GROWING AFRICA: Domestic Finance for Infrastructure Development

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1. Introduction

Africa is on an unrelenting growth path. The growth rate is respectable and has been sustained inexorably in spite of recent global financial crisis. The continent's growth performances have brought to the fore huge opportunities for investment in all sectors of its economy. The buoyancy of the economy is a strong reflection that the fundamentals for sustained growth are being deeply entrenched and are taking hold – improvement in the governance environment; growing effectiveness of both the public and private sector institutions; macroeconomic stability; responsive macroeconomic and social policies; growing investor confidence and deepening financial markets, among others. For Africa to move beyond the present level of growth and development and pull most of its economies into middle class, it needs a sustained flow of a significant amount of development finance for the implementation of development programs at national, regional and continental levels. In this regard, African Governments have consistently stressed the need to strengthen domestic resource mobilization to close the existing gap between domestic savings and investment requirements as well as ensure better access to stable, adequate and predictable finance for regional infrastructure programs.

2. Infrastructure Initiatives

Infrastructure development and maintenance remains core components of national and regional development initiatives in Africa, the most recent of which are the New Partnership for Africa's Development (NEPAD) and Agenda 2063. The Program for Infrastructure Development in Africa (PIDA) provides a long-term vision for Africa's infrastructure development and a platform for African countries, both individually and collectively, to mobilize required financial resources. The Presidential Infrastructure Champion Initiatives (PICI), which consists of nine mega inter-regional infrastructure projects championed by some African Heads of State and Government and drawn mostly from PIDA, provides further impetus to the fast implementation of regional infrastructure programs in Africa. It should be noted that PIDA itself draws largely form the infrastructure master plans of members States, regional economic communities and corridors that link African landlocked countries to the sea ports.

3. Infrastructure Financing

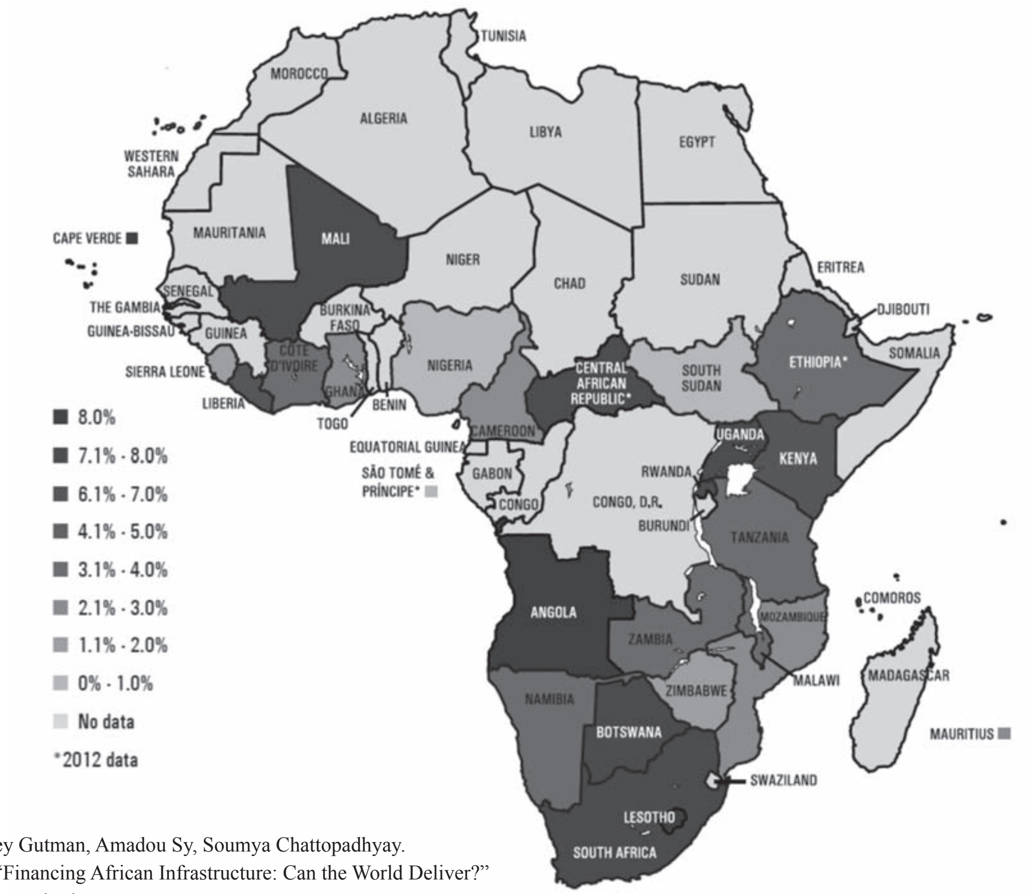
For quite a long time, the discourse on Africa's infrastructure gap has mainly focused on the external finance sources paying little regard to the role of domestic finance in financing infrastructure. National governments in Africa are the main single source of infrastructure financing and this role is fast increasing. Based on the IMF estimates in 2014, Africa finances about 65% of her infrastructure expenditures – almost $60 billion (about 4% of sub Saharan GDP) from public sector budgets. Domestic resources in sub-Saharan Africa have increased thanks to debt relief, increased revenue collection, gains from the commodity price boom and, more generally, improved macroeconomic and institutional policies. Analysis by country indicates that South Africa continues to dominate the continent in terms of absolute national budget allocation. At about $30 billion, South African infrastructure spending in 2012 was by far the largest in sub-Saharan Africa. Kenya and Namibia each allocated $3.0 billion on infrastructure during the same year while Tanzania and Ethiopia spent about $1.7 billion each. It has been estimated that Africa countries need to invest 5 – 6% of their GDP in infrastructure to sustain their economic growth. In Africa, we see countries like Angola and Cape Verde apportioning more than 8% of their GDP on infrastructure development and maintenance while countries like Zimbabwe, Sierra Leone, Cameroun, Ghana and Nigeria allocated much smaller proportions (see Figure 1 and Table 1 below).

The tax – to – GDP ratio has remained over 20% for the period 2000-2013. However, it can be seen that increased tax mobilization has been driven by resource rich countries. Oil exporting countries have higher volatility in tax mobilization driven by fluctuations in international petroleum prices (higher prices in 2000-2008 followed by a slump since 2009). Other resource-rich countries experienced the same scenario with their respective commodity price trends. The World Bank study indicates that tax mobilization, although more stable, remains low in spite of significant efforts and reforms in non resource-rich countries. For instance, the general tax to GDP ratio in 2013 ranged from 2.8% in the Democratic Republic of Congo (DRC) to 25% in South Africa. Therefore, in spite of good progress in raising revenues, African countries need to raise more domestic finance to meet their infrastructure gap.

4. Beyond National Budgets

African leaders, convinced of benefits from economies of scale from well managed trade corridors, have recently focused and mobilized resources for joint cross-border mega infrastructure project. Some of these projects are briefly highlighted below.

- A 4,401 km ($23.7 billion) natural gas pipeline from Nigeria to Algeria via Niger and from Algeria to Spain. This pipeline project will be completed in 2018.
- An 8,715 km road/rail project which entails combining Trans Africa Highway (TAH) section 5 (Dakar to N'djamena) and TAH 6 (N'djamena to Djibouti). This project is estimated at $8.15 billion and the financing mechanism is being negotiated.
- The construction of a multi-modal (road, railways and ports) trans-continental interconnector that ultimately



Source : Jeffrey Gutman, Amadou Sy, Soumya Chattopadhyay. March 2015. "Financing African Infrastructure: Can the World Deliver?" The Brookings Institution

Figure 1: National Budget Allocation to Infrastructure in 2013

connect Cape Town in the South and Cairo in the North. The project entails several components, all of which are in various stages of the development cycle, that includes road, rail, bridge, border post and energy projects.

- The construction of navigation line between Lake Victoria and the Mediterranean Sea. The idea is to promote inter modal transport by integrating river, rail, and road transport facilities along the Nile Corridor and to develop river management capacity.
- The LAPSSET Corridor project (Kenya Shillings 2.7 trillion) is the first large, high impact infrastructure project initiated by Kenya without external assistance. The infrastructure asset will connect Kenya's Port of Lamu to South Sudan and Ethiopia.
- Ethiopia's Grand Renaissance Dam ($5.0 billion) under construction along the river Nile is earmarked for generating 6000MW of hydro power and is scheduled for completion in 2017.
- A high speed standard gauge modern railways from the port of Mombasa in Kenya joining Kigali in Rwanda and Juba in South Sudan is also under construction and scheduled for completion in 2018.

Table 1: Percentage of GDP to Infrastructure in some countries

Country	Percentage of GDP Allocated to infrastructure
Angola	8.0% +
Cape Verde	8.0% +
Lesotho	8.0% +
Botswana	7.1% - 8.0%
Central Africa Rep	7.1% - 8.0%
Mali	7.1% - 8.0%
South Africa	7.1% - 8.0%
Uganda	7.1% - 8.0%
Rwanda	7.1% - 8.0%
Kenya	6.1% - 7.0%
Liberia	6.1% - 7.0%
Cote d'Ivoire	4.1% - 5.0%
Malawi	4.1% - 5.0%
Mauritius	4.1% - 5.0%
Tanzania	4.1% - 5.0%
Zambia	4.1% - 5.0%
Ethiopia	3.1% - 4.0%
Namibia	3.1% - 4.0%
Cameroon	2.1% - 3.0%
Ghana	2.1% - 3.0%
Mozambique	2.1% - 3.0%
Sierra Leone	1.1% -2.0%
Zimbabwe	1.1% -2.0%
Nigeria	0% - 1.0%
Sao Tome and Principe	0% - 1.0%
South Sudan	0% - 1.0%

Source : Jeffrey Gutman, Amadou Sy, Soumya Chattopadhyay. March 2015. "Financing African Infrastructure: Can the World Deliver?" The Brookings Institution

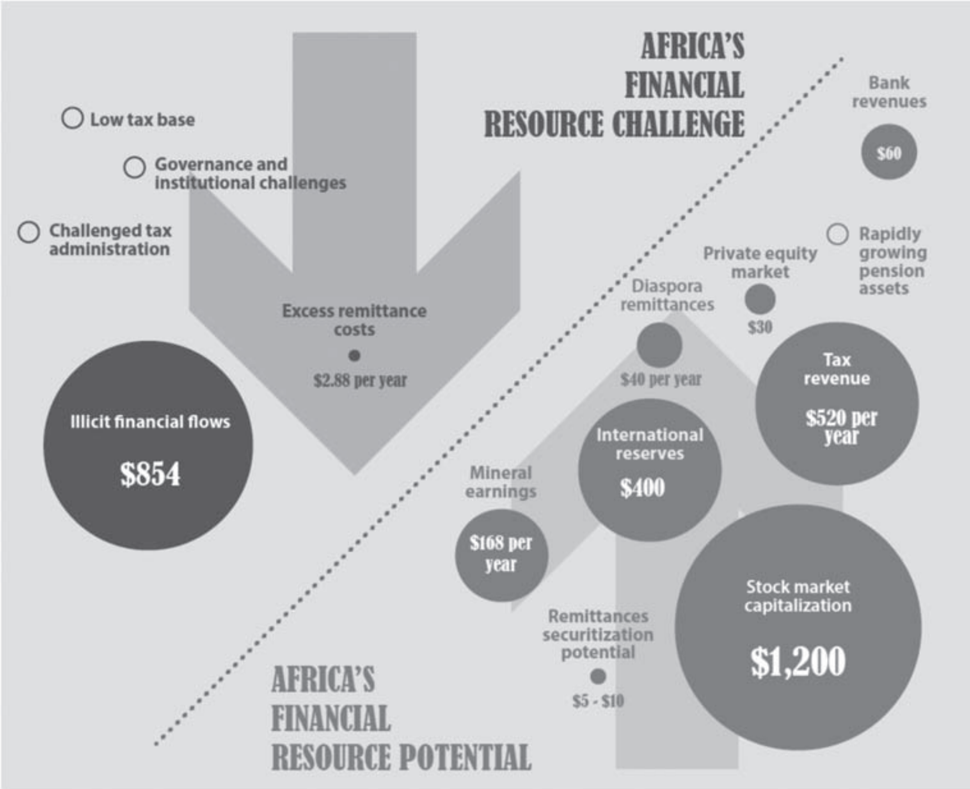
5. Need for More Domestic resource Mobilization for infrastructure Development

Infrastructure development in Africa has the potential to raise GDP by 2% and develop the backbone for rapid and massive industrialization, which in turn, will boost the capacity to generate more domestic resources. The need for additional resources for infrastructure development is undeniable. Despite the promising economic development, a number of African countries still face structural problems to growth. Nonetheless, on the balance African countries have the potential to generate significant domestic financial resources (see Figure 2) from the encouraging economic performances.

There is an enormous resource base in the various forms including pension funds. For instance, the size of Africa's pension funds is growing at a staggering pace. South Africa saw her pension fund assets grow from $166 billion in 2007 to $277 billion in 2011 while Nigeria grew from $3 billion in 2008 to $14 billion in 2010; the assets of Namibia's pension funds are estimated at $1.84 billion. Kenya's pension funds account for wealth estimated at $4.45 billion.

African countries raise more than $527.3 billion annually from domestic taxes, compared to $73.7 billion received in private flows and $51.4 billion in official development assistance. This indicates that there is a huge potential in tax revenue (see Figure 2).

Further still, Africa earns more than $168 billion annually from minerals and mineral fuels and has more than $400 billion in international reserves held by its central and reserve banks. Remittances by Africans living in diaspora climbed to $60 billion in 2012. The World Bank estimates that in the next decade the amount remitted by Africa's diaspora could grow to $200 billion. Africa has the potential to raise between $5 billion and $10 billion annually in the international capital market through securitization of



Source : Abdalla Hamdok. March 2015. "Innovative Financing for the Economic Transformation of AFRICA"
United Nations Economic Commission for Africa

Figure 2: Africa's Financial Resources Potentials and Challenges (billions)

remittances from its diaspora communities.

Stock market capitalization in Africa rose from $300 billion in 1996 to $1.2 trillion in 2007. Some 39 African countries issue treasury bills and 27 offer treasury bonds. With more than 700 bonds worth $206 billion issued by African countries as at December 2011, the emergence of respectable bonds market is within reach. Banking revenues were last year estimated at $60 billion and there is high liquidity in the banking sector. It should further be noted that no more than ten African countries have established sovereign wealth funds.

Illicit financial flows from the continent reached $854 billion over the period between 1970 and 2008 which amounts to a yearly average of about $22 billion in lost financial resources. If curtailed, such resources flows could be made available for the implementation of national and regional development programs, infrastructure included. The private equity market in Africa is currently worth about $30 billion and is fast growing. The private equity market could be a formidable alternative source of capital for investments in infrastructure programs that are under financed but offer high returns.

All these potentials, among others, signify resources that could support Africa's infrastructure programs and projects, if appropriate measures and instruments are put in place. Given the resource potential of domestic sources of development finance and the encouraging performance of some of them, Africa is poised to bridge its infrastructure deficits within the next decade. There is sufficient evidence that fundamentals exist for the continent to raise substantially more financial resources domestically to implement not only continental infrastructure programs but also all developmental initiatives in Africa as articulated in the Africa agenda 2063.