Innovative Financing and Domestic Funds Mobilization Strategies

THE FIRST ORDINARY SESSION OF THE AFRICAN UNION SPECIALIZED TECHNICAL COMMITTEE ON TRANSPORT, INTERCONTINENTAL AND INTERREGIONAL INFRASTRUCTURES, ENERGY AND TOURISM

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NEPAD
TRANSFORMING AFRICA

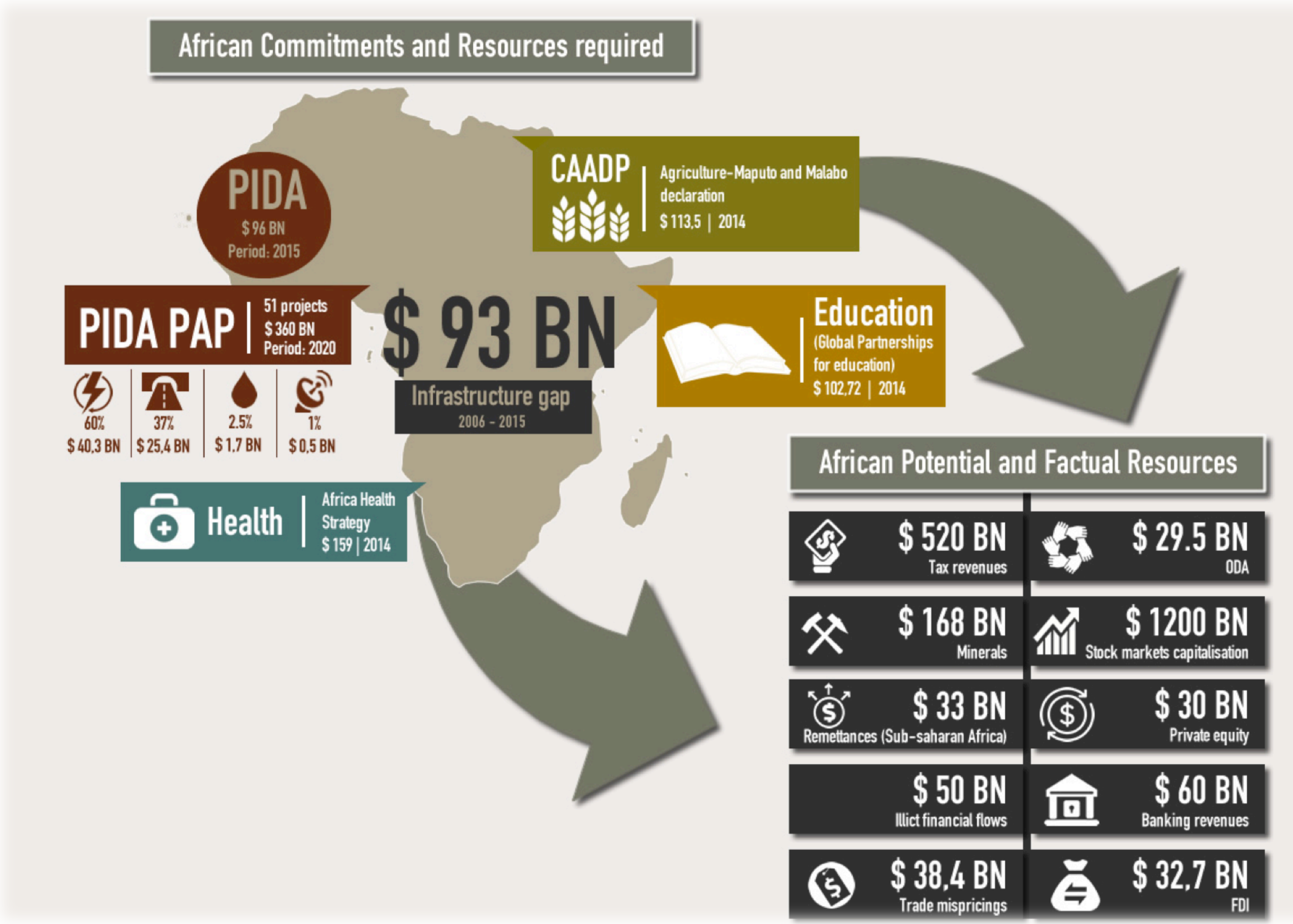
Context

- Domestic Resource Mobilisation Study (2012)
- Dakar Financing Summit (2014)
- CBN - De-risking report and recommendations (2015)
- PIDA Implementation Report (2016)
- PIDA Status and Medium Term Review (2017)

Infrastructure Financing Gap in Africa

- **Infrastructure and Africa's development**
  - Potential to raise GDP by 2%
  - Develop the backbone for rapid industrialization
  - boost the capacity to generate more domestic financial resources
- **Current infrastructure: US$93 billion annually**
  - US$45 billion is mobilized
  - Annual financing gap of US$50 billion
- **PIDA PAP: USD 360 billion by 2020**

African financing needs vs African resources



Potential African domestic resources

- Domestic taxes: US$520 billion annually
- Minerals and mineral fuels: US$168 billion annually
- International reserves: US$400 billion
- Banking revenues: US$60 billion
- Stock Market Capitalisation: US$1.2 trillion in 2007
- Africa's Private Equity Market: US$30 billion
- Diaspora remittances: up to US$10 billion annually
- Trade mispricing: USD 8,4 billion
- Illicit Financial Flows: USD 50 billion

How to mobilize domestic resources ?

- Step up private sector participation in infrastructure development
- Promote domestic savings
- Improve tax administration and expand the tax base
- Develop common framework for reform of laws governing investment of public pension funds
- Stem Illicit Financial Flows (Africa lost about US$854 billion over the period between 1970 and 2008)
- Create special financing instruments and special purpose vehicles for AU-NEPAD programmes and projects

Domestic resources mobilization: Address Illicit financial flows

- Raise awareness among African policy makers and other stakeholders on the magnitude and development impact of IFF activities
- Develop and improve institutional frameworks that encourage greater levels of transparency and accountability
- Strengthen the global regulatory and institutional frameworks to combat IFF

Innovative Financing

- **Innovative financing** - *is not limited* to raising funds for project implementation but it also includes the creation of appropriate environment for raising project finance at reasonable price.

  Innovation is also:

  - Creating the right environment for unlocking private sector finance
  - Unlocking domestic finance whether pension funds , individual funds or diaspora financing
  - Adoption of climate resilient technologies and designs in the development of Infrastructure will not only unlock access to Green Climate Funds, Climate Investment Funds but will also ensure sustainability in terms of our environment

Innovative Financing: *how ?*

- **Project Bankability** is a pre-requisite for raising finance
  - Requires early stage preparation support
  - Improve project bankability and structuring in line with the criteria of long-term investors.
  - **Introducing a levy** for certain categories of tax payers
- **Sound Project Financial Structure** and independent **assessment of feasibility**
- Training on PPPs and IPPP negotiation

Innovative Financing: *how ?*

- Move away from the narrow focus on individual African countries and domestic markets to regionalised approaches to infrastructure investment
- Implement mega projects in smaller, phased undertakings, with shorter timelines to make them more manageable, easier to finance and implementable.
  - E.g. in (PICI) Dakar - Ndjamena – Djibouti road and rails inter – connector for which President Macky Sall has agreed to focus first on the Dakar-Bamako
- Focus on supporting strategic infrastructure that promotes growth, trade and development

DRM and innovative finance: key recommendations

- Establish new specialized Funds e.g. Africa 50
- Develop an African Credit Guarantee Facility (ACGF) and promote Africa-owned private equity funds
- Deepen bond markets in Africa (infrastructure bonds, diaspora bonds) and securitize remittances
- Promote regional stock exchanges
- Establish Sovereign Wealth Funds aimed at strategic development initiatives

DRM and innovative finances: key recommendations

- Strengthen use of existing sovereign-backed pension funds
- Explore new Public-Private Partnerships (PPPs) financing model
- Create a one-stop shop for the regulation of transboundary infrastructure projects;
- Strengthen project preparation capacities and early decision on public or private structure
- Set up dedicated regional project development and management entities

Unblocking regional infrastructure development

Bottlenecks to PIDA Implementation		Innovative Instruments as Solutions
1. Lack of Capacity for Project Preparation	→	*PIDA Service Delivery Mechanism (SDM): Expertise for early-stage project prep.*
2. Lack of Financing for Project Preparation	→	*PPF Network: Joint financing of project preparation*
3. Lack of Project Financing	→	*Africa50 Fund: Leveraged project financing*
4. Lack of Private Sector Involvement	→	*PIDA Continental Business Network (CBN): High-level private sector platform*

Foundational Pre-Requisites

- Up-to-date,accurate information on PIDA and its projects: *AID and VPic*
- PIDA implementation monitoring & evaluation: *Annual PIDA Progress Report*

Recommendations for the STC

- Support an integrated corridor approach to infrastructure development that is multi-sectorial, encourages private sector participation and promotes innovative structuring and financing
- Support harmonisation of legal and regulatory frameworks to unlock investment in transboundary infrastructure projects
- Support measures to strengthen capacities in member states and regional economic communities in structuring, negotiation and management of Public-Private Partnerships

THANK YOU