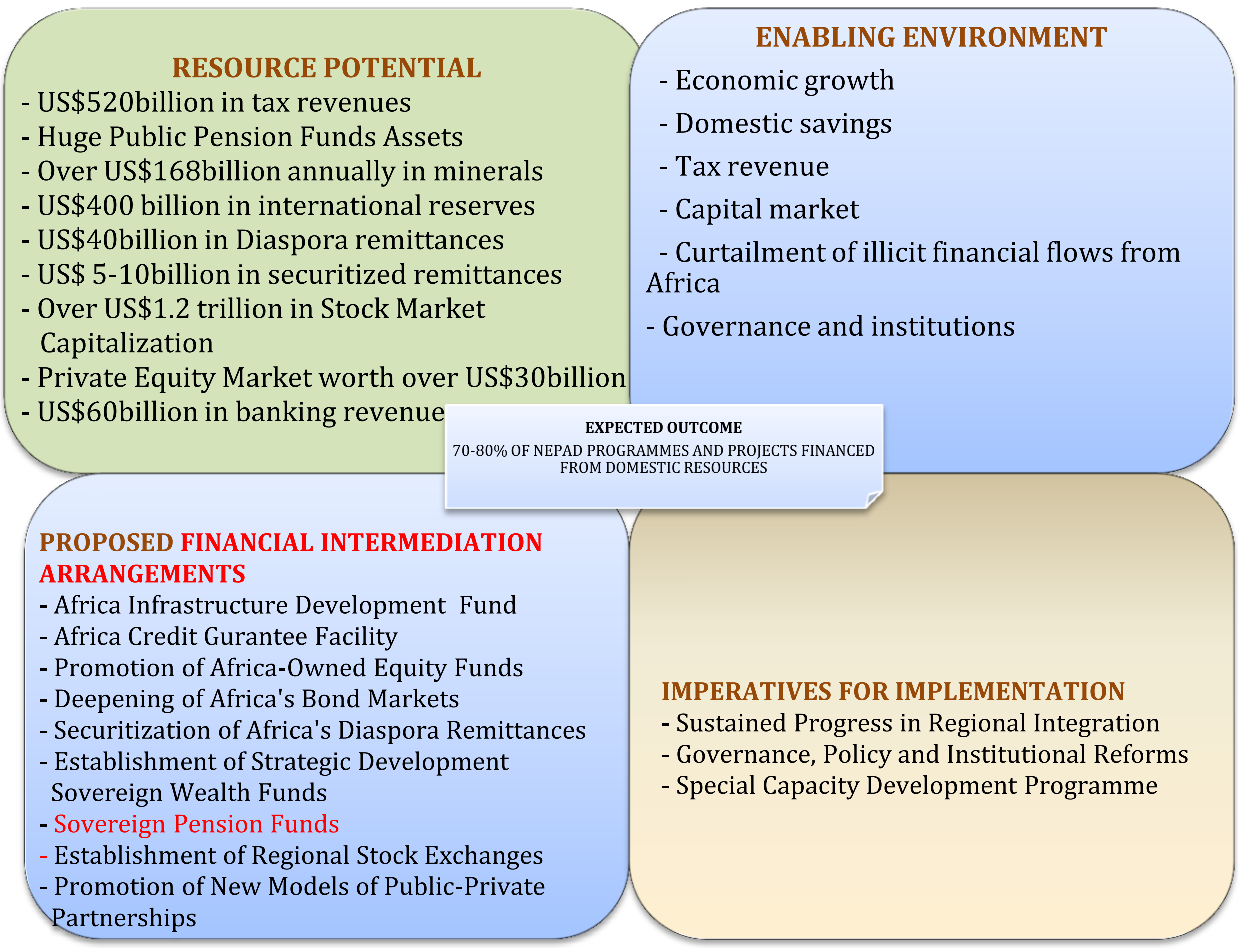
II. OBJECTIVES, SCOPE AND METHODOLOGY OF STUDY

The main aim of the study is to identify instruments, policy measures and financial intermediaries that will significantly step up the mobilization of domestic resources in Africa for the financing of national and regional development and the acceleration of the implementation of NEPAD programmes and projects. The specific objectives are 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.

In terms of scope and methodology, the study had a continental coverage. The analysis was informed by country case studies[3], 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 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.

Figure 1: KEY ELEMENTS OF DOMESTIC RESOURCE MOBILIZATION PROPOSAL



[3] 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.

III. FUNDAMENTALS IN THE MOBILIZATION OF DOMESTIC RESOURCES IN AFRICA

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.

III.1 Enabling Environment – Sources of Financial Resources

(a) Economic Growth

To generate financial resources from the domestic economy, a country's economy will need to grow. Growth is a pre-requisite 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, which resulted from recent global recession[4] and growth prospects remain strong and very promising[5]. 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 countries' development strategies. Despite the promising development, a number of countries in the region are however still faced with structural problems to growth, which need to be addressed. Nonetheless, on balance African countries have the potential to generate significant domestic financial resources from the

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[4] 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.

[5] 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).

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.

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 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.

(b) Domestic Savings

Compared to other developing regions, private domestic savings in Africa is 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. This is partly due to the large informal sector that exists whose transactions do not pass through the formal banking system, low incomes due to the high level of poverty and inadequate incentives for low incomes earners to use formal banking services and entry barriers due to high minimum deposits and balance requirements and cost of maintaining an account. Also given the low rate paid on savings account 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 banks deposits limit the extent to which they can finance projects, the need for better working relationship between the financial sector and the public sector is crucial. Unlike the case with the bank, 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 in bond market on the continent, savings mobilization through the banking sector will need incentives.

(c) 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. Countries such as Central African Republic, Republic of Congo, Ethiopia, Liberia, Nigeria and Sudan have ratio 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 issue 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 2.

Table 1: Gross Domestic Savings and Structure of the Tax System (2005-2010 average)						
	Gross domestic savings (% of GDP)	Tax revenue (% of GDP)	Tax on goods and services (% of taxes)	Tax on income and profits (% of taxes)	Tax on trade (% of taxes)	Other taxes (% of taxes)
Africa	21.87	20.34	42.19	31.95	21.05	4.80
Sub-Saharan Africa	16.22	17.64	43.07	25.57	27.37	3.98
North Africa	30.67	26.26	42.26	44.64	7.84	5.26
East Asia & Pacific	44.52	10.67	41.98	40.21	7.15	10.66
Latin America & Caribbean	22.50	13.05	44.21	38.26	7.62	9.91
High income	19.47	15.34	45.85	45.62	0.65	7.88
Middle income	30.27	13.56	50.70	30.77	7.77	10.75
Low income	10.07	11.09				

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 (Table 3). 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, 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.

Table 2: Development finance in Africa (US$ billions)

Type of Development Finance	**2002**	**2007**	**2011**
Domestic revenue	141.6	403.4	520.1
Private flows	13.9	65.4	59.2
ODA	20.4	38.9	50.0
Remittances	13.2	37.0	41.6

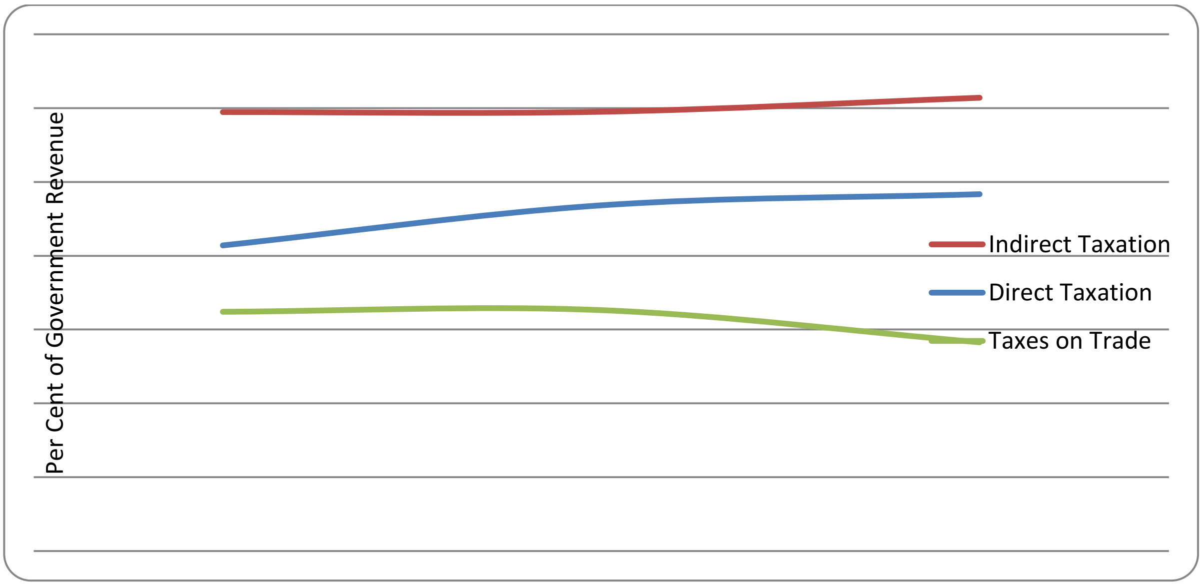
Source: ECA and OECD 2012

Tax revenue in Africa as a percentage of GDP has been relatively high compared with other regions, increasing slightly from 26.6 per cent of GDP in 2009 to 27 per cent of GDP in 2011 (UNECA, AfDB, AUC 2012). This has been driven, amongst other factors, by wide-ranging tax reforms centring 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 taxes[6]. The trend of tax type for some seventeen[7] African countries for which recent disaggregated taxation data is available is illustrated in Figure 3. 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%.

[6] See Bahl, Bird 2008

[7] 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.

Figure 2: Forms of Taxation as Percentage of Government Revenue



Source: UNECA calculations based on World Development Indicators 2012.

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 (Table 4). 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, 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.

Table 3: Tax Revenue by Regions and Income Levels as % of 2009 GDP

Africa	26.6
East Asia & Pacific (developing countries)	11.0
High income	13.7
Middle income	13.0
Low income	11.1

Source: African Statistical Yearbook, World Development Indicators 2012.

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. 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 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 faced by 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 (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).

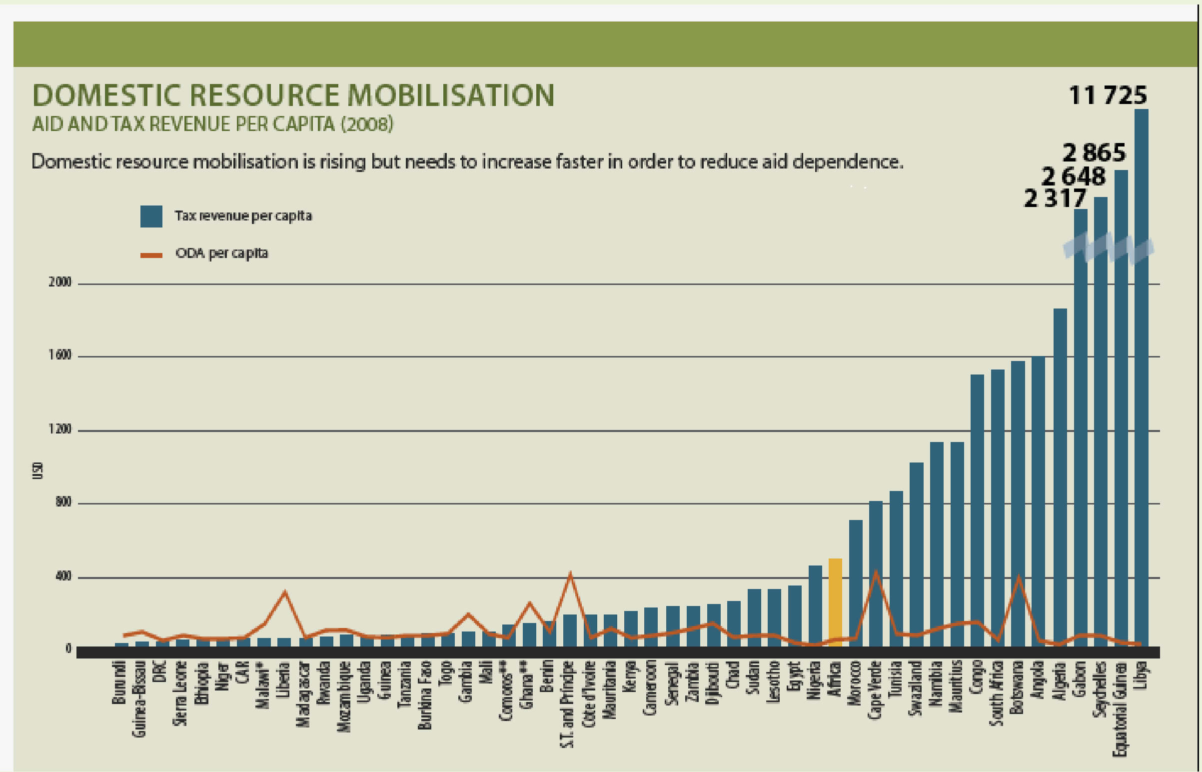
A key point for tax reform is to increase the coverage of existing taxation by improving administration capabilities and broadening the tax base, rather than by increasing tax rates. Businesses across the continent highlight that high taxes already hinder their operations, and even higher rates may deter future investment and will 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, employment and 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.

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.



Source: Africa Progress Report, 2012

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 my 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 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 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.

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.

(d) 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.

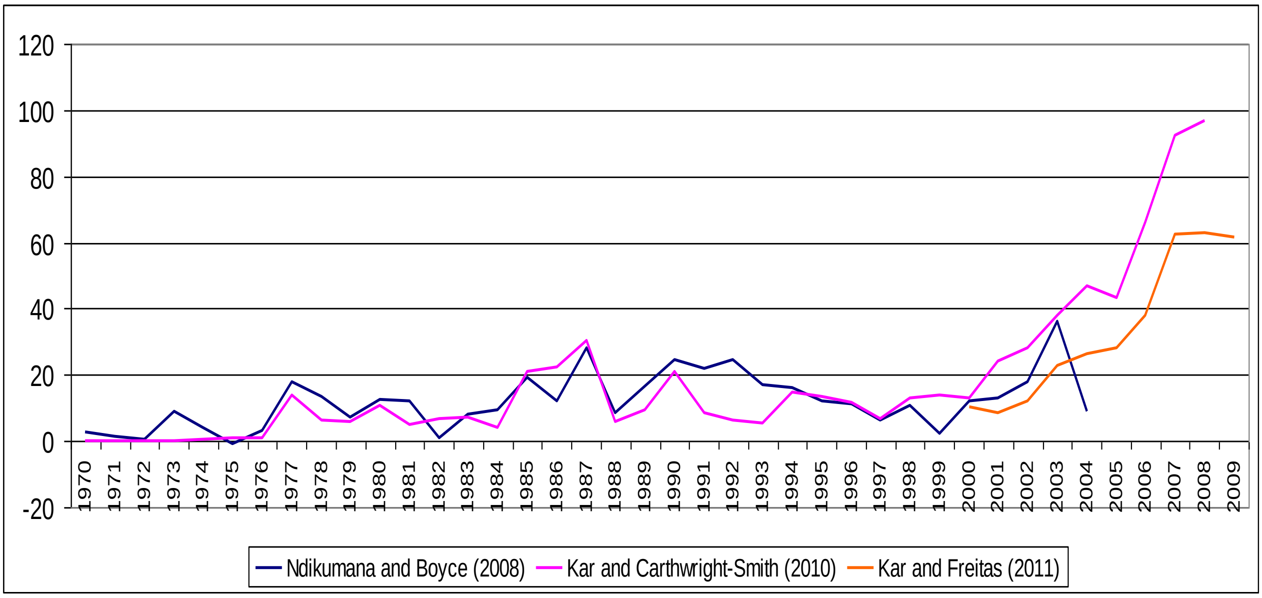
(e) Curtailment of Illicit Financial Flows

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 various recent studies show that, between 1970 and 2008, Africa was compromised of 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 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$854billion in illicit financial flows; corresponding to a yearly average of about US$22billion. Moreover, as shown in Figure 5, 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.

Figure 3: Illicit Financial Flows from Africa, 1970-2009, US$ billion



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

In terms of sectoral distribution, a high level of IFF from Africa is concentrated in the extractive industry. Estimates by UNECA[8] 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 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 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.

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

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

IFF has significant 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 a 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, like the United Nations Resolution 55/188 on the illegal transfer of assets and the Stolen Asset Recovery Initiative, but require political will and cooperation from western counterparts 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 however required now are appropriate and innovative instruments, policy measures and the political will for enhanced results.

III.2 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, 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?

IV. DOMESTIC FINANCIAL RESOURCE POTENTIAL IN AFRICA

IV.1 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:

- African countries raise more than US$520billion annually from domestic taxes as against US$59billion that the continent receives in private flows and US$50billion 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$166billion in 2007 to US$277billion in 2011; Nigeria from US$3billion in 2008 to US$14 billion in 2010; and Namibia's pension funds' assets are put at N$16.3billion (US$1.840billion). Kenya's pension funds account for wealth estimated at Kes397 billion (US$4.564billion).
- Africa 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. Africa's Diaspora remittances climbed to US$40billion in 2012 and represented a significant portion of total global remittances of US$351billion during the year. The World Bank estimated that in the next decade the amount remitted by Africa's Diaspora could grow to US$200billion. Africa has the potential to raise between US$5billion and US$10billion annually in the international capital market through securitization of remittances from its Diaspora communities.
- Stock Market Capitalisation in Africa rose from US$300billion in 1996 to US$1.2trillion in 2007. Some 39 African countries issue Treasury Bills and 27 offer Treasury Bonds. With more than 700 bonds worth US$206billion issued by African countries as at December 2011, the emergence of respectable bonds markets is within reach. Banking revenues are estimated at about US$60billion 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$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.
- The Private Equity Market in Africa is worth about US$30billion. In 2011 PE firms raised 1.5billion for transaction in Africa.
- Banking revenues are estimated at US$60billion across the continent

All these, among others, are pointers to resources that could support development programmes and projects, if appropriate instruments are deployed. Given 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.

Box 4: AFRICA'S FINANCIAL RESOURCE POTENTIAL AND CHALLENGES

IV.2 Cases and Trends in National Domestic Financial Resource Mobilization in Africa[9]

IV.2a. 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 countries 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 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.

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

IV.2b. 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 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 supply and demand sides of the equation, the Kenyan case study attempts to consolidate the country's experiences in domestic resource mobilization and knowledge gathered in connection with regard to the status and potentials for strengthening resource mobilization and creating 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 the 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 one of the leading 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 of 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 in the last few years; 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)..

The market also has, further, 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 like agriculture, industrial and commercial sectors, industrial estates, etc 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.

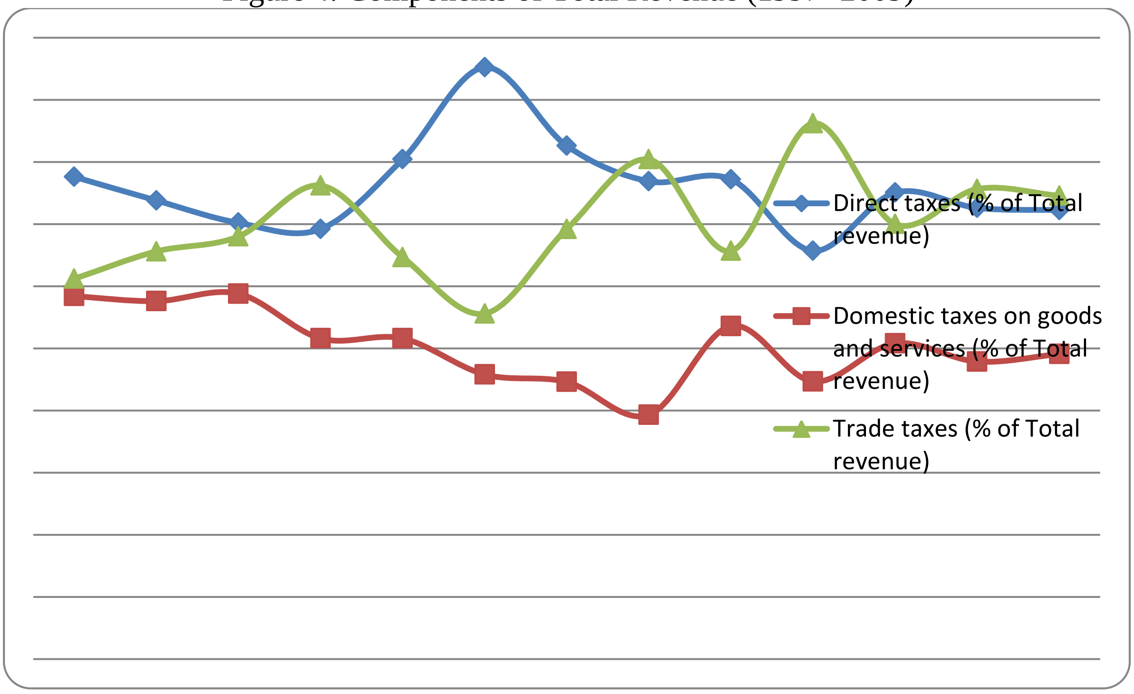
Kenya has recorded impressive growth in the banking industry due to various restructuring and financial reforms carried out in the sector aimed at increasing the volume of and access to credit facilities as well as the penetration of banking services with commercial banks branch networks doubling from 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 who were not before able to readily access credit facilities and banking services. Simplification of collateral requirements for borrowers was one of the reforms that has had 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 on 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 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 recorded similarly 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.

IV.2c. Namibia

As is evident from figure 2 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 compensating revenues in the form of direct and trade taxes.

Figure 4: Components of Total Revenue (1997- 2009)



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

The Table 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 table 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 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 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.

Table 4. Composition of Namibia Tax Revenue - Ratios of Taxes to GDP (%)

year	Taxes on international trade/GDP (%)	Domestic taxes on goods and services/GDP (%)	Taxes on incomes and profits/GDP (%)
2000/01	11.6	7.84	10.52
	Change relative to 2000/01	Change relative to 2000/01	Change relative to 2000/01
2001/02	-2.22	-0.36	+1.15
2002/03	-3.76	-1.4	+2.88
2003/04	-2.83	-2.2	-0.06
2004/05	-0.35	-2.34	+0.24
2005/06	-2.16	-0.14	+0.58
2006/07	+2.84	-0.35	+0.49
2007/08	-1.71	-0.66	+0.10
2008/09	-2.45	-0.36	+1.21
2009/10	-1.76	-1.36	-0.98

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

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 Rojchaichaninthorn (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 Rojchaichaninthorn (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.

Table 5: Tax Collection and Tax effort in SADC

Country	**1994 - 2003**		**1994 – 2009**	
	Tax/GDP	**Tax effort**	**Tax/GDP**	**Tax effort**
Botswana	17.08	0.92	17.08	0.93
DRC	4.35	0.71	5.14	0.55
Madagascar	8.48	0.69	11.25	0.66
Namibia	28.89	1.63	30.37	1.54
South Africa	24.9	1.35	28.69	1.43
Zambia	17.92	1.20	18.49	1.09
Zimbabwe	23.65	1.35	25.94	1.36

Sources: Le, Moreno-Dodson, and Rojchaichaninthorn (2008) and Le, Moreno-Dodson, and Bayraktar (2012).

Table 5 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 Rojchaichaninthorn (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 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.

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 Rojchaichaninthorn (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 although there is high tax collection it does not mean that their tax structures or administrations could 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 WoldeMarian, 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; the need to maintain macroeconomic stability as a way of fighting capital flight.

V. 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 the following 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 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.

V.1 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 $500million 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 $50million and $100million 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

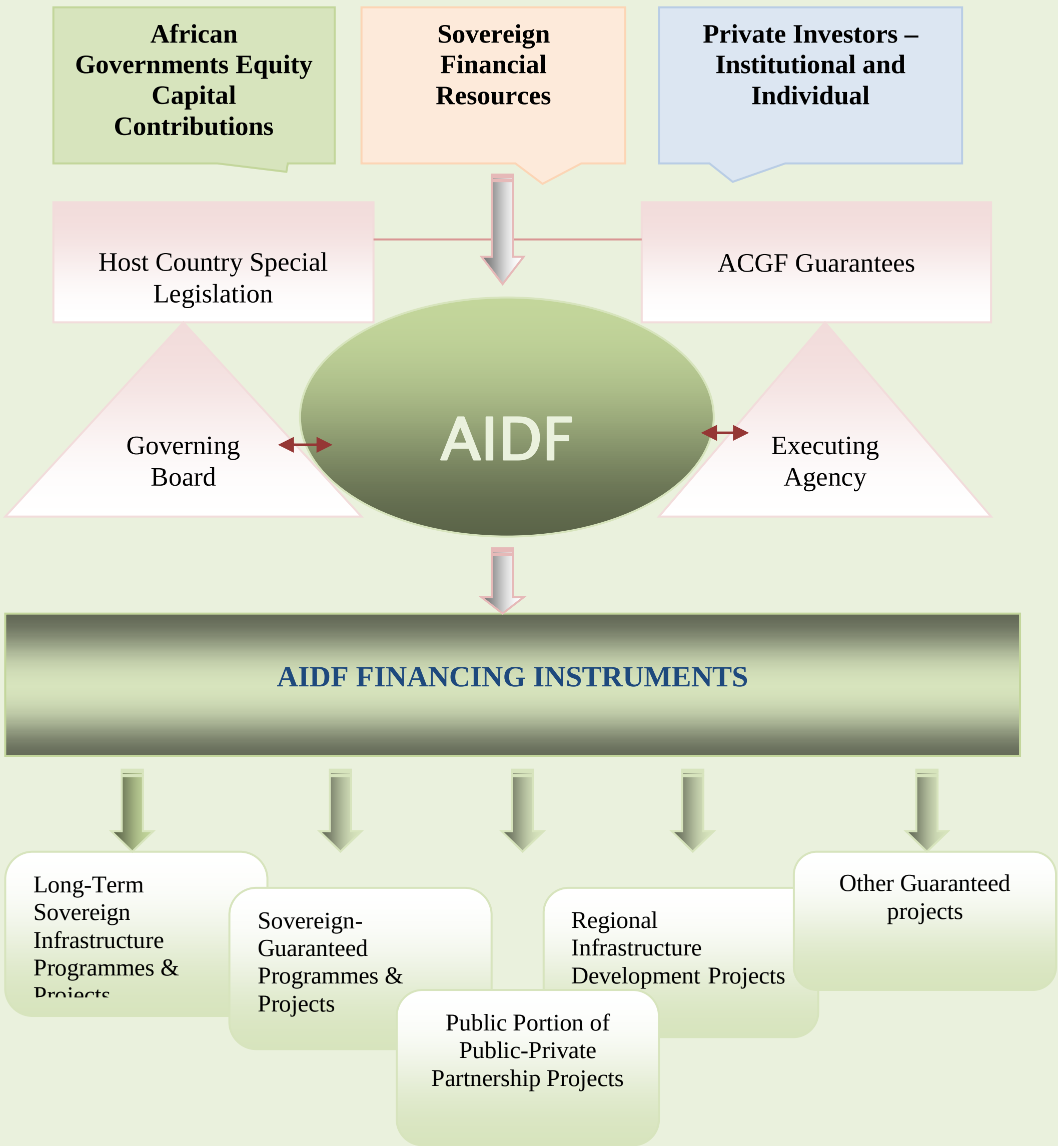
AIDF Capital may consist of components including equity from country government shareholders and regional development banks as well as debt instruments including bonds to be purchased by various investors, from pension and private equity funds; Central banks using a portion of their international reserves; 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 3 years of operation and track record is 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 domestic financial resources for regional development project. The proposed AIDF with respect to the Africa50 Fund is ideally a complementary initiative[10].

Box 5: 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.

[10] Outcomes of the Tunis Roundtable on Africa50 Fund outcomes of the July Roundtable on Financing Africa's Infrastructure

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 of the Fund. 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.

V.2 Development of Africa's Credit Guarantee Facility (ACGF)

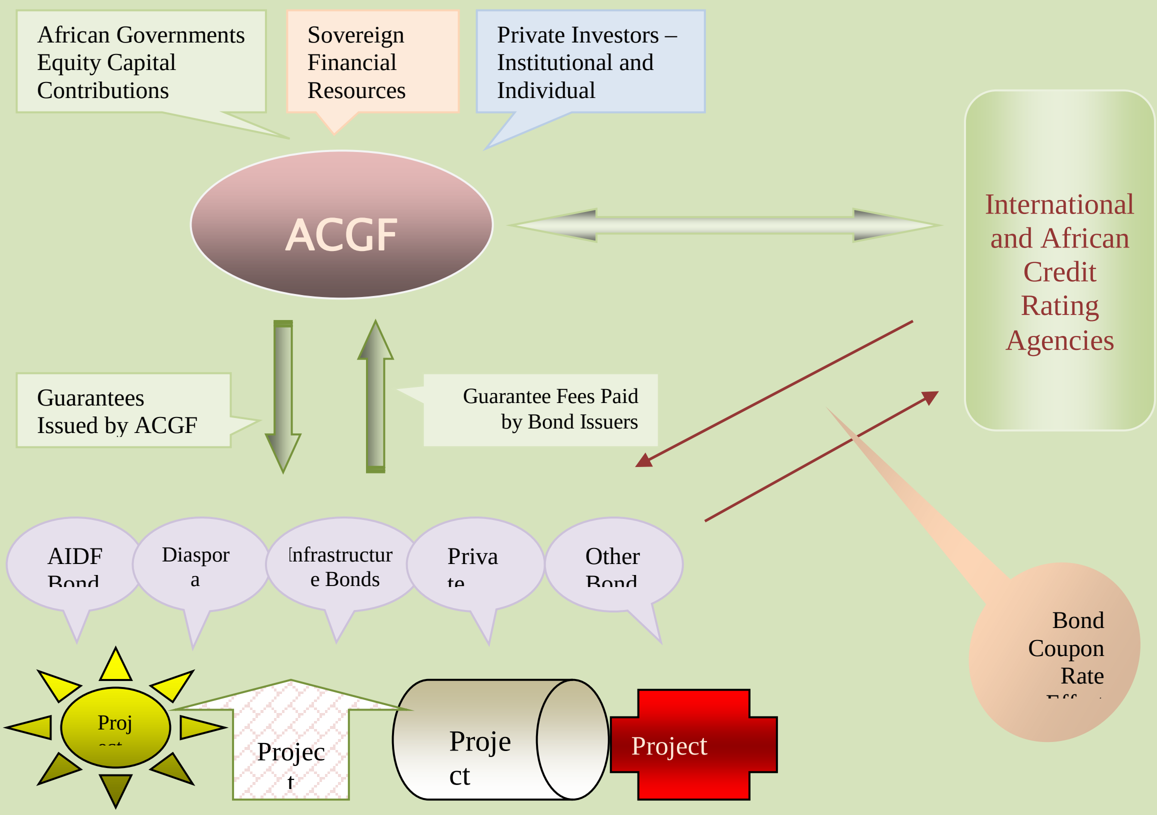
Trust is paramount in financial intermediation and the commitment of savings to long-term investment. Without confidence in institutions issuing bonds and an appreciation that interest and principal will be paid to bond holders on maturity uptake of debt instruments like Diaspora bonds will remain low. 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, 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 unconditional commitment by the Facility to pay bondholders upon 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 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 assessment to be carried out by ACGF. The projects must be on the PIDA priority list and satisfy sustainable development requirements.

Box 6: THE AFRICAN CREDIT GUARANTEE FACILITY



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 three key stages – preliminary assessment of potential bond issuer, submission of 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.

V.3 Promotion of Africa-Owned Private Equity Funds

Africa's private equity market is valued at between $25billion and $30billion 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 current policies are largely responsible.

V.4 Deepening of Africa's Bonds Markets

V.4a. 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 on 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.

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 (ADBF).

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* (ADBF) 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, and, in so doing, contribute to enlarge the investor base in African domestic bond markets.

The ADBF 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, 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 has 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.

V.4b. Promotion of Diaspora Bonds

Diaspora bonds are debt instruments issued by a homeland government to raise development finance from its Diaspora communities as 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 standing out as a most outstanding case, which mobilized close to US$25billion 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$11billion from the Indian Diaspora. Hence, the significance of countries' Diaspora communities.

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 the size of Africa's Diaspora is challenging. Following the World Bank, if the Diaspora is regarded simply as "foreign-born population", then conservatively, the size of Africa's Diaspora was 30.6million in 2010. If unrecorded migrants are added, the figure rises sharply.

Africa's Diaspora remitted home more than US$40billion in 2010. If unrecorded flows are added, annual remittances outstrip the US$40billion mark annually since 2010. This makes remittances a respectable source of finance for development in recipient countries for countries. It has been estimated that Africa's Diaspora earns about US$53billion annually. If each of the 30.6million members of the Diaspora were to invest US$1,000 in his/her country annually, the continent could raise about US$3billion 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$5billion and US$10billion 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:

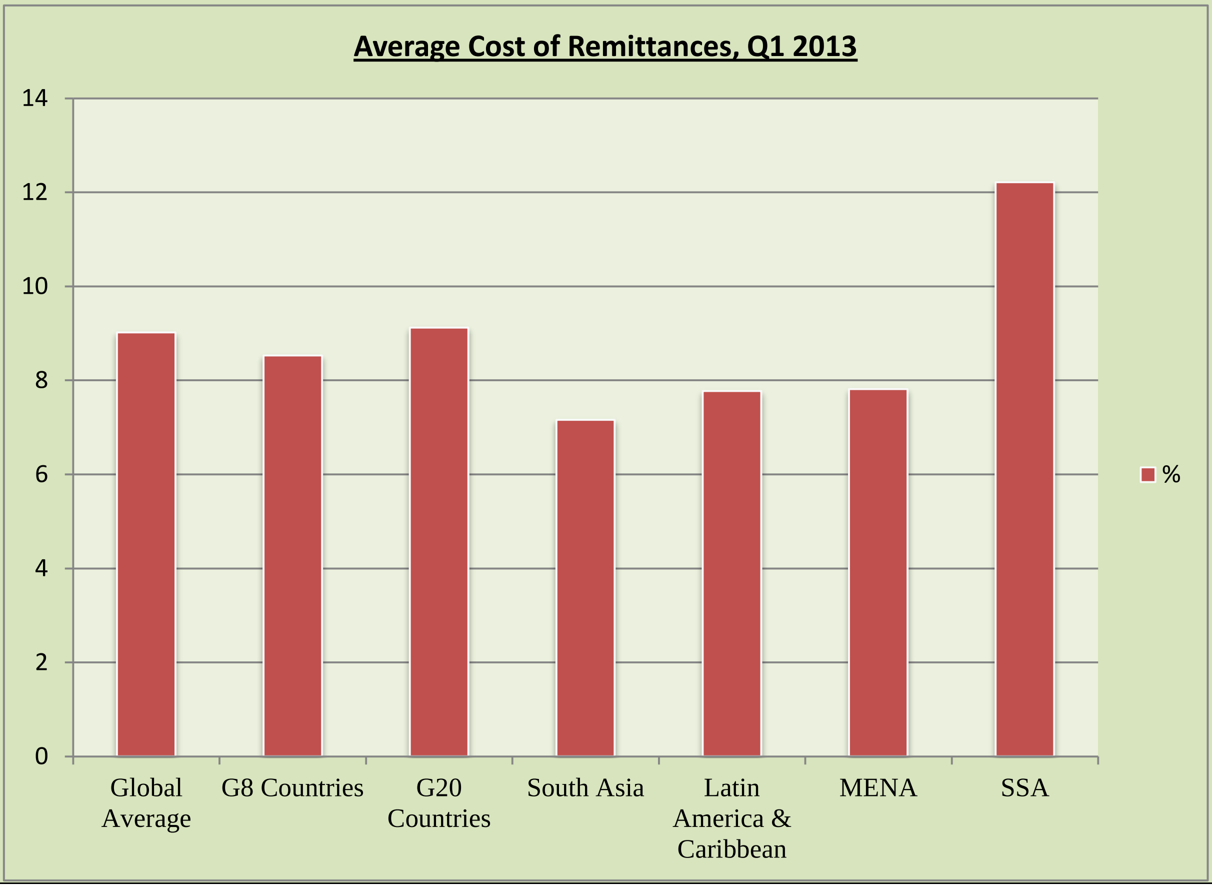
- Development of a system of guarantee by regional and multilateral development banks to enhance creditworthiness of the bonds, given the high perception of political risks that can lead to default and assure investors of full payment when the bonds mature. This is where the role of the proposed ACGF 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 7: 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:

• Global Average Cost:	9.02%
• Average Cost from G8 Countries:	8.53%
• Average Cost from G20 countries:	9.12
• Average Cost to G20 countries:	10.08%
• Average Cost to South Asia:	7.16
• Average Cost to Latin America and the Caribbean:	7.77
• Average cost to Middle East and North Africa (MENA):	7.81
• Average cost to sub-Saharan Africa (SSA):	12.21



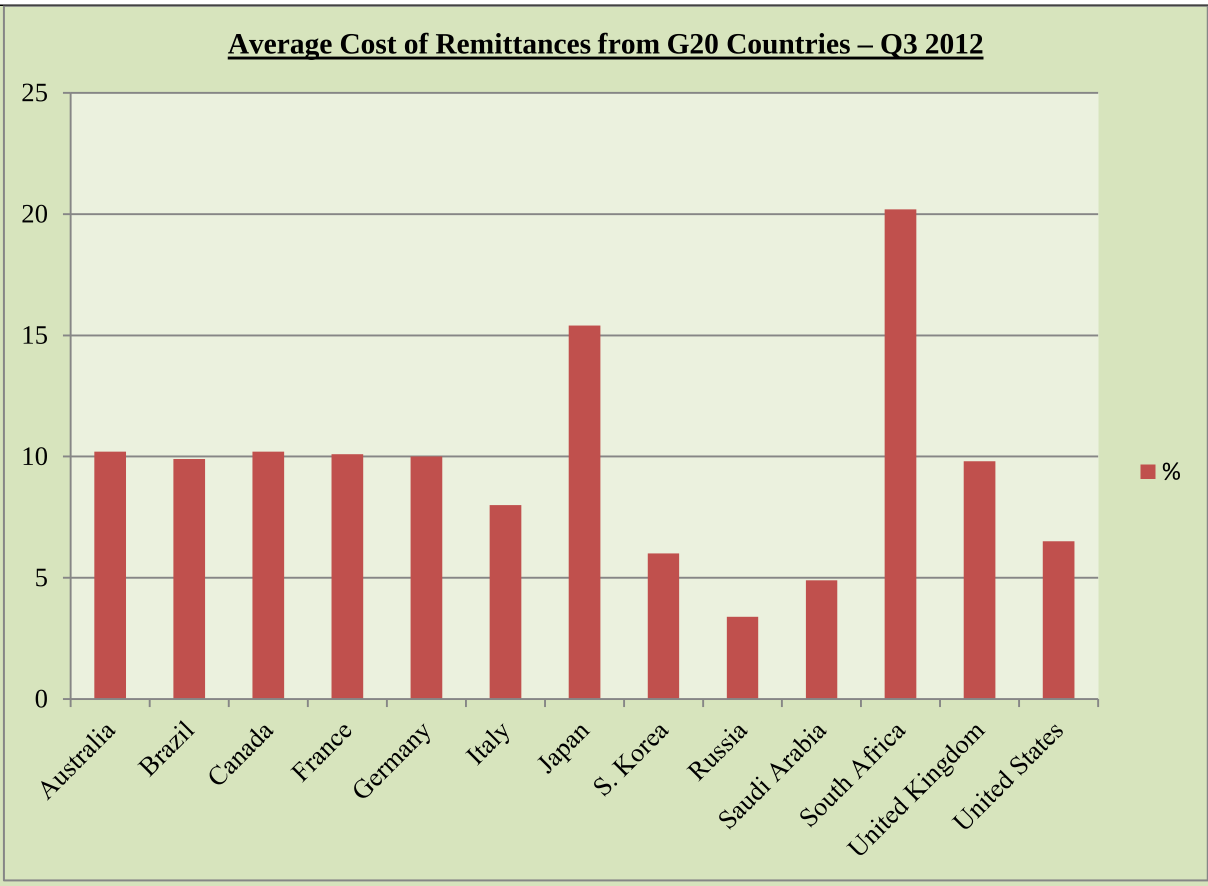
This means sub-Saharan Africa is the most expensive place to send money to in the world, while South Asia, Latin America and the Caribbean as well as the Middle East are the cheapest. The implication is that sub-Saharan Africa is losing a great deal of financial resources in Diaspora remittances to the 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

Most Costly Corridors	Average Cost of Remitting US$200	Least Costly Corridors	Average Cost of Remitting US$200
South Africa - Malawi	48.17	United Arab Emirates - Pakistan	4.02
Tanzania - Rwanda	42.57	Saudi Arabia - Pakistan	5.17
Tanzania - Uganda	42.34	Saudi Arabia - Bangladesh	5.42
South Africa – Botswana	42.14	Saudi Arabia - Yemen	5.96
South Africa - Zambia	42.07	United Arab Emirates – Sri Lanka	6.36

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



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

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.

V.5 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.

V.6 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 its own reason for creation and 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 used as savings for future generations. On the continent, over 10 countries have sovereign wealth funds[11]. 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 a 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 a SDSWF from the profits of State-owned Enterprises (SOEs) to fund such a SWF.

Of the 54 countries in Africa, at least 13 have sovereign wealth funds (Table 6). 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 surplus which 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

[11] Algeria, Angola, Libya, Gabon, Nigeria, Equatorial Guinea, Sudan, Sao Tome & Principe, Ghana etc

revenue above the budgeted revenue and approved by the Nigerian National Assembly (Parliament).[12] 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 the SWF 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 risk[13]. Indeed, there is a variety of purposes that inform the creation of SWF. For example, the Fund like Mubadala Development Company[14] is active in promoting national development goals such as education and industry diversification. For clarity in results of SWFs, it is proposed by the SWF Institute that a separation of social and capital-growth development will be ideal.

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 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 to 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 is put directly under the control of a SWF.

- **Strategic Development Sovereign Wealth Fund (SDSWF)** is a sovereign wealth fund 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.

[12] SWF Institute
[13] SWF Institute
[14] SWF Institute

<u>Table 6: Some Major Sovereign Wealth Funds in Africa</u>

S/#	Country	Name of SWF	Origin	Inception (year)	Asset (US$ b)
1.	Algeria	Revenue Regulation Fund	Oil	2000	$56.7b
2.	Angola	Fundo Soberano de Angola	Oil	2012	$5b
3.	Botswana	Pula Fund	Diamonds & Minerals	1994	$6.9b
4.	Chad	Revenue Management Plan	N/A	N/A	N/A
5.	Equatorial Guinea	Fund for Future Generations	Oil	2002	$0.08b
6.	Gabon	SWF – Fund for Future Generations	Oil	1998	$0.4b
7.	Ghana	Petroleum Funds	N/A	N/A	N/A
8.	Libya	Libyan Investment Authority	Oil	2006	$65b
9.	Mauritania	NFHR – National Fund for Hydrocarbon Reserves	Oil & Gas	2006	$0.3b
10	Mauritius	SWF (plans to establish a fund)	N/A	N/A	N/A
11.	Nigeria	Excess Crude Account and the Nigerian Sovereign Investment Authority	Oil & Gas	2011	$1b
12.	Sao Tome & Principe	National Oil Account	N/A	N/A	N/A
13.	Sudan	Oil Revenues Stabilization Account	N/A	N/A	N/A

<u>Source</u>: Culled from global list in the SWF Institute website

Box 8: 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 its own reason for creation and its objectives. Sovereign wealth fund 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

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.

V.7 Establishment of Regional Stock Exchanges

Capital markets offer countries 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, 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 with their 'hot' money. Again, the experience of South Africa in this regard deserves careful study and possible adaptation to local realities in Africa.

V.8 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, and other factors such as the legal and institutional environment, accepted industry norms, and the financial realities of the proposed transaction. 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 of 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. New models need to be encouraged on the continent. The principal features that the new financing model needs to offer include the following:

a. 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 includes 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.

b. 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.

c. Enabling domestic or Diaspora investors to invest into long term, low risk and stable domestic infrastructure assets through properly structured project bonds.

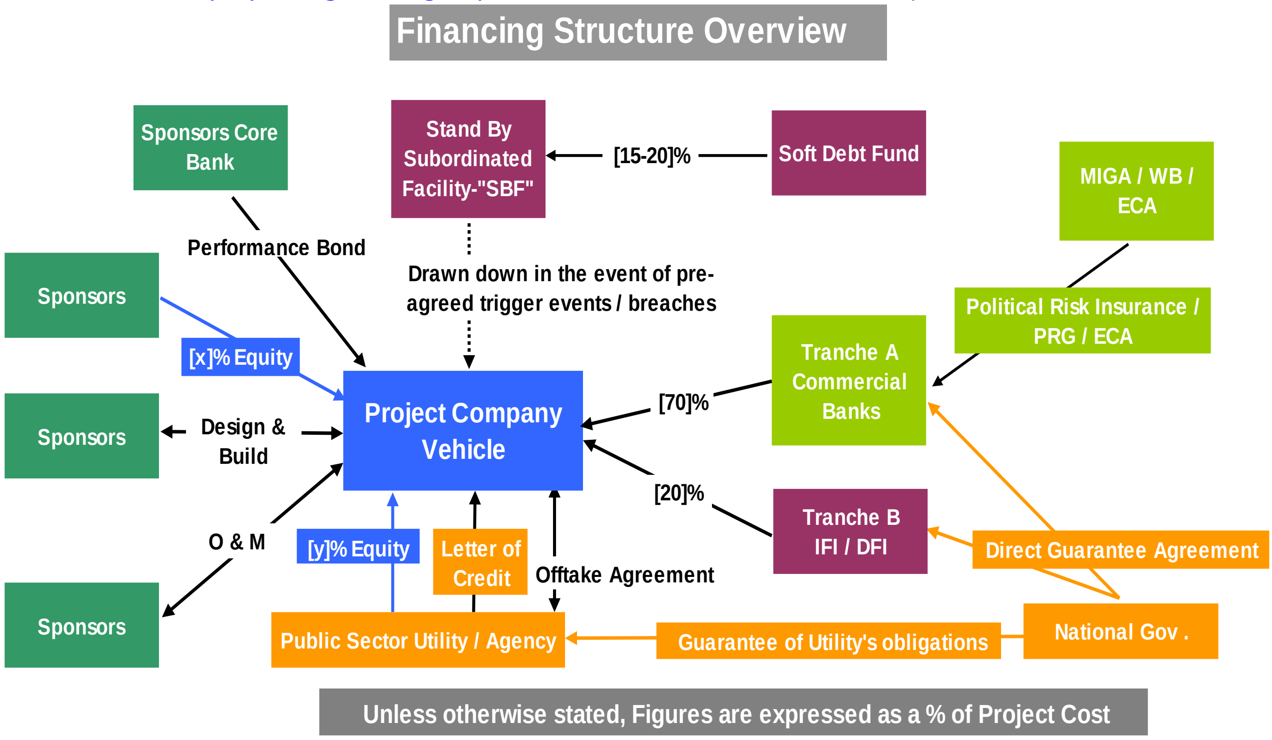
d. The project bonds will be structured through a “Re-Financing Vehicle” set up for instance by Sovereign Funds supported by the development finance institutions, which will purchase the private bank debt outstanding after the first or second year of the bedding-in period following construction completion.

e. 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).

f. 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 5: Illustration of new financing model for PPP[15]

Source: anthony_sykes@gb.smbcgroup.com, Sumitsomo-MITSUI Bank Corporation



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 an Letter of Credit covering [3] months of payments. The Security Package is detailed in the next slide.

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.

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15 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.

Table 7: Types of Public-Private Partnership Structuring Approaches[16]

#	Ownership	Operation	Typical Partnership Agreement Term	Typical Model	Model description
1	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.
2	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.
3	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
4	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.

[16] The National Council for Public-Private Partnerships, “Types of Public Private Partnerships”, at www.ncppp.org; Lehman Brothers, “Combining Private Equity, Economic Development and Transportation: Overview of Transportation Public-Private Partnership Project Financing,” December 16, 2003

VI. 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 required to bolster 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.

VI.1 Sustained Progress in Regional Integration

Effective cooperation among African countries is central to the development of continental financing facility such as the AIDF and the CGF and the harmonization of policy frameworks to facilitate their operationalization and the implementation of regional infrastructure projects. Hence, 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: Arab Maghreb Union (UMA), Common Market for Eastern and Southern Africa (COMESA), Community of Sahel-Saharan States (CENSAD), Economic Community of Central African States (ECCAS), Economic Community of West African States (ECOWAS), East African Community (EAC), Inter-Governmental Authority on Development (IGAD), and 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. However, it is equally important to take note of some of the constraints and challenges that regional integration process still faces on the continent.

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 national level, low intra-RECs trade, and inadequate physical integration. Thus, while African countries have made significant strides in setting up of 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 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 NEPAD Agency adequate resourced to support the regional integration process. Regional integration should be mainstreamed at 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. All these are pre-requisites for effective launch and implementation of key domestic resource mobilization instruments such as the AIDF and the CGF that this study puts forward.

VI.2 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, capacity of governments to formulate and effectively implement policies and programmes, 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, equity and inclusiveness (World Bank 1992 and 1994). Good governance analysis examines relationship, 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, among others. Good governance is the foundation on which countries' development rests. It unleashes 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 call 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 institutionalization of commitments made at each of these levels. Good governance also requires all 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 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. In order to ensure this, it is necessary to strengthen existing platforms and mechanisms, establishment more democratic deliberative institutions, at all levels of decision-making, through which all categories of stakeholders can actively participate in the development and governance processes; 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).

VI.3 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 has considered and proposed to the African Union five options of mobilising the funds as follows.

(i) *Private sector and other contributions*

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

(ii) *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, which is to be collected by insurance companies on behalf of the African Union.

(iii) *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.

(iv) *Levy on international travel*

Impose a tax 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, the countries would have to collect the accruing funds and transfer them into AU's account.

(v) *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

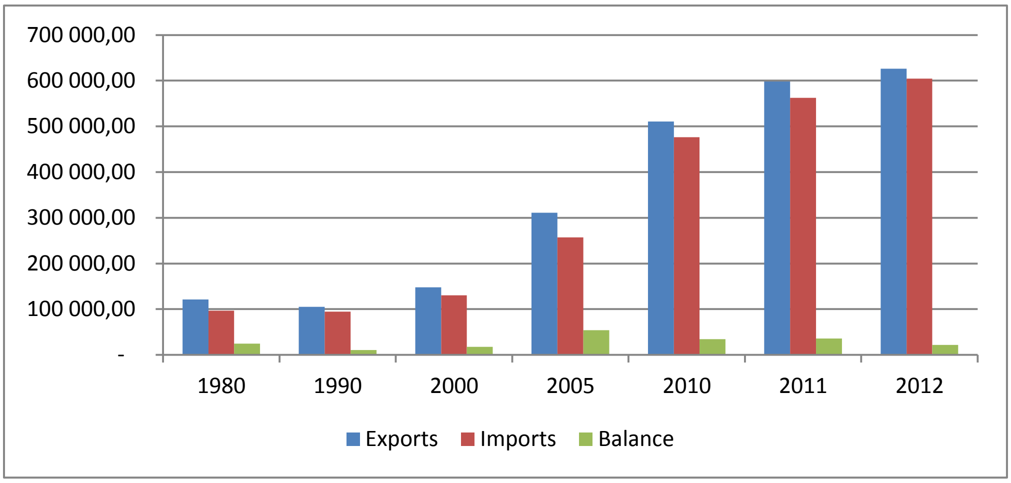
(a) Viability and sustainability of the proposed options

The Panel has assessed 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 have more than doubled since 2005, reaching US$600 billion in 2012, up from US$250 billion in 2005 (figure 1). Several organisations are predicting that Africa's imports will continue to rise in the coming years.

Figure: Evolution of external Trade

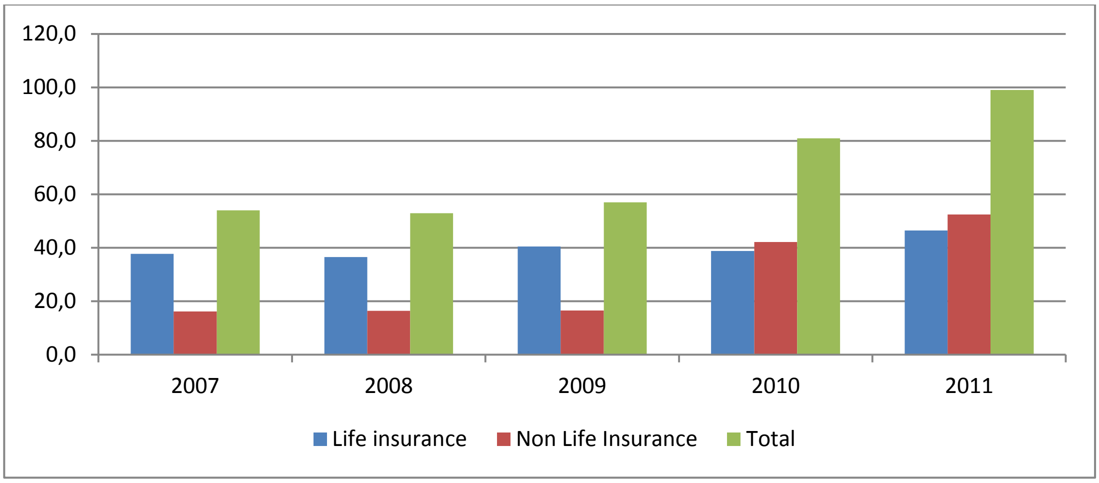


Source: UNCTADstat

Africa's insurance sector

While the 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 (figure 2). Indications are that the growth impetus is expected to continue in the coming years.

Figure 2: The revenues of the insurance billion



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 activities on the continent. The volume of passengers departing African airports has experienced rapid growth in recent years (table 3).

Table: Level of traffic in Africa

<table>
<tr><th></th><th>North</th><th>East</th><th>West</th><th>Centre</th><th>South</th><th>Africa</th><th>Global</th><th>Africa Share</th></tr>
<tr><td>Passengers (1000)</td><td>44,442</td><td>10,655</td><td>12,046</td><td>4,178</td><td>33,746</td><td rowspan="2">105,067</td><td rowspan="2">1,988,328</td><td rowspan="2">5.3%</td></tr>
<tr><td>Percentage by Region</td><td>42.3%</td><td>10.1%</td><td>11.5%</td><td>4.0%</td><td>32.1%</td></tr>
<tr><td>Freight (tone)</td><td>323,922</td><td>357,898</td><td>143,969</td><td>214,438</td><td>352,471</td><td rowspan="2">1,392,698</td><td rowspan="2">38,926,634</td><td rowspan="2">3.6%</td></tr>
<tr><td>Percentage by Region</td><td>23.3%</td><td>25.7%</td><td>10.3%</td><td>15.4%</td><td>25.3%</td></tr>
<tr><td>Departures</td><td>533,192</td><td>359,219</td><td>273,589</td><td>167,769</td><td>801,638</td><td rowspan="2">2,135,407</td><td rowspan="2">24,995,883</td><td rowspan="2">8.5%</td></tr>
<tr><td>Percentage by Region</td><td>25.0%</td><td>16.8%</td><td>12.8%</td><td>7.9%</td><td>37.5%</td></tr>
</table>

Source: ACI & ICAO

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 (table 4).

Table: International tourist arrivals (in millions)

	2000	2005	2009	2010	2011
Africa	26.5	35.4	46.7	49.8	49.8
North Africa	10.2	13.9	17.6	18.7	16.4
Rest of Africa	16.2	21.5	29.1	31.1	33.3

Source: World Tourism Organization (UNTWO)

(b) Resources resulting from application of the proposals

The Panel demonstrates that implementing options (ii) to (v) would generate revenues of US$1.4 billion as follows:

Revenues generated per each option

Options	**Amount in US dollars**
Levy on Imports (0.2%)	964,246,334.11
Levy on Insurance Premium (0.2%)	98,530,000.00
Levy on Air ticket (US$ 5)	324,768,375.73
Tourism Tax (US$1 per tourist)	62,582,000.00
Total	**1,450,126,709.84**

If the levy on *air tickets* were to be increased to *US$10* per ticket and *hospitality levy* increased to *US$2*, additional revenue of US$763 million (table below) could be raised without repercussions on the economies of the member states.

Additional revenue (US dollars): US$10 per ticket and US$2 per hotel stay

Arrivals of tourist (thousands)	Number of arrivals passenger (thousands)	Air ticket revenue (in US$) Taxes= 10 dollars	Taxes for each tourist (2 dollar for each tourist)	Total Air ticket and tourist levy
62,582	**64,954**	**649,536,751**	**112,647,600**	**762, 841, 151**

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

VI.4 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, monitoring and evaluating performance of each of the instruments. Thus, 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 policies, the existence of 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 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.

VII. FINDINGS, CONCLUSIONS AND RECOMMENDATIONS

This study has 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.

V.I 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$520billion coming from domestic revenues as against US$59 billion in private flows and US$50billion 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 – governance reforms, improved policy and regulatory frameworks, 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 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 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$93billion annually, out of which US$45billion is mobilized, leaving an annual financing gap of US$50billion. The need for additional resources cannot be more compelling.

f. African countries need to expand the fiscal space to support implementation of national and regional development programmes by extending the catchment area for 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 tax base. It is in this context that, if properly managed and empowered, autonomous revenue agencies, as amply demonstrated by the South African Revenues Service (SARS), could generate remarkable results. 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. Also required is the need 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.

V.II Conclusions

Based on the foregoing, this report expresses the view that Africa can finance its development from its own domestic financial resources, if innovative infrastructure financing instruments are deployed and supported by appropriate means of implementation. With strong and sustained commitment to good governance, effective institutions and a responsive policy framework, enhanced awareness and involvement of the continent's stakeholders, especially the private sector, and heightened consciousness of the need among Africans for Africa to own its development, the continent will define a new robust threshold for domestic resources that will enable the implementation of at least 70-80% of its development programmes and projects from domestic resources. The resource potential exists and concrete results are within reach even within a short term period of three years. These sum up the thrust of the findings of this report. The report thus reaches the following main conclusions:

a. Africa is on the path to sustainable long-term growth. It is today the fastest growing region globally with six of its economies among the top ten fastest growing economies in the world. This growth has opened up a number of investment opportunities for investors on the continent.

b. To sustain this growth and successfully transform its economies, Africa must address its infrastructure constraints. Infrastructure deficit is one of the most constraining challenges facing investments, regional integration, intra-Africa trade and technology development, among numerous other areas where Africa needs to show respectable results.

c. To break through the infrastructure barrier that stands between Africa and the capacity to thrust its economies into middle income level within the shortest possible time, the continent requires substantial financial resources. Development aid has helped, but the required resources will not come from aid. Africa must look within. It must generate financial resources from its own economies and own its development.

d. The potential to raise substantially more domestic financial resources to implement its development programmes, including those put forward under the NEPAD initiative, especially regional development programmes and projects, is huge. Domestic revenues mobilized in Africa today are in excess of US$520billion compared with US$50billion received in aid; African Central and Reserve Banks hold more than US$400billion in international reserves; Africa's pension funds assets are growing at a staggering pace[17], (South Africa, for instance, saw assets grow to more than US$270billion in 2011); the continent earns more than US$168billion annually from minerals and mineral fuels; the World Bank estimated that Africa's Diaspora remittances soared to US$40billion in 2012 and that in the next decade, this has the potential to grow to US$200billion; the private equity funds market in Africa is today valued at between US$25billion and US$30billion; securitization of remittances has the potential to raise between US$5billion and US$10billion annually for investment in Africa from the international capital markets; and stock market capitalisation in Africa rose from US$300billion in 1996 to US$1.2trillion in 2007. Some 39 African countries issue treasury bills and 27 offer treasury bonds. With more than 700 bonds worth US$206billion issued by African countries as at December 2011, the emergence of a respectable bonds market is within reach. Banking revenues are estimated at about US$60billion and there is high liquidity in the banking sector. No less than ten African countries have today established Sovereign Wealth Funds.

e. To tap these resources and generate substantially more development finance for the implementation of national and regional development programmes, Africa needs to devise new and innovative domestic resource mobilization instruments and strengthen the effectiveness and efficiency of existing ones. It also needs to revisit issues bordering on governance, institutional and macroeconomic policy reforms, as well as legal and regulatory frameworks, which provide the overarching enabling environment for investment and efficacy of instruments for the mobilization of domestic resources. In addition, the need to accelerate regional integration, reform specific laws governing investment of public funds such as public pension funds and international reserves of Central/Reserve Banks and build requisite capacity to design and implement reforms for an effective domestic resources mobilization drive, requires heightened attention and immediate response.

f. It is on the basis of the foregoing that this study puts forward instruments, measures and means of implementation that will enable the continent to raise substantially more financial resources domestically to successfully implement national and regional development programmes, particularly priority regional programmes and projects under the NEPAD initiative.

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.

[17] For instance: South Africa saw assets grow from US$166billion in 2007 to US$277billion in 2011; Nigeria from US$3billion in 2008 to US$14 billion in 2010; and Namibia's pension funds' assets are put at N$16.3billion (US$1.840billion). Kenya's pension funds account for wealth estimated at Kes397 billion (US$4.564billion).

V.III Recommendations

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

V.III (a) 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 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:

1. Support initiatives to establish new Funds to finance the development of Africa's infrastructure, notably the Africa 50 Fund
2. Explore with African Institutions the development of an African Credit Guarantee Facility (ACGF) as a credit enhancement mechanism to support financing projects
3. Promotion of Africa-owned Private Equity Funds
4. Deepening of Bond Markets in Africa
    i. Promotion of Infrastructure Bonds
    ii. Issuance of Diaspora Bonds
5. Promotion of Regional Stock Exchanges with strong and regulatory institutions to guarantee adequate safeguards against unwholesome practices and speculators
6. Development of requisite institutions and frameworks for safe and sound Securitization of Remittances
7. Establishment of Strategic Development Sovereign Wealth Funds
8. Explore funding opportunities from existing Sovereign-backed Pension Funds;
9. Exploration of New Public-Private Partnerships (PPPs) financing model

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, contribute 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 (ADBF).

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:

a. Continued institutional support for the establishment of the Africa50 Fund by laying out clearly its synergy with existing instruments, including proposal by AfDB on a Pan-African Infrastructure Bond.

b. Propose 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.

c. Present implementable reforms for promoting 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.

d. 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.

e. Set out guidelines for promoting emergence of Regional Stock Exchanges and the nature of financial policy reforms to support effective operation.

f. Develop an operational framework for securitizing remittances, drawing on experiences thus far within the continent.

g. 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.

h. 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.

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 like 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.

V.III(b) 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 basis for mobilizing finance for the agricultural sector in African countries. Financing instruments and vehicles amendable to this include the following, among others:

I. National Agricultural Research Funds for agricultural innovations systems.
II. The NEPAD Impact Investment Fund for SMEs in African Fisheries and Aquaculture
III. African Fertilizer Financing Mechanism (AFFM)
IV. National Irrigation Financing Schemes
V. Nutrition Enhancement Funds
VI. PPPs in the development of agricultural equipment
VII. 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:

a. 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.

b. The AIDF should be encouraged to issue PIDA bonds to finance specific projects.

c. 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.

d. 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.

e. The emerging BRICS Development Bank should be explored at its formation stage to provide a window for the financing of selected PIDA projects.

f. 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 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 climate change challenge. Such countries have adopted carbon taxation on greenhouse gas emissions on 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 UNFCC 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.[18]

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

V.III (d) 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:

m. 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.

- NEPAD Agency should be adequately resourced to support the regional integration process. Regional integration should be mainstreamed at 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

[18] African Business, an IC Publication, No. 395, March 2013

effective launch and implementation of key domestic resource mobilization instruments such as the AIDF, the ACGF and the Regional Stock Exchanges.

n. 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 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. Independent revenue agencies that are well-resourced, technically competent and with appropriate mandate remain a preferred option. They are working in some countries. The South African Revenue Service (SARS) is a remarkable example with 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 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.

o. 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, NEPAD Heads of State and Government Orientation Committee (HSGOC) is invited to undertake the following:

a. *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 AUC, NPCA, ECA, AfDB and other regional banks is proposed to be funded through existing respective resource portfolio

b. *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.

c. *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 champions of 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 private sector equivalent Champions for strategic regional projects in the PIDA portfolio.

d. *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:

    i. *Strengthening of 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.

ii. *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:

1. 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.

2. 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 similar development environment.

3. 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.

4. 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.

5. 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

6. 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 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 model 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.

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ANNEXES

List of Key Private Equity Funds Investing in Infrastructure in Africa

No.	Firm/Fund Manager & Base	Name & Size of Fund	Region / Description
1	Harith, **South Africa**	Pan African Infrastructure Development Fund (PAIDF), US$625million with second round of fund raising under way. As of 2010, PAIDF had made US$259.8million in investment, including: Seawolf – a Cayman-Island registered oil and gas service company operating in Nigeria; Aldwych – a London-based company developing energy projects in Africa, including the Kelvin coal fire power station in South Africa. Projects under consideration included: • Airport in West Africa • Toll road in Nigeria • Gas scheme in Namibia • A satellite covering whole of sub-Saharan Africa • Investment in Inga hydro-electric dam in the DRC.	Africa - Harith is the appointed manager for the Pan African Infrastructure Development Fund (PAIDF), which closed its first round of capital raising in 2007 at US $625 million solely from African investors. The final amount at final close is US$1billion and a second round of capital raising is underway. The Fund has a 15 year lifespan over which period it aims to raise US$20billion for investment in infrastructure. PAIDF targets investment in energy, telecoms, transport and water. It also aims to invest in PPPs across Africa. AfDB has investment in Harith.
2	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
3	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

4	Ethos, **South Africa**	Ethos I, II, III, IV	Africa
5	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
6	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
7	Advanced Finance and Investment Group, **Mauritius**	Atlantic Coast Regional Fund, US$72million	Africa
8	AIG	AIG African Infrastructure Fund, I, II	Africa
9	Alcazar Capital Partners, **Dubai**	Alcazar Capital Partners Fund, US$300million	Sub-Saharan Africa, Middle East and North Africa
10	Dubai International Capital, **Dubai**	MENA Infrastructure, $500million	Investing in Middle East and North Africa
11	Earth Capital Partners, **UK**	ECP Renewable Energy Fund I, $1billion	Investing in Middle East and North Africa
12	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
13	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.
14	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
15	Canadian Investment Fund for Africa, **Canada**	US$212 million fund dedicated to making private equity investments in businesses throughout Africa	Africa
16	Catalyst Private Equity	Catalyst Private Equity Fund I	Middle East & North Africa
17	Cauris Capital Partners	Cauris Croissance ; Cauris Croissance II ; Cauris Investissement	Togo and Cote d'Ivoire
18	CDG Capital Private Equity	Carbon Capital Fund Morocco,	Morocco

		Euro26.5million	
19	Denham Capital Management, **USA**		South Africa (investing in BioTherm Energy), Colombia, Trinidad, The Philippines, Brazil
20	Development Partners International (investment adviser to ADP I, a private equity fund investing across Africa)	ADP I	Africa
21	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
22	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
23	EMP Global, **USA**	AIG Africa Infrastructure Fund (now managed by Emerging Capital Partners); EMP Africa Fund II (now managed by Emerging Capital Partners)	Africa
24	Fieldstone	African Energy Infrastructure Fund; AfDB has invested US$30million in the Fund.	Africa - Fieldstone African Energy Infrastructure Fund launched in 2008 with Prescient, a South African investment management firm
25	Frontier Markets Fund Managers Limited	Emerging Africa Infrastructure Fund	Africa
26	InfraCo	InfraCo sub-Sahara Infrastructure Fund, US$ 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.
27	Infra Invest	Argan Infrastructure Fund	Middle East, North Africa
28	InfraMed Management SAS	InfraMed Infrastructure, initial capital euro300million. Targets raising euro1billion	Middle East, North Africa
29	Instone Capital		Africa
30	Instrata Capital	Bunyah GCC Infrastructure Fund, US$400million	North Africa, Middle East
31	Lime Rock Partners, **USA**		North Africa, Central Asia

32	Mubadala, **Abu Dhabi**	Mubadala Infrastructure Partners Fund, US$500million	Middle East, North Africa and Turkey
33	Reservoir Capital Group, **USA**		Africa
34	Postcriptum		Africa
35	Prescient Fieldstone Investment Managers	African Energy Infrastructure Fund	Africa
36	Private Infrastructure Development Group, **UK**	Emerging Africa Infrastructure Fund	Africa
37	Tunivest – Africinvest Group	AfricInvest I, II, US$550million	Africa
38	Zephyr, **USA**	Pan-African Investment Partner Fund I, II	Africa

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	263.661	9.9	8.8	4.298	6.169	Nr
Angola	115.679	30.8	23.8	3.225	2.405	BB-
Benin	14.683	31.3	30.0	-0.690	-0.686	B
Botswana	29.707	17.2	16.1	-0.596	-0.603	A-
Burkina Faso	22.042	29.4	27.6	-0.931	-0.911	B
Burundi	5.184	35.2	33.3	-0.119	-0.165	Nr
Cameroon	47.251	12.8	18.5	-0.911	-0.844	B
Cape Verde	2.052	77.5	82.0	-0.251	-0.255	B+
Central African Republic	3.641	40.9	36.6	-0.197	-0.199	Nr
Chad	19.543	32.1	28.7	-0.397	-0.418	Nr
Comoros	0.837	n/a	n/a	-0.052	-0.053	Nr
Congo (ROC)	18.250	22.1	21.8	-0.040	-0.517	Nr
Congo, (DRC)	25.262	31.9	36.5	-4.260	-3.734	Nr
Côte d'Ivoire	36.068	90.5	62.5	-0.745	-1.110	Nr
Djibouti	2.231	55.4	52.8	-0.290	-0.287	Nr
Egypt	518.976	76.4	79.2	-9.001	-7.701	B
Eritrea	4.037	133.8	125.8	0.068	0.080	nr
Ethiopia	94.878	37.2	31.2	-1.795	-1.638	nr
Gabon	24.571	20.4	17.3	0.550	0.357	BB-
Gambia	3.496	68.7	74.8	-0.143	-0.141	nr
Ghana	74.937	43.3	42.0	-2.039	-1.717	B
Guinea	11.464	72.1	67.2	-0.170	-0.214	nr
Guinea-Bissau	1.925	45.2	43.8	-0.023	-0.041	nr
Kenya	71.427	48.9	46.5	-2.125	-2.358	B+
Lesotho	3.804	39.6	42.1	-0.339	-0.326	nr
Liberia	1.769	13.9	14.5	-0.541	-0.141	nr
Libya	37.492	n/a	n/a	13.227	19.696	nr
Malawi	13.901	42.4	42.6	-0.298	-0.214	nr
Malaysia	447.279	52.5	53.1	23.934	25.885	A/A-
Maldives	2.841	69.1	79.0	-0.215	-0.226	nr
Mali	17.872	30.6	27.1	-0.716	-0.731	nr
Mauritania	7.093	92.4	98.0	-0.962	-0.292	nr
Mauritius	19.276	50.6	51.2	-0.816	-0.770	nr
Morocco	162.617	54.3	56.0	-2.632	-2.350	BBB/BBB-
Mozambique	23.886	33.2	39.9	-1.060	-1.073	B+

Namibia	15.743	21.8	25.3	0.023	0.056	nr
Niger	11.632	18.9	21.6	-1.860	-1.037	nr
Nigeria	413.402	17.8	18.3	-5.549	-3.851	B+
Rwanda	13.684	23.4	25.1	-0.423	-0.376	B
Senegal	25.152	40.6	43.7	-1.365	-1.470	B+
Seychelles	2.245	83.0	84.2	-0.207	-0.199	nr
Sierra Leone	5.093	59.9	44.3	-0.101	-0.102	nr
South Africa	555.134	38.7	39.9	-16.894	-18.336	A/BBB+
Somalia						nr
South Sudan						nr
Sudan	89.048	73.1	108.9	-6.248	-6.687	nr
Swaziland	6.233	17.5	19.0	-0.137	-0.120	nr
Tanzania	63.892	44.3	47.7	-2.102	-2.001	nr
Tunisia	100.979	42.4	43.5	-2.172	-2.286	BB
Uganda	46.368	29.2	29.4	-0.794	-0.566	B+
Western Sahara						nr
Zambia	21.882	26.0	26.6	-1.011	-0.935	B+
Zimbabwe	6.127	70.3	68.8	n/a	n/a	nr

Source: Credit ratings by Standard & Poor's