

# **The G-20 Compact with Africa**

**A Joint AfDB, IMF and WBG Report**

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**Table of Contents**

Executive Summary .....3

Introduction.....4

    The African Context.....4

    The Compact with Africa Initiative.....5

    Content of this Report.....6

The Macroeconomic Framework .....7

    Ensuring Macroeconomic Stability and Debt Sustainability .....7

    Increasing Domestic Revenue Mobilization in the Context of an Investment-Friendly Tax System.....9

    Ensuring Sound Public Investment Management..... 14

    Better Performance of Public Utilities ..... 16

The Business Framework ..... 19

    Reliable Regulations and Institutions ..... 19

    Investor Protection and Dispute Resolution Mechanisms ..... 21

    Improved Project Preparation ..... 24

    Standardization of Contracts ..... 25

The Financing Framework ..... 29

    Efficient Risk Mitigation Instruments..... 29

    Domestic Debt Market Development ..... 31

    Broaden Private Finance: Create Instruments for Institutional Investors..... 35

Annex. Ongoing Initiatives in Africa..... 40

## Executive Summary

**The G-20 Compact with Africa (CWA) Initiative, under the G-20 Finance Track, provides a framework for boosting private investment and increasing the provision of infrastructure in Africa.** The initiative aims to help African countries seize their potential for sustained and inclusive economic growth by mobilizing governments and their international partners to implement concrete measures to significantly increase private and infrastructure investment in Africa. The CWA initiative covers three blocks: (i) the Macroeconomic Framework, (ii) the Business Framework, and (iii) the Financing Framework.

**The Macroeconomic Framework identifies considerations for maintaining macroeconomic stability, while providing for adequate investment in non-commercial infrastructure.** These include putting in place resilient macroeconomic policy frameworks that ensure sustainability of public debt over time; increasing domestic revenue mobilization via an investment-friendly tax system, combining domestic tax reforms and enhanced international cooperation to contain profit-shifting and tax evasion; ensuring sound public investment management; and improving the performance of public utilities.

**The Business Framework lays out how to make Africa more attractive for private investors.** This includes setting up reliable regulations and institutions, including by strengthening the legal and regulatory frameworks to reduce uncertainty; establishing investor protection and dispute resolution mechanisms; providing political risk insurance; improving project preparation; and standardizing contracts, such as clauses and provisions of public-private partnerships contracts.

**The Financing Framework aims at increasing the availability of financing at reduced costs and risks.** This includes supporting efficient risk mitigation instruments to effectively attract and sustain private investment; developing domestic debt markets, including by introducing an appropriate regulatory and supervisory framework and supporting the development of a domestic institutional investor base; and broadening private finance by relaxing unnecessary restrictions to invest in Africa and creating instruments for institutional investors.

**The initiative identifies possible commitments in these three areas that could provide the basis for country-led investment compacts.** Individual investment compacts will, of course, need to be adapted to country-specific circumstances and priorities. Parties to these compacts will commit to implement measures highlighted in this report. More specifically,

- **African countries** will seek to create a more enabling environment for private investment, better mobilize domestic revenue and finance, and create space to scale up critically needed public investment in infrastructure while ensuring debt sustainability.
- **G-20 and other partner countries, and international organizations** will coordinate more closely, step up technical assistance, and provide greater support for early stage project preparation for infrastructure. They will **take action on a multilateral level** to strengthen cooperation on anti-tax avoidance, harmonize risk-mitigation instruments and make them more accessible and user-friendly to private investors, increase investments from the private arms of multilateral and bilateral development institutions, and review regulation for institutional investors.
- **G-20 and other partner countries** will encourage their business sectors to invest in compact countries.

# Introduction

## The African Context

1. **Africa has great potential for sustained inclusive economic growth.** Growth has weakened since 2014 in the wake of the commodity price decline but Africa's medium-term prospects remain strong. This potential will be achieved only if a sustained effort is mounted to harness Africa's demographic dividend, boost private capital inflows and mobilize domestic finance, and to seize the opportunities presented by globalization to deliver economic transformation and create productive jobs. Some 20 million jobs need to be created in Africa every year until 2035 just to absorb new entrants into the labor force.<sup>1</sup> Without rapid and job-rich economic growth, unemployment, especially of the youth<sup>2</sup>, will remain high, standards of living will not improve, migration pressures will continue to grow, and instability will likely increase.

2. **To accelerate growth, investment rates and efficiency need to increase.** The World Bank estimates that countries need to have investment-to-GDP ratios greater than 25 percent over a sustained period achieve a sustainable and inclusive growth path and make substantial progress toward their development goals.<sup>3</sup> However, the African average since 2000 has been just under 18 percent, with significant country variations, due to low rates of both private and public investment.<sup>4</sup> A better business environment, a suitably skilled workforce and deeper financial markets would help attract more international and domestic private investment. When international firms invest, they bring finance as well as new ideas and the organizational know-how that lift productivity and help link Africa into global value chains. International private investment in Africa account for just 2 percent of the world's FDI stock with much of it concentrated on the extractive sector. For public investment, further improving domestic revenue mobilization will boost available resources while better public investment management will help improve its efficiency.

3. **Priority should be given to investment in infrastructure, which is critical to attract private investment, connect Africa's regional markets, and better integrate them into global value chains.** Productivity gains and better integration of Africa into the global economy are hampered by the massive infrastructure gap, which weighs heavily on the continent's productive potential and deters private investment. It is estimated that the regional deficit in physical infrastructure reduces growth by 2 percentage points a year.<sup>5</sup> Out of the approximately \$100 billion a year Africa needs to close the infrastructure gap, just under half gets financed.<sup>6</sup>

4. **Creating and seizing opportunities that lead to faster growth, more and better jobs, and higher living standards will require a new approach to stimulating greater private and more efficient and higher quality public investment.** This will include an integrated approach to create the conditions for a surge in private investment, including by removing constraints that currently hamper capital flows from some industrialized countries

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<sup>1</sup> Based on International Monetary Fund. "Navigating Headwinds." Regional Economic Outlook (April 2015) for Sub-Saharan Africa and IMF staff calculations for North Africa.

<sup>2</sup> African Economic Outlook, "Promoting Youth Employment," 2012; United Nations Population Division, "World Population Prospects: the 2015 Revision."

<sup>3</sup> The Growth Report: Strategies for Sustained Growth and Inclusive Development (2008).

<sup>4</sup> World Bank WDI, <http://databank.worldbank.org/data/>

<sup>5</sup> African Development Bank, Integrating Africa – Creating the next global market (2016)

<sup>6</sup> World Bank Group, Proposal for an IFC-MIGA Private Sector Window in IDA18 (2016)

to Africa. In addition, policies and support to raise efficient and higher quality public investment, particularly in non-commercial infrastructure, will play an important role in crowding in private investment.

## The Compact with Africa Initiative

5. **The G-20 Compact with Africa (CWA) Initiative, under the G-20 Finance Track, provides a framework for supporting private investment, including infrastructure, in Africa.** It is based on the premise that significant progress can be achieved when African countries, G-20 members and partner countries, and International Organizations (IOs) work together to create a better environment for private investment. Currently, these players are implementing various programs (see Annex for a list of ongoing initiatives in Africa and Box 1 on some lessons). The initiative supports the implementation of Agenda 2063, Africa's blueprint for economic development, the Agenda 2030 on Sustainable Development and the Program for Infrastructure Development in Africa of the Dakar Financing Summit of 2014. The initiative also builds on significant prior work in the G-20, such as the G20 Initiative on Supporting Industrialization in Africa and Least Developed Countries, and elsewhere on spurring investment, including in infrastructure.<sup>7</sup> In addition, the IOs have committed to transforming development finance by better leveraging their balance sheets to incentivize private investment in developing countries.<sup>8</sup>

6. **The CWA Initiative provides a high-level political commitment aligning incentives of African governments, partner countries, and IOs and setting out mutually beneficial actions.** The African and partner countries, with the support of IOs and the G-20, commit to substantially increasing private investment by improving the macroeconomic, business, and financing frameworks. Commitments will be tailored to the specific macroeconomic conditions and stage of development of the African country. The CWA Initiative provides the following benefits to participating African countries:

- Participation in the CWA will send a strong signal to private investors about their interest in attracting investment and their commitment to implementing key reforms. The G-20 will ensure high political visibility and raise investor awareness and confidence;
- Participants will gain from a comprehensive but modular approach, and coordinated engagement by the three IOs (International Monetary Fund, the World Bank Group, and the African Development Bank) to support national efforts to devise and implement reform programs to boost private sector investment;
- G-20 members and other partner countries will encourage their domestic investors to respond to the investment opportunities in participating African countries. The knowledge sharing among partner countries will also enhance their engagement with African countries.

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<sup>7</sup> Other work in the G-20 includes the Multilateral Development Banks' Joint Declaration of Aspirations on Actions to Support Infrastructure Investment (Chengdu Communique), SME Financing Action Plan (Antalya Communique), the work of the Global Infrastructure Hub (Brisbane Communique), High-Level Principles on Long-Term Investment Financing by Institutional Investors (Russian Presidency) and the High-level Panel on Infrastructure (French Presidency). The Addis Ababa Action Agenda on Financing for Development is another important milestone.

<sup>8</sup> AfDB et al., From Billions to Trillions: Transforming Development Finance (2015).

### **Box 1. Past Initiatives on African Investment: Some Lessons**

As documented in the Annex, there are more than 100 pertinent recent initiatives. Many have made a positive contribution. The CWA builds on those that are most salient, notably the Agenda 2063 of the African Union, and the Dakar Financing Summit. The sheer number of past initiatives has two evident implications. Further new initiatives are not a priority; but since even in aggregate they have not been transformative, a more effective approach is needed.

The CWA has learnt from the deficiencies of past initiatives. It is highly focused on specific investment objectives, and packages of actions that would best promote these objectives into coherent, mutually reinforcing, commitments. It leaves individual African governments free to set their own priorities from among these objectives, and following from these choices, to make such commitments that would support their attainment. It then matches these commitments with proposed complementary commitments by G-20 members' and other partners' governments and stepped-up support from the IOs.

Each realised Investment Compact is likely to be different, reflecting distinctive priorities and circumstances. However, each will aim to be transformative: a focused, coherent, and well-sequenced package around clear and attainable objectives.

7. **This Report identifies key reforms and instruments that could be part of individual investment compacts.** Commissioned by the G-20 Finance Deputies, the report is prepared jointly by the International Monetary Fund (IMF), the World Bank Group (WBG), and the African Development Bank (AfDB).<sup>9</sup> The report presents a broad set of possible mutual commitments between interested African and G-20 and partner countries, with support from the IOs. The commitments, if implemented, will raise private investment and increase efficient public investment in infrastructure. Then, depending on country-specific circumstances and priorities, a subset of these commitments will be agreed between participating African countries and their international partners to form an individual investment compact. Participation is open and demand-driven. All parties commit to working together to achieve the objectives of the individual compacts.

### **Content of this Report**

8. **This report provides a modular framework for African governments and their international partners to spur private and infrastructure investment.** The report lays out a menu of options that stakeholders of investment compacts could flexibly agree to implement and does not seek to tailor the policy issues or commitments to a particular group of countries. The first section discusses the importance of a stable *macroeconomic framework* to gain private investor confidence and sustainably increase public provision of non-commercial infrastructure. The second section examines policies to develop a sound *business framework* that could make a project *bankable* by attracting private investors. The third section focuses on a good *financing framework* to make a project *fundable* by mobilizing private finance.

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<sup>9</sup> The report benefited from contributions by Professor Paul Collier (Oxford University), Richard Manning (Oxford University), and Ulrich Bartsch (German Ministry of Finance).

## The Macroeconomic Framework

9. **Macroeconomic stability and the availability of public infrastructure are preconditions for attracting private investment in commercially-viable projects.** This section sets out considerations for maintaining macroeconomic stability while investing in vital non-commercial public infrastructure, such as urban road networks or basic education and health infrastructure.

10. **This section lays out how governments can scale up finance for such essential investment through four linked modules.** The first module elaborates on policies to maintain macroeconomic stability over time, improve public expenditure composition to free up space for essential investment, and ensure that public borrowing levels are compatible with maintaining a sustainable debt position. The second module examines how the state can boost domestic revenue mobilization to provide resources to finance priority outlays without undue reliance on borrowing. The third module discusses the need to strengthen the institutions responsible for public investment, enhancing returns from public investment. The fourth module suggests ways to transform public utilities into entities that are potentially commercial and financially autonomous, thereby containing fiscal risks,<sup>10</sup> and freeing resources for investment in non-commercial infrastructure.

### Ensuring Macroeconomic Stability and Debt Sustainability

#### *Context and Key Policy Issues*

11. **Against the backdrop of lower commodity prices and a less supportive global environment, the economic outlook in Africa has weakened since 2014.** Average growth in 2016 is estimated to have been about 2¼ percent—the lowest rate in more than twenty years. Nevertheless, this overall picture masks considerable differences across the region. Commodity exporters have been under severe strain and oil-producing countries have been hit particularly hard. Some oil importers have benefited from lower oil prices, although declining remittances from oil exporters are partly offsetting these benefits. At the same time, many non-resource intensive countries have continued to sustain robust growth, including through using their available fiscal space for much needed infrastructure investments. A modest recovery is projected for 2017, although structural impediments to growth persist. This outcome hinges on prompt policy action in several of the region’s largest economies.

12. **The diversity of economic conditions across the region calls for a differentiated policy response.** Since the external environment is projected to remain unfavorable for an extended period, a comprehensive set of adjustment policies is needed in countries hardest hit, including fully allowing the exchange rate to absorb external pressures in countries outside monetary unions, reestablishing macroeconomic stability, and focusing on growth-friendly consolidation and structural reforms. In countries where inflation is expected to remain moderate, monetary easing can mitigate some of the adverse effects of fiscal consolidation. Some of the oil-producing countries most affected by the commodity price shock are members of a currency union, and must rely on fiscal consolidation and growth-enhancing structural reforms to put their macroeconomic situation on a solid footing. To complement the efforts to mobilize investment and close the infrastructure gaps, structural policies reforms should also aim at enhancing competitiveness, furthering economic integration, and increasing employment rates, especially for the youth and women.

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<sup>10</sup> See IMF, 2008, *Fiscal Risks—Sources, Disclosure and Management*.

13. **Public debt has continued on its upward trend across the region.**<sup>11</sup> Debt increased sharply among oil exporters, by 20 percentage points of GDP on average since 2013—although from a low level in some countries such as Nigeria. But the increase in debt has been broadly mirrored in magnitude among other groups, including non-resource-intensive countries, where the median debt-to-GDP ratio has increased by as much as 10 percentage points since 2013. While some countries in the latter group still have low debt levels, 36 out of 54 had a debt-to-GDP ratio above 40 percent at end-2015.

14. **In this context, sound fiscal policies and debt management frameworks are critical for medium- to long-term growth.** High levels of public debt can deter private investment and slow growth. Therefore, for many countries, scaling up public investment will require boosting public saving, through better domestic revenue mobilization and an improved composition of expenditures. In this regard, expenditure reforms, such as subsidy, civil service and pension reforms, supported by sound public financial management frameworks, would help rein in current expenditures while addressing inefficiencies in spending. Additional borrowing is an option for countries where fiscal sustainability and rollover risks are not a concern, though it should be considered in the context of the broader macroeconomic policy mix. Debt sustainability assessments (DSAs) are a key tool for assessing investment-debt trade-offs.<sup>12</sup> In addition, the following considerations are key:

- **Understanding the links between public investment and growth.** Countries and development partners need to have a good understanding of the impact of projects on future growth. Key issues include the government's efficiency in implementing projects and the fiscal multiplier.<sup>13</sup> Many approaches can be used to assess these links, including dynamic models, accessible spreadsheet-based tools, and cross-country empirical analyses.<sup>14</sup> The IMF's and the WBG's recent work on public investment management would further help in assessing the effectiveness of institutions and processes involved public investment.
- **Putting in place robust debt management strategies.** Once the cost of an investment strategy has been identified, countries will need to find the right financing mix to fund their programs, while ensuring that the associated debt burdens remain sustainable. The Medium-Term Debt Management Strategy (MTDS) toolkit, jointly developed by the IMF and WBG, can assist countries in this effort.
- **The international community can assist in building debt management capacity of these countries.** Capacity constraints in developing countries represent a challenge, and IOs have responded by providing technical assistance and training in public debt management and debt sustainability analysis. For example, the IMF provides technical assistance and training in these areas, including through its regional technical assistance centers (RTACs). In addition, the Debt Management Facility,<sup>15</sup> which is jointly implemented by the IMF and the WBG, has supported technical assistance and capacity building in more than 75 countries over the last eight years. Similarly, the

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<sup>11</sup> See IMF, 2016, *Sub-Saharan Multispeed Growth*, Regional Economic Outlook, October 2016; and IMF, 2016, *Middle East and Central Asia Regional Economic Outlook*, October 2016.

<sup>12</sup> Available methodologies include the Debt Sustainability Framework for Low-Income Countries (LIC-DSF), developed by the IMF and the WBG, and the DSA for market-access countries, developed by the IMF.

<sup>13</sup> The fiscal multiplier may be affected by openness to trade, the state of the economy and whether the monetary transmission mechanism is impaired.

<sup>14</sup> Examples of these tools are the IMF's Debt-Investment-Growth model or its variant developed by the AfDB, and the WBG's Long-Term Growth Model.

<sup>15</sup> Multi-donor trust fund located in the World Bank with contributions from Austria, Germany, Netherlands, Norway, Russia and the Swiss State Secretariat for Economic Affairs, SECO.



AfDB has supported over 20 countries with a combination of investments in debt management software and IT, as well as technical assistance and capacity building. Stepping up these capacity building efforts, with additional donor resources, would help countries scale up public investment without building up fiscal vulnerabilities.

15. **The G-20 and other partner countries could play a role in lowering the financing costs of public investment.** The international community could develop instruments to de-risk sovereign securities to finance incremental public investment (for instance, through guarantees for international bonds issued by African countries). Within the CWA, these guarantees could be conditional on the implementation of sound macroeconomic policies and structural reforms by the receiving country.

#### *Initiatives and possible policy commitments for African countries*

16. Compact countries could commit to:

- Maintain macroeconomic stability. This is a critical pre-condition for creating a favorable investment climate; without it, none of the measures discussed in this report will yield their full benefit. Specific commitments will be tailored to country circumstances, given diverse economic conditions.
- Build up debt management capacity. An adequate debt management capacity is necessary for country authorities to determine the right financing mix for funding their investment programs.

#### *Initiatives and possible roles for partner countries and IOs*

17. Partner countries and IOs could commit to:

- Provide technical assistance (TA) to support reforms, notably debt management and public investment management.
- Develop instruments to lower the financing costs of incremental public investment in infrastructure in countries with sound macroeconomic policies and a strong public investment management framework.

## **Increasing Domestic Revenue Mobilization in the Context of an Investment-Friendly Tax System**

### *Context and Key Policy Issues*

18. **In most African countries, domestic revenue mobilization falls substantially below levels needed for scaling up non-commercial public infrastructure.** While the tax revenue ratio to GDP has increased on average by about 2 ½ percent of GDP since 2000 in African low-income countries (LICs), it remains significantly below the average level achieved in other LICs, reflecting substantial revenue potential. Mobilizing this potential would help to fund public infrastructure as well as basic state functions in other priority areas such as education and health. Domestic revenue mobilization (DRM) should focus as much on *how* revenues are raised as on *how much* is raised. A singular focus on revenue targets can result in practices that damage economic growth and development, such as denial of Value-Added Tax (VAT) refunds. And to promote growth, broad-based taxes such as property taxes

and VAT should be favored over narrower and distortive tax types, such as tariffs (IMF, OECD, UN and WBG 2016—see also Box 2).<sup>16</sup>

19. **The development of strong tax systems, and the importance of external support in building them, is a central plank of the Addis Ababa Action Agenda.** Specifically, it recognizes that “significant additional domestic public resources, supplemented by international assistance as appropriate, will be critical to realizing sustainable development and achieve the Sustainable Development Goals”.<sup>17</sup> An important instance of implementing this Agenda is the Addis Tax Initiative, which aims to raise domestic public revenue, improve fairness, transparency, efficiency and effectiveness of tax systems.<sup>18</sup> Launched in July 2015, participating providers of international support in this initiative committed to doubling their technical cooperation in taxation by 2020, and partner countries restated their commitment to strengthen revenue mobilization so as to achieve the Sustainable Development Goals and ensure inclusive development.<sup>19</sup>

### **Box 2. Key Ingredients of Country Strategies to Strengthen DRM**

A strategy to strengthen domestic revenue mobilization should focus on mutually reinforcing core elements: stronger administrations, simpler revenue systems, and collective action to address international tax issues, evasion and avoidance more widely. Noting and responding to significant differences among developing countries, key elements of this strategy would include (with accompanying spending measures as needed, for example to protect the poorest when the VAT base is expanded):

- The critical work of building effective and trusted tax administrations;
- Eliminating exemptions and incentives that forego revenue to little useful end;
- Implementing broad-based and simple VATs, complemented with excises on a limited number of items to address other policy priorities such as public health and environmental protection;
- Building a broad-based and fair Personal Income Tax (PIT);
- Establishing a broad-based Corporate Income Tax (CIT), at rates competitive by international standards;
- Implementing simplified tax regimes for micro and small enterprises;
- Designing and implementing international tax rules, in relation to both the Base Erosion and Profit Shifting (BEPS) project and Exchange of Information (EOI) for tax purposes, that are sensitive to the circumstances and capacities of developing countries and supported by coordinated international action; and
- Establishing fiscal regimes for extractive industries that provide investors with confidence while ensuring that revenue collections respond appropriately to changing circumstances.

Source: AfDB, ADB, EBRD, EIB, IaDB, IMF and the World Bank (2015), *From Billions to Trillions: Transforming Development Finance*.

<sup>16</sup> IMF, OECD, UN and WBG (2016), *Enhancing the Effectiveness of External Support in Building Tax Capacity in Developing Countries*.

<sup>17</sup> Addis Ababa Action Agenda, para. 22.

<sup>18</sup> See also IMF, OECD, UN and WBG, 2016, *Enhancing the Effectiveness of External Support in Building Tax Capacity in Developing Countries*.

<sup>19</sup> See <https://www.addistaxinitiative.net/>.

20. **Creating an investment-friendly tax system is important for boosting private investment, but this should not lead to a proliferation of tax incentives.**<sup>20</sup> Well-targeted incentives that directly reduce the cost of capital, such as accelerated depreciation schemes, investment tax credits, and super deductions, have been used with some success. In contrast, open-ended and profit-based tax holidays are less effective and can erode the tax base indefinitely. And tax incentives can be very costly: estimates of tax expenditures for African countries range between 3.3 and 7.5 percent of GDP, which argues for their rigorous cost-benefit analysis.<sup>21</sup> Furthermore, economic and political stability appears to be a much more decisive factor than tax incentives in attracting investment.<sup>22</sup> More generally, the overall investment climate appears to be the most important determinant of the level of foreign investment: FDI is eight times stronger for countries with good investment climates (James, 2013).<sup>23</sup> Tax administration reform can contribute to a better investment climate directly through simplified codes and regulations, whereas enhanced human and IT resources can improve compliance and services to taxpayers. Countries should take advantage of recent IT innovations to leap frog their reforms.

21. **Improved natural resource management would help mobilize significant domestic revenues in many African economies.** Putting in place a transparent system for awarding mining rights and permits for sectors such as logging; making concession contracts public; involving local communities; building capacity to assess tax liabilities in these industries; and promoting initiatives like the Extractive Industries Transparency Initiative can all help to better harness Africa's tremendous natural wealth. Initiatives, such as the IMF's Managing Natural Resource Wealth Trust Fund or the African Legal Support Facility created by the AfDB, have a critical role to play in this regard.<sup>24</sup>

22. **Lack of international cooperation can erode tax bases and squeeze fiscal space.** National tax policies can generate cross-border spillover effects: for instance, more favorable tax incentives in one country can divert FDI flows from other countries and thereby dampen those countries' growth prospects and erode their tax base. In addition, multinational enterprises may shift profits from high-tax to lower-tax jurisdictions through aggressive tax avoidance strategies, hence exacerbating the problem of base erosion. In low-income countries this can limit significantly the scope for pro-growth public spending and raise difficult trade-offs between the need to raise revenue by limiting tax avoidance by multinational enterprises and the need to encourage investment. In a world of increasing tax competition, all countries may end up being worse off.

23. **International organizations and G-20 and partner countries can contribute to tax reform in Africa** through capacity development and policy cooperation:

- **The precondition for effective capacity development is the use of evidence-based knowledge.** New analytical tools to assess tax systems and administration include: the Tax Administration Diagnostic Assessment Tool (TADAT), the Revenue

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<sup>20</sup> IMF, 2015, *Options for Low Income Countries' Effective and Efficient Use of Tax Incentives for Investment*.

<sup>21</sup> The practice of estimating tax expenditures in Africa has gained ground in recent years, but only a few countries have published their estimates.

<sup>22</sup> UNIDO, *Africa Investor Report 2011. Towards Evidence-Based Investment Promotion Strategies*

<sup>23</sup> James, S., 2013, "Tax and Non-Tax Incentives and Investments: Evidence and Policy Implications," FIAS, World Bank Group, Washington, DC.

<sup>24</sup> The African Legal Support Facility, created by the AfDB, aims to provide assistance to African governments to strengthen legal expertise and negotiating capacity in the extractive industries and natural resource management space through support for negotiating, contracting, drafting investment agreements and related commercial and business transactions.

Administration GAP Analysis Program (RA-GAP), the Revenue Administration Fiscal Information Tool (RA-FIT), and the Fiscal Analysis of Resource Industries (FARI) tool.<sup>25</sup> The application of RA-FIT in African countries, for instance, has showed that the on-time return filing for corporate and personal income tax in Africa, at 64 and 63 percent respectively, is lower than the 90 percent, considered as good practice. In four out of five of the African countries where RA-GAP VAT gap assessments were performed, results for the compliance gap were in the range of 40 to 50 percent (difference between actual and potential). These high VAT compliance gaps indicate the potential for significant revenue gains from improvements in administrative effectiveness. These assessments have been guiding support for capacity development by the IMF, WBG, and other providers of such assistance. Further, TADAT results have been embedded in the tax administration reform strategy of several countries such as Liberia, Sierra Leone, Rwanda, and Uganda.<sup>26</sup>

- **Capacity development support should coalesce around country-owned revenue strategies.** A report titled “Enhancing the Effectiveness of External Support in Building Tax Capacity in Developing Countries” was presented to the G-20 by the OECD-IMF-UN-WBG Platform for Collaboration on Tax (PCT). A key component of the Platform’s advice is the development of country-owned medium-term revenue strategies, which provide a framework for better coordination of external support. The IMF together with the AfDB and the WBG provide significant country level support aimed at strengthening public financial management institutions and supporting domestic revenue mobilization efforts. The Fund sends missions from headquarters to more than 100 countries every year in these two areas, and in most countries there are multi-year programs to build capacity. These efforts are supported by the IMF’s network of RTACs as well as the Africa Training Institute in Mauritius. The active portfolio of WBG lending operations includes 35 active projects with tax themes or components in Sub-Saharan Africa (SSA). The Bank also has 37 active engagements for providing advisory services and analytics (including technical assistance) in the area of DRM in SSA. At the regional level, the AfDB is supporting important networks and intergovernmental bodies such as African Tax Administration Forum and the Collaborative Budget Reform Initiative which support peer learning, exchanges and capacity building.
- **International cooperation is needed to avoid adverse cross-border spillover effects and fragmentation of external support efforts and aid flows.**<sup>27</sup> The G-20-supported base erosion and profit shifting (BEPS) project enhances the predictability of tax systems of participating countries by implementing internationally agreed taxation rules. To ensure steady and consistent implementation of agreed measures, along with providing support for newly joined developing countries to keep pace with monitoring and implementation, the Inclusive Framework on BEPS was established. The number of participating countries in the Inclusive Framework increased to more than 90 countries, including many developing countries in Africa, some of which are participating as members of its steering group along with OECD member countries.

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<sup>25</sup> These tools have been developed by the IMF, working in collaboration with bilateral donors and other international organizations active in this field, including the World Bank.

<sup>26</sup> In Uganda, for example, the tax administration has not only based its revised reform strategy on the TADAT results, but used them to initiate a joint national and subnational taxpayer registration and expansion program.

<sup>27</sup> See IMF, OECD, UN and WBG, 2016, *Supporting the Development of More Effective Tax Systems* and IMF, 2014, *Spillovers in International Corporate Taxation*.

Responding to the request by the G-20, the four IOs of the PCT are also deepening its collaboration through developing “toolkits” to help developing countries address BEPS-related issues which are relevant in light of their economic situation. The Global Forum on Transparency and Exchange of Information for Tax Purposes is also supporting the efforts to increase transparency. It brings together 139 members, including 23 African countries on an equal footing and its Africa Initiative furthers transparency and exchange of information in Africa.

- **Enhancing Tax Certainty will be key to create an investor-friendly tax system.** Increasing investment inflows by making tax systems more predictable would contribute to mobilizing domestic resources. The G-20 mandated the IMF and OECD to work on tax certainty and to present a report to the G-20 meeting in March. International coordination will play an important role to enhance tax certainty, but there are also improvements that can be made at the national level, depending on the specific needs of each country, on which the IMF-OECD report will elaborate.

#### *Initiatives and possible policy commitments for African countries*

24. Compact countries could commit to tax policy and administration reforms, including through the adoption and implementation of medium-term strategies:

- Based on a broad consensus on the level of revenue mobilization effort for the medium-term (5-10 years), with due consideration to the implications of the associated measures for poverty and income distribution, as well as transparency and accountability;
- Centered on a comprehensive and well-planned reform plan for the tax system, reflecting country circumstances and the state of institutional capacity, and consistent with implementation capacity;
- Supported by effective implementation of technical assistance from development partners.

#### *Initiatives and possible roles for partner countries and IOs*

25. Partner countries and IOs could commit to:

- Scale up support for capacity development along with enhancing its effectiveness. As part of the Addis Tax Initiative, many G-20 countries have committed to at least double their support for tax capacity building in developing countries. For the IMF, for example, this will entail more intensive involvement of IMF HQ staff together with overseeing resident experts in countries and RTACs. In some instances, G-20 members and partner countries may be able to provide specialized technical assistance using experts from their tax authorities or finance ministries. The agenda for enhancing effectiveness of external support in building tax capacity in developing countries will draw on recommendations in a report prepared by the IMF, OECD, UN, and WBG for the G-20, with a progress report expected in 2017.<sup>28</sup>
- Adopt appropriate anti-avoidance rules, in line with the BEPS agreements, and structure tax administration to implement these rules. The “toolkits” currently under development to help developing countries address BEPS-related issues will facilitate this process. G-20 members and IOs will hasten their efforts regarding the disclosure

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<sup>28</sup> IMF, OECD, UN, and WBG (2016). *Enhancing the Effectiveness of External Support in Building Tax Capacity in Developing Countries*.

of beneficial ownership of companies; the disclosure and automatic exchange of tax information; increased investigation activities in response to Suspicious Activity Reports; and the domestication of the United Nations anti-corruption convention. The G-20 also encourages the harmonization of international trade data, leveraging information technology to make consistent and accurate trade data readily available along the entire supply chain.

- Support through African networks and organizations such as the African Tax Administration Forum.

## Ensuring Sound Public Investment Management

### *Context and Key Policy Issues*

26. **Public investment is critical for growth and increasing its efficiency can have high social and economic returns.** Recent research shows that about 30 percent of committed resources are lost in the process of public investment. In SSA, this efficiency gap rises to 36 percent. Closing this gap could substantially increase the public investment impact on output.<sup>29</sup>

27. **Improvements in public investment management could significantly enhance the efficiency and productivity of public investment.** In Africa, TA pilots highlight the pervasive inefficiencies in public investment processes. The areas in need of strengthening include:

- Allocating investment to the right sectors and projects requires improving the institutions for project appraisal and selection, and strengthening the regulatory framework for infrastructure to allow greater private sector participation. This frees up scarce public funding for non-commercial social infrastructure.
- Adequate project implementation is constrained by funding and shortcomings in public investment management systems. This requires improving project management, contract management, and transparency of budget execution during the implementation phase.<sup>30</sup>

28. **Public procurement—from tendering over award of contract to contract management, payments, and verification—constitutes another key aspect of public investment management.** Almost all public investments that are not delivered through a public private partnership (PPP) are acquired through public procurement systems. Inefficiencies, badly organized practices, collusion, and corruption adversely affect timeliness, cost, and quality of public investments. In many developing countries, challenges around acquisition of land add complexity and delay to the process because land ownership and rights are insufficiently established and regulated.

29. **In many African countries, improvements in up-front design, budgeting and planning of investment projects are needed to realize envisioned returns on public investments after the construction phase.** A well-functioning multi-year expenditure framework that ensures that funds for maintenance and operation are prioritized and allocated is needed. Proper asset management, including maintenance of asset registries and appropriate

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<sup>29</sup> IMF, 2015, *Making Public Investment More Efficient*.

<sup>30</sup> Transparency of budget execution ensures that major investment projects are tendered in a competitive and transparent process, monitored during project implementation, and independently audited. See *ibid*.

(accrual) accounting has the potential to similarly improve transparency and management of maintenance.

30. **A comprehensive program for capacity development is already under way.** For example, the IMF in coordination with the WBG and other development partners provides technical assistance through the following activities:

- **Public Investment Management Assessments (PIMA).** PIMA is a high level diagnostic tool that helps identify key weaknesses in the investment process and provides country-tailored solutions. PIMA has been conducted in 8 African countries: Cameroon, Togo, Mozambique, Madagascar, Ghana, Liberia, Mauritius, and Côte D'Ivoire, and the results are being used to strengthen existing institutions.<sup>31</sup>
- **PPP Fiscal Risk Assessment Model (PFRAM).** PFRAM is an analytical tool to assess the potential fiscal costs and risks arising from PPP projects. PFRAM pilots have been conducted in Mauritius and are planned for Côte d'Ivoire and Niger in early 2017.
- **Technical assistance missions to appraise the legal, institutional and accounting frameworks for PPPs,** analyze associated fiscal implications, and advise on options for managing fiscal risks.
- **Follow-up technical assistance by the IMF, the WBG, the AfDB, and other donors to strengthen countries' capacity to better manage public investment.** The follow-up of the PIMA recommendations is for instance ensured by the WBG in several countries. Also, the AfDB has been supporting the strengthening of public procurement systems.

#### *Initiatives and possible policy commitments for African countries*

31. Compact countries could commit to:

- Strengthen the Public Investment Management (PIM) framework by devising and implementing a results-based action plan that targets a significant increase of the PIMA score.
- Put in place a PPPs unit fully integrated in the public investment management framework in the ministry of finance to assess fiscal risks from these partnerships.
- Adhere to competitive and transparent procurements.

#### *Initiatives and possible roles for partner countries and IOs*

32. Partner countries and IOs could commit to:

- Scale up technical assistance to countries committed to improving their PIM framework.
- Improve the quality of infrastructure projects through better procurement that promotes value for money, as committed by eleven multilateral development banks in 2016.<sup>32</sup>

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<sup>31</sup> A PIMA for Botswana is currently underway.

<sup>32</sup> MDBs Joint Declaration of Aspirations on Action to Support Infrastructure Investment.

## Better Performance of Public Utilities

### *Context and Key Policy Issues*

33. **Across Africa, access to public utilities and the quality of service are inadequate and inequitable and are likely to worsen further without determined government efforts.** Many public utilities fail to reach large swathes of the population. Moreover, service quality tends to be poor even among the privileged few that have access. Unreliable service is a major deterrent of private investment, especially in manufacturing, substantially restricting economic growth.

34. **Reforming public utilities and commercializing them will shift their borrowing and performance risks off the public balance sheet, thereby creating fiscal space for non-commercial public infrastructure.** It will also help level the playing field for private enterprises, whether in accessing finance, attracting investment, or ensuring the necessary environment for business development. By issuing non-guaranteed debt on domestic markets, state-owned enterprises (SOEs) can scale up finance for public infrastructure and build a domestic constituency supporting financial viability. Another way of introducing commercial discipline and market oversight is through partial stock exchange listings of SOEs, as has been done for the Kenya Power and Light Company.

35. **Under-pricing of utility services is the norm across Africa.** For example, in the case of electricity, a recent study of some 40 African countries found that only two of them charged tariffs high enough to meet the full costs of service provision and only about half of them charged tariffs high enough to meet even operating costs.<sup>33</sup> Even if utilities could address all their current inefficiencies, tariffs would still be too low to cover costs in two thirds of cases.<sup>34</sup> A similar study of water utilities found that tariffs averaged about two-thirds of the full-cost recovery level.<sup>35</sup>

36. **Restoring financial equilibrium requires working simultaneously to increase revenues and reduce costs.** To improve revenues, regulators need to establish clear cost recovery benchmarks and commit to a multi-year tariff adjustment path. In parallel, efforts should be made to improve revenue collection and increase efficiency. In the case of power, two important areas of action are introduction of revenue protection programs for large customers, and introduction of prepaid meters for small customers. Costs should come down over time as countries improve operational efficiency and bring on more cost-effective sources of power generation. At the same time, well-targeted social programs need to be set up or strengthened to limit the negative impact on the poor from prices rising towards cost recovery levels.

37. **Another major challenge is weak operational performance of utilities.** African utilities sustain substantial losses that tend to be much higher than those in other regions, due to a combination of dilapidated infrastructure and widespread theft. In case of water utilities, water losses on the distribution network have been estimated to be as high as 35 percent, about twice the best-practice levels.<sup>36</sup>

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<sup>33</sup> Chris Trimble and others (2016) *Financial Viability of Electricity Sectors in Sub-Saharan Africa: Quasi-Fiscal Deficits and Hidden Costs*, Policy Research Working Paper 7788, World Bank, Washington DC.

<sup>34</sup> Masami Kojima and Chris Trimble (2016) *Making Power Affordable for Africa and Viable for its Utilities*, World Bank, Washington DC.

<sup>35</sup> Vivien Foster and Cecilia Briceno Garmendia (2010) *Africa's Infrastructure: A Time for Transformation*, Africa Development Forum, Agence Francaise de Developpement and World Bank, Washington DC.

<sup>36</sup> Vivien Foster & Cecilia Briceno Garmendia (2010).



38. **Turning around utility performance requires a combination of governance and management reforms and due consideration of the quality of infrastructure.** Governance improvements can take the form of introducing independent directors to the Board and establishing a clearer accountability framework, such as a Performance Contract with indicators and related management incentives. Equally important is the need to put a competent management team in place, modernize information and IT systems, and identify the most effective short-term measures to improve performance. Management contracts can provide a useful mechanism for doing this, provided that they are strongly results-based. Deeper forms of private sector participation, such as lease contracts and concessions may become relevant once cost recovery improves to an acceptable level and risks to private investors to secure reliable long-term returns on infrastructure are adequately mitigated. Stronger enterprise discipline can be provided when public utilities access commercial debt financing and equity financing, once acceptable levels of creditworthiness are achieved. Quality infrastructure that is efficient in view of life-cycle cost analysis, safe, and resilient against natural disaster, ensures better economic performance in the long run.

39. **Stronger planning capabilities to ensure lower cost and timely expansion of capacity needs to be an integral component of utility reform programs.** Improved planning capability is required both to ensure that adequate production capacity comes on stream rapidly enough to meet growing demand. In the case of water utilities, integrated water resource management is essential to ensure that competing demands for urban water supply, agricultural irrigation, and other uses such as power generation are wisely balanced. In the case of electric power, this requires not only the establishment of a technically sound least-cost plan, but also the institutional capability to organize transparent competitive procurement of new capacity in line with that plan; for example, by tendering Independent Power Producers. National power plans should in addition be fully informed by and reflective of beneficial opportunities for regional power trade.

40. **While performance of utilities is generally low, there are some relatively well-performing utilities on par with the best performers in other regions.** Strong institutional frameworks and norms and policies that promote transparency, accountability, and efficiency are key determinants for success.

#### *Initiatives and possible policy commitments for African countries*

41. Compact countries could commit to:

- Strengthen the institutional framework under which public utilities operate to promote transparency, accountability and efficiency.
- Strengthen the processes and methods to conduct technical, economic, financial, and social due diligence.
- Adhere to competitive and transparent procurement that takes into account the value for money and quality of infrastructure.
- Give sufficient attention to the commercial performance and quality of the utility and its capacity to operate and maintain its existing and new infrastructure so as to ensure long-term sustainability and value for money.
- Put in place adequate and transparent sector financing policies (that is, tariff and subsidy policies that ensure that the assets can be properly operated and maintained while containing fiscal risks).

*Initiatives and possible roles for partner countries and IOs*

42. Partner countries and IOs could commit to:

- Support transformational regional or national projects to demonstrate viable practical ways of reforming utilities and moving them off the public balance sheet.
- Support the development of regional practitioner networks, including with staff from partner countries with substantial experience in commercializing or managing large utilities.

## The Business Framework

43. **Governments can reduce risks to private investors through a policy and institutional framework that supports good governance and an enabling business climate.** Costs of doing business generated by regulatory uncertainty and weak institutions, real or perceived, affect the risk-return calculations and drive up the hurdle rate of returns for investors. As a result, many investments that are commercially profitable and economically attractive do not materialize. Reliable regulations and institutions are key to de-risking private investment, and are thus an important element of the development agenda.

44. **This section is about how new mutual commitments can make Africa more attractive to reputable private investors.** It has four linked modules. The first two relate to reducing real or perceived investor risks. One is about creating and promoting reliable regulations and institutions, thereby shifting perceptions from the belief that the way to do business in Africa is through secretly negotiated deals that give the firm a privileged position, to a process that is rule-based, transparent, and predictable. The second relates to how investor grievances can be resolved in a timely manner before they escalate, in some cases, to disputes. The other pair aims to scale up the pipeline of bankable infrastructure projects. One focuses on international public resources for catalyzing projects and the other on standardizing contracts to speed up negotiations.

### Reliable Regulations and Institutions

#### *Context and Key Policy Issues*

45. **There is substantial analysis of what African governments can do to create a favorable business environment.** A growing body of global experience and benchmarking products, such as the WBG *Doing Business* project, provide periodic data and evidence on business regulations and institutions that apply to domestic SMEs, allow for peer-to-peer learning, and more importantly, help identify concrete reforms to improve regulatory performance. Since 2008, *Doing Business* reported on about 2,000 business reforms worldwide, of which 600 took place in Africa. In recent years, *Doing Business* expanded to include topics such as Getting Electricity, and other datasets were developed following a similar approach such as Enabling the Business of Agriculture (Box 3). The 2017 *Doing Business* Report shows that 35 of 47 economies in SSA implemented at least one reform in the previous year making it easier to do business. The region accounts for 5 of the 10 top improvers this year: Uganda, Kenya, Mauritania, Senegal, and Benin. In many countries, reform programs triggered by *Doing Business* subsequently led to broader business environment reforms.

46. **Despite significant progress in cutting costs and improving procedures, regulatory uncertainty remains a big risk for investors in Africa.** In many countries, non-transparent policy-making and inconsistent implementation of the regulatory framework generate unpredictability for investors, raising investment risk. The most common sources of regulatory uncertainty include:

- Enactment of business rules and regulations without any prior notice or consultation with the public and/or business community;
- Lack of access to information on existing rules and regulations;
- Discretionary treatment by government officials, including non-uniform interpretation and implementation of rules and requirements;

- Contradictory rules and regulations;
- Regulatory gaps, particularly affecting innovative activities and business models

### **Box 3. Selected Doing Business Related Indicators**

***Enabling the Business of Agriculture (EBA)*** focuses on legal barriers for businesses that operate in agriculture in 62 economies and across 12 topics, including seed, fertilizer, machinery, finance, markets, transport, water, ICT, livestock, environmental sustainability, land and gender. Its dataset features two types of indicators. *Legal* indicators primarily reflect the text of laws and regulations and assess their conformity with a number of global regulatory good practices. *Efficiency* indicators measure the transaction costs that firms have to bear to comply with national regulations on the ground. Empirical evidence points to the importance of clear and accessible laws and institutions that benefit all market players along the value chain— from farmers to consumers to large investors. For example, in Mali, agricultural cereal traders ranked regulatory uncertainty among the toughest barriers to market entry.

***Doing Business Getting Electricity (GE)*** provides insight into the regulatory environment concerning electricity connections and measures how regulations and institutions affect businesses getting a new connection. The connection process is governed by many laws and regulations covering quality of service, general safety, technical standards, procurement practices and internal wiring installations. It involves entities ranging from utilities, municipalities, testing agencies, regulatory agencies to safety controls agencies. Analysis of global data show that the indicators are a useful proxy for broader sector performance. A cumbersome connection process, consisting of numerous procedures, is more likely to occur in economies with an unreliable electricity supply, as they are plagued by inadequate electricity generation, coupled with high losses in the transmission and distribution systems. Given the importance of reliable electricity supply for firm productivity, and to capture the adverse effect of frequent and lengthy power interruptions, the GE indicators were recently expanded and now also capture the reliability of electricity supply and transparency of tariffs.

47. **Regulatory burdens disproportionately affect SMEs.** These firms tend to be poorly equipped to access information about regulations, or to deal with discretion in their implementation. Enterprise surveys in some African countries show that there is a significant variability in the implementation of existing rules with SMEs having higher transaction costs. These are compounded by the lack of access to finance, due to underdeveloped financial infrastructure and services, including the absence of a venture capital industry.

#### *Initiatives and possible policy commitments for African countries*

48. Compact countries could commit to:

- Formulate investment policies that are open, non-discriminatory and transparent, and set out predictable conditions for investment.
- Establish a coherent overall regulatory framework for investment, inclusive of all investment-related policy areas, such as tax, trade, environmental and labor market policies. This includes modernizing legal and regulatory frameworks to reduce or eliminate gaps that create uncertainty. The pace of reforms could be accelerated for specific sectors or special economic zones where quick wins can be achieved.

- Provide clear and up-to-date regulatory information that is accessible, reliable, and timely.
- Introduce rule-based decision criteria and indicators that capture discretionary treatment by government officials, including non-uniform and/or discriminatory interpretation of rules and requirements, thereby allowing for administrative corrective actions.
- Conduct periodic reviews of procedures, monitor regulatory performance and quality, and publicize the outcomes.
- Establish efficient mechanisms for business-to-government feedback loops to verify effective implementation of regulatory reform.
- Notify the public, including the business community, in a timely manner about proposed regulatory measures, with adequate and inclusive consultation on regulatory drafts.
- Execute reforms to reduce the implementation variances, improving regulation interpretation and regulatory predictability.

### *Initiatives and possible roles for partner countries and IOs*

49. Partner countries and IOs could commit to support African governments on the Good Regulatory Practice agenda outlined in the bullets above, and put in place an institutional framework based on the rule of law that adheres to high standards of public governance and ensures predictable, effective and transparent procedures for investors.

## **Investor Protection and Dispute Resolution Mechanisms**

### *Context and Key Policy Issues*

50. **Political risks rank high as a significant constraint to foreign investment in developing countries.**<sup>37</sup> Such risks cover a wide spectrum, including expropriation, transfer and convertibility restrictions, breach of contract, unpredictable and arbitrary actions, discrimination, and general absence of regulatory transparency. Loss of investment and the commensurate loss of long-term harmonious relations with a promising investor can have a debilitating impact on a developing country. Political risk related to government conduct also sends negative signals to prospective new investors, thus creating strong ripple effects.

51. **Protection to investors against such risk is usually provided by “investor protection guarantees” typically included in a country’s domestic legal framework and its international investment agreements (IIAs).** As the nature of investment, types of business transactions and government conduct that can potentially impact investment continue to evolve, so has the content of investment laws, regulations and IIAs to reflect these new realities. For example, countries now define provisions on fair and equitable treatment and protection against unlawful expropriation with much greater precision to ensure adequate level of transparency and to reduce the scope for arbitrary discretion in their interpretation. By making the international investment regime more “rule-oriented” rather than “power-oriented”, these legal instruments also contribute towards minimizing perceptions of political risk. Similarly, they will help protect governments from unethical or illegal practices by some investors.

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<sup>37</sup> Global Political Risk Survey conducted by MIGA and the Economist Intelligent Unit in 2013. The survey also showed that more than a quarter of global corporate investors interviewed said that in the past year political risk constraints had caused their companies to withdraw existing investments or cancel planned ones.

52. **In drafting modern domestic investment legislation, there are key good principles** governments can adopt in terms of investor protection to provide them a higher level of certainty, predictability and stability, as follows:

- Include guarantees protecting against unlawful, direct or indirect expropriation, by ensuring any taking is subject to a public purpose, due process of law and subject to prompt, adequate and effective compensation.
- Ensure established investors and investments are treated fairly and equitably, ensuring due process, transparency, non-discrimination and proportionality in government action.
- Subject to specific prudential exceptions, provide for the free transfer of payments related to investments in freely convertible currency, without undue delay and according to market rates of exchange.

53. **Governments must also ensure that investment protection guarantees are effectively enforceable by providing investors with access to neutral and effective dispute resolution mechanisms.**<sup>38</sup> They should also undertake gap analysis to ensure consistency between the investment protection provisions in the domestic legal framework with the international investment agreements in force in host countries.

54. **Many African countries have entered into bilateral investment treaties (BITs) and multilateral investment treaties (MITs) with the objective of attracting foreign direct investment.** Such treaties provide guarantees to foreign investors in a range of areas, including fair and equitable treatment, protection from nationalization and expropriation, and creation of a predictable, transparent and secure investment climate. These are meant to provide legal protection and give confidence to investors that their investment will be legally protected in the event of political turmoil. In the past, African countries tended to sign such agreements with countries outside Africa. However, more recently, they have signed many such treaties within Africa. African countries are believed to have signed more than 854 of BITs (157 intra-African and 696 with the rest of the world).

55. **Reducing political risks is thus critical not only to attract, retain and expand investments in host countries, but also to prevent potentially costly investor-state disputes.** During the last decade there have been more than 600 international investor-state arbitration cases in which foreign investors have invoked investment protection clauses of IIAs to seek redress of arbitrary government conduct. In more than 70 percent of those disputes, the claims have involved alleged arbitrary changes in legislation or contracts by governments affecting investors.<sup>39</sup> When disputes escalate, they not only can result in the award of costly costs and damages, but they can also destroy the potential of having long-term

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<sup>38</sup> Dispute resolution mechanisms can include domestic arbitration, court systems as well as access to international Investor-State dispute settlement mechanisms. The International Center for Settlement of Investment Disputes (ICSID), International Chamber of Commerce, and Stockholm Chamber of Commerce are examples of international arbitral institutions that investors can use to register Investor-State disputes. These institutions have their own procedural and administrative rules which govern arbitration disputes registered with them. Other much less prevalent mechanisms for international investment dispute resolution are negotiation, conciliation, mediation between host States and foreign investors. In practice recourse to these mechanisms is very limited and only made in a litigious context.

<sup>39</sup> UNCTAD's Investor-State disputes database. It shows, for example, in 2015 government conduct most frequently challenged by investors included alleged direct expropriations of investments, alleged discriminatory treatment, and revocation or denial of licenses or permits.

harmonious relations with investors.<sup>40</sup> Arbitration disputes can continue for several years until a final outcome is reached. In certain cases, despite all the resources spent, the outcome can leave investors and host states dissatisfied. Structural mechanisms to anticipate and prevent disputes may help minimize the need to recur to investor-state dispute settlement.

56. **There has been a clear gap in terms of availability of an institutional mechanism that can enable governments to identify, track, and manage grievances arising between investors and public agencies as early as possible, well before the aggrieved investor considers or even submits a legal claim.** An early warning and tracking mechanism to identify and resolve complaints and issues that arise from government conduct could help fill this gap, ultimately preventing legal disputes and facilitating harmonious relations between investors and governments. This mechanism, called a Systemic Investor Response Mechanism (SIRM) and initiated by the WBG, enables countries to collect data and helps identify patterns in government-generated grievances affecting investments. Furthermore, SIRM quantifies investment retained or expanded as a consequence of addressing grievances, as well as investment lost as a consequence of not addressing them.

57. **For a reform-oriented government, a SIRM enables a lead government agency to bring to the attention of high levels of government problems affecting investments in order to address them before they escalate further.** The operation of the SIRM includes the following:

- Identify specific patterns and origins of government conduct generating grievances and augmenting perceptions of political risks;
- Measure affected investment as “evidence” to advocate for timely changes; and
- Strengthen capacity of the “offending” institutions to minimize the recurrence of such events.

58. **A SIRM is designed based on a country’s specific political economy realities and its legal and institutional framework.** The capacity of the government and resources available also determine the specific design of SIRM for a country. In some countries, a centralized SIRM may be set up (Box 4), while in others a sub-national approach is more fitting. In some countries where the majority of grievances arise in a specific sector, a sectoral SIRM may be appropriate.

#### **Box 4. Initial Results of a SIRM in Georgia**

**In 2015, the government of Georgia established a Business Ombudsman (BO) with direct access to the Prime Minister’s cabinet.** The main role of the BO is to oversee the protection of rights and legitimate interests of entrepreneurs and investors doing business in Georgia and support the restoration of violated rights. The SIRM pilot for the new BO entails the development of a tracking tool to measure investment retained and expanded. A pilot survey of cases resolved by the BO was run to evaluate its impact on investment retention in 2015. Thirty companies were surveyed, representing a total of US\$1.1 billion in investments, of which \$340 million of investment was retained in the country as a result of addressing the political risks at the source.

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<sup>40</sup> MIGA-EIU Political Risk Survey 2013 Data

59. **While initiatives such as SIRM are typically implemented by countries in the medium to long term, in the short term investors can have access to political risk insurance such as the one provided by the WBG’s Multilateral Investment Guarantee Agency (MIGA).** MIGA guarantees protect investors against political risks and can help them obtain access to funding sources with improved financial terms and conditions. Since its inception in 1988, MIGA has issued more than \$28 billion in political risk insurance for projects in a wide variety of sectors, covering all regions of the world.

#### *Initiatives and possible policy commitments for African countries*

60. Compact countries could commit to create a SIRM as discussed above to enable governments to identify, track, and manage grievances arising between investors and public agencies as early as possible, well before the aggrieved investor considers or even submits a legal claim.

#### *Initiatives and possible roles for partner countries and IOs*

61. Partner countries and IOs could commit to:

- help interested African governments establish a SIRM as discussed above, and raise awareness with firms in G-20 and partner countries on the usefulness of the SIRM.
- Provide political risk insurance (such as the ones made available by MIGA) to enable more immediate short term minimization of political risk.

## **Improved Project Preparation**

### *Context and Key Policy Issues*

62. **The key bottleneck facing large-scale infrastructure projects in Africa today lies in the shortage of resources and institutional capacity to support project preparation.** This is a consensus view that has been widely discussed at the Infrastructure Consortium for Africa: people talk about “too much money chasing too few projects”.

63. **Project preparation encompasses a wide range of activities that have to take place before a project can be of interest to potential financiers.** By project preparation we mean the whole gamut of institutional, legal, political, financial, regulatory and engineering studies that are needed to go from an interesting concept to a well-defined and properly structured project, with clear identification and allocation of risk.<sup>41</sup> In terms of the overall project preparation costs, the engineering feasibility studies are one of the largest components. In some cases, civil works may even be needed, for example roads to access a remote site.

64. **The costs of preparation activities for large scale projects are substantial and easy to underestimate.** As an illustration, the Nam Theun 2 hydro-power project in Laos with a total investment cost of \$1.4 billion accumulated project preparation costs of \$124 million (or around 9 percent of investment costs). For the proposed high-profile Inga 3 project in the Democratic Republic of Congo with investment costs estimated in excess of \$5 billion, the preparation costs will be at least \$100 million. WBG staff estimate that to make real

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<sup>41</sup> An example of donor contribution to project preparation is the Asia Pacific Project Preparation Facility at the ADB, which aims to prepare, structure, and place in the market projects structured with the objective of promoting PPPs. The African Legal Support Facility, hosted by the AfDB, also provides project preparation support for legal project structures and tendering processes.



progress on a selection of high priority regional projects in Africa would require project preparation funds of the order of \$500 million.

65. **The current institutional and financial architecture does not adequately provide for the funding of project preparation.** While a significant number of facilities exist, they are rather dispersed and atomized and not funded on a level commensurate with the scale of the challenge. Grant sizes rarely exceed \$10 million and in most cases are less than \$1 million. Governments are not typically able to borrow money to cover project preparation costs. The private sector finds it too risky to sink these kinds of sums in up-front project preparation activities. Hence there is a tendency for project preparation to be overlooked. To the extent that public resources cover project preparation that goes beyond the provision of a public good, governments and private investors need to discuss appropriate mechanisms through which these public costs could be recouped subsequently.

66. **Tackling the project preparation issue may fit well with the G-20 agenda.** The G-20 has pledged to address key constraints to regional projects and PPPs for transformational infrastructure projects in low income environments. Here is an issue that represents a key bottleneck, lacks a clear champion, and would be relatively tractable to address in the short to medium term, without entailing a huge input of resources during a fiscally constrained period.

#### *Initiatives and possible policy commitments for African countries*

67. Compact countries could commit to dedicate adequate public resources to help prepare infrastructure projects, including by appropriately staffing preparation units that can attract qualified staff to speed the process.

#### *Initiatives and possible roles for partner countries and IOs*

68. Partner countries and IOs could commit to:

- Allocate a larger share of multilateral and bilateral financing for project preparation, including a multi-donor facility for African infrastructure.
- Help support countries develop portfolios of projects and build capacity for project preparation.
- Focus on populating the CWA individual investment compacts with bankable projects.

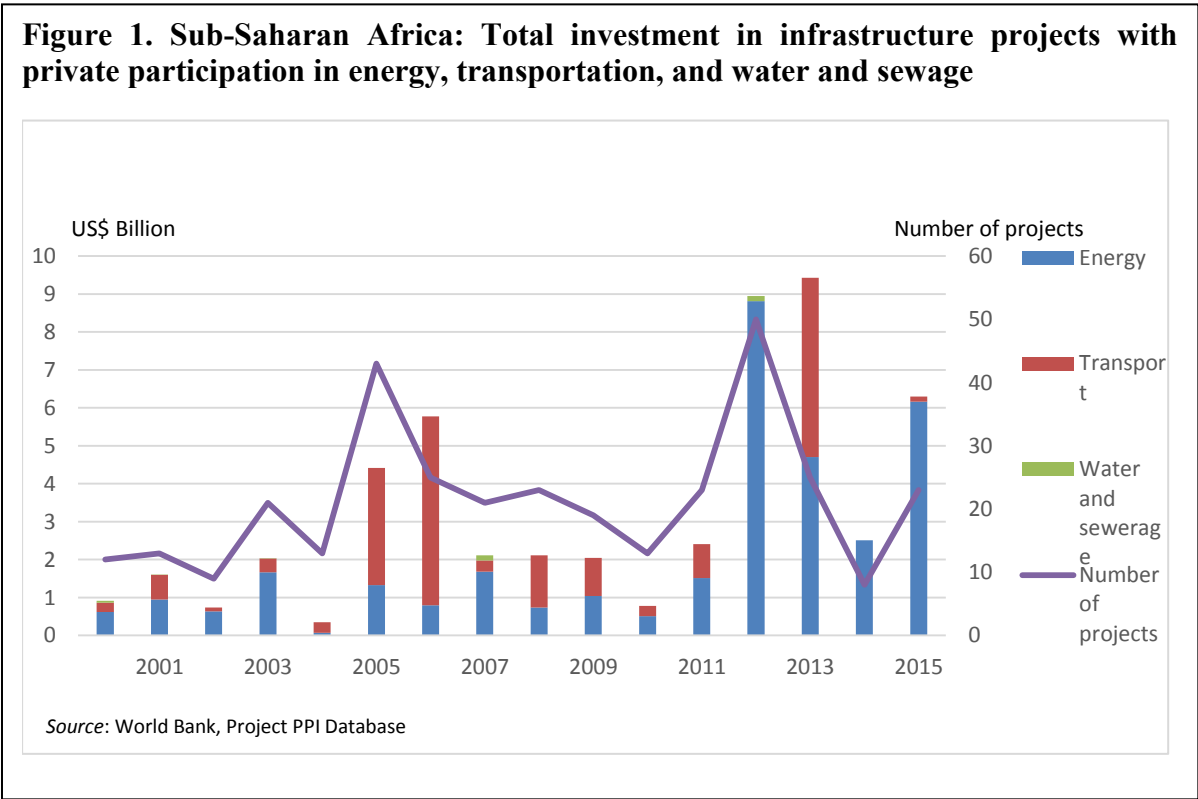
## **Standardization of Contracts**

### *Context and Key Policy Issues*

69. **Meeting Africa's infrastructure financing needs crucially depends on the countries' ability to prepare, execute and monitor project contracts, including through public-private partnerships (PPPs).** The successful implementation of PPPs in turn requires good governance and policy frameworks and appropriate risk mitigation and financing. Without these prerequisites in place, projects may fail and/or give rise to unanticipated fiscal costs. PPPs can be very demanding in terms of the skills required of the government. The complexity and sophistication of PPP transactions, and the fact that they are often heavily negotiated to reflect the characteristics of a given infrastructure project, frequently means that considerable time and expense is involved in preparing and finalizing PPP contracts.

70. **Standardizing the provisions found in concession agreements or other PPP contract helps reduce costs for the government and private investors.** While this has been done at the country level (e.g., in the UK, India and South Africa) it has not been implemented at a broader level. Given the variety of PPP transactions carried out globally, different legal systems existing in various countries and the need to accommodate the individual characteristics of specific projects, this will likely only be practical in focusing on certain contractual provisions dealing with particular legal issues encountered in virtually every PPP agreement, including issues of force majeure, termination rights or dispute resolution. For certain types of projects which are likely to be very similar and highly replicable – such as Solar PV – it may be possible to go further and develop standard contracts which require relatively little modification across projects and/or countries.<sup>42</sup>

71. **Africa may benefit substantially from the use of standard clauses.** Governments often lack the in-house commercial and legal skills needed to develop PPP contracts and negotiate with the private sector. Standard clauses that need little adjustment can help governments focus their resources on other areas such as the specific aspects of contracts that will need to be determined each time. Further, investor interest is likely to be maximized at the country level if there is an expectation that much of the contractual documentation reflects standard approaches. In SSA excluding South Africa, only 7 projects in 2015 reached financial closure in the infrastructure sectors. There were two projects each in Senegal and Uganda, and one each in Nigeria, Zambia and Rwanda, which totaled \$2.3 billion in investment commitments. This represents only 2 percent of total investment commitments in emerging markets and developing economies. Overall activity in SSA has been relatively modest over the last 10 years (Figure 1).



<sup>42</sup> An example for this project specific approach is the WBG’s Scaling Solar initiative under which standardized documents have been developed for use in solar projects in African projects.

72. **The WBG’s 2015 Report on Recommended PPP Contractual Provisions (the Report) represented the first attempt by a multilateral development bank (MDB) to compile recommended language for certain provisions typically encountered in PPP contracts.**<sup>43</sup> The report outlines standard clauses and their rationale that cover, *inter alia*, force majeure, change in law, termination payments, refinancing, lender’s step-in rights, confidentiality and transparency, and governing law and dispute resolution. It also incorporates different levels of PPP experience and the characteristics of different legal systems to help countries carefully assess the issues specific to their own PPP project and jurisdiction in developing contractual provisions. The report was endorsed by the 2015 IIWG conference in Berlin for submission to the September 2015 Meeting of G-20 Finance Ministers and Central Bank Governors.

73. **By encouraging consensus around the provisions outlined in the Report, infrastructure is likely to become a more attractive asset class for a variety of investors, including pension funds.** Additional material is being prepared which will set out guidance as to how the Report’s contractual provisions would function or need to be adapted in the context of bond financing and corporate financing. The additional material and the revised report itself are expected to be released in the spring 2017 after public consultation on the report are completed.<sup>44</sup>

74. **At the same time, understanding the whole context of a PPP project is essential when devising and negotiating the terms of a PPP contract.** Risk allocation has a direct impact on bankability and pricing, which determines whether a PPP project will be affordable for a contracting authority or users and financeable by a private partner. The WBG work on standard clauses is a companion piece to the Global Infrastructure Hub’s (GIH) Report on Allocating Risks in Public-Private Partnership Contracts.<sup>45</sup>

75. **In terms of next steps, the WBG is working to further disseminate the standard clauses to governments in emerging markets.** A priority would be countries in Africa. In cooperation with other partners such as the African Legal Support Facility of the AfDB, the WBG will work with PPP units and contracting authorities to develop both contractual language building on the standard clauses included in the Report and the underlying risk allocation, and pilot the introduction of these into projects that are being developed. The G-20 could further endorse the revised report, building on its endorsement of the 2015 report, by including it as an element in the CWA. The G-20 could encourage its member countries (and through them their respective national development agencies) as well as other MDBs to work together with the WBG on socializing the standard clauses through the organization of dedicated events and on their actual implementation/use in projects.

76. **The PPP capacity of governments also needs to be strengthened for the benefits of using standard contractual clauses to be realized.** The AfDB through its African Legal Support Facility is boosting support to member countries, including Cote d’Ivoire, Ghana Kenya, Malawi, Uganda, and Zambia, to help them develop and operationalize the policy, legal, regulatory and institutional framework for PPPs. As part of its efforts to boost Africa’s

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<sup>43</sup> <http://pubdocs.worldbank.org/en/508161479239656383/For-Consultation-WBG-Final-Draft-Report-on-Recommended-PPP-Contractual-Provisions.pdf>

<sup>44</sup> <https://consultations.worldbank.org/consultation/recommended-public-private-partnership-ppp-contractual-provisions>

<sup>45</sup> <http://globalinfrastructurehub.org/content/uploads/2016/07/160610-GIHub-Allocating-Risks-in-PPP-Contracts-2016-Edition.pdf>

industrialization agenda, the AfDB intends to develop and strengthen PPP units across Africa and support them throughout the development of PPP deals. A number of partner countries are also supporting African governments in developing and implementing infrastructure PPPs and other forms of private participation in infrastructure.<sup>46</sup>

#### *Initiatives and possible policy commitments for African countries*

77. Compact countries could commit to:

- Encourage Contracting Authorities and PPP Units to use the Report in their PPP projects, particularly by developing contractual language and underlying risk allocation building on the Report and the GIH Report.
- Work with regional organizations and DFIs to socialize the Report through the organization of regional events and initiatives.
- Engage actively in capacity-building measures offered on the standard clauses and possible replication of those on a regional/national level.
- Share feedback and lessons learned from piloting (i) the Report's guidance and standard clauses, as well as (ii) the GIH Report with the WBG, GIH, other MDBs and the G-20.

#### *Initiatives and possible roles for partner countries and IOs*

78. Partner countries and IOs could commit to:

- Encourage the socialization of the Report by G-20 members, partner countries, and IOs.
- Organize dedicated joint events (G-20 members and MDBs) to socialize standard clauses among Contracting Authorities and PPP Units in emerging PPP markets in Africa.
- Engage on capacity-building (e.g. via dedicated training/workshop sessions) for Contracting Authorities and PPP Units on the standard clauses and their effective implementation in projects.
- Cooperate on piloting the standard clauses in projects in Africa by assisting Contracting Authorities to develop contractual language and the underlying risk allocation on the basis of the Report and the GIH Report on Allocating Risks in PPP Contracts.

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<sup>46</sup> An example of this is the UK, through its Nigeria Infrastructure Advisory Facility, Ethiopia Advisory Facility and new multi-country Cities and Infrastructure for Growth programme.

## The Financing Framework

79. **There is a global pool of private finance that can be tapped for African investment.** Currently, despite the very low risk-free global returns on assets, the required return on African assets is often prohibitively high. As the objective business risks are reduced (the Business Framework), the Financing Framework will become critical. Improving the Financing Framework aims at increasing the availability of financing at reduced costs and risks. Real or perceived risks related to project completion, revenue generation, and operating costs may be excessively high and make private investment unviable or unprofitable, particularly when it comes to long-gestation infrastructure projects. Pioneering investments can generate substantive positive externalities that overcome market failures. This justifies interventions to mobilize pioneering investors by raising incentives and lowering the costs these first-movers face.

80. **The section consists of three linked components.** The first aims to boost private investment by using existing or new facilities or instruments to de-risk countries. The new Private Sector Window under the IDA18 replenishment is one such innovation. The second aims to support the development of domestic debt markets and address concerns that the global regulatory environment for long-term financial investors inadvertently discourages them from holding African assets. The third aims to promote new public infrastructure investment funds that make it much easier for pension funds, insurers and sovereign wealth funds to enter the African asset class.

### Efficient Risk Mitigation Instruments

#### *Context and Key Policy Issues*

81. **De-risking, or reducing country or project risk and creating markets could lead to the right risk-return profile and help attract private investment.** Development institutions could use their balance sheets to take some risks the private sector will not take, or blending grants or concessional funds with private finance to improve risk-return ratios. With proper blending, moderate amounts of development assistance could leverage private investment in much larger amounts.

82. **There are several ways international and local development institutions could help de-risk private investment.** They could support the private sector directly by providing guarantees for large infrastructure projects to cover key non-commercial risks or sharing risks in a platform that helps to create a new market for institutional investors into infrastructure.<sup>47</sup> For example, the AfDB and WBG's Partial Credit Guarantee products for debt instruments cover the payment of principal and/or interest up to a predetermined amount, and thereby improve the terms of commercial debt by extending maturity, lowering interest rate costs, increasing the issue amount, and/or enabling access to financial markets.

83. **Credit tranching and bundling are other useful credit enhancement techniques.** Project financing instruments may be sliced into tranches to match the different appetite for risk of different investors. Furthermore, multiple projects can be re-bundled into a portfolio

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<sup>47</sup> Hosted at the AfDB, the African Guarantee Fund (AGF) partners with financial institutions to help them increase their exposure to SMEs in Africa through the provision of guarantees and capacity development assistance to SMEs finance. AGF raises its capital from bilateral donors and international development finance institutions. Once it has proven its viability, however, it is also expected to attract capital from private investors such as pension funds and private social investors.

that aims at mitigating risk for investors with low risk appetite, such as pension funds. Development of standardized or wholesale solutions can reduce the information burden imposed if each transaction is entirely idiosyncratic, and lower the overall transaction costs.

**84. Directly blending development assistance with private sector investment through various instruments could also help mitigate other real or perceived risks for investors including liquidity, project, political, and FX risks.** Initiatives like the Private Sector Window under the new IDA replenishment, the AfDB's Private Sector Credit Enhancement Facility (PSF), or the European Union's new External Investment Plan could play a unique role in reducing the risk for private investment and bring pioneering investors to frontier markets.

**85. Experience with de-risking instruments demonstrates the positive impact of de-risking supported by development assistance.** A study by the OECD and the WEF in 2016 surveyed 74 blended finance facilities with \$25.4 billion in assets that helped create 442,000 jobs and reach at least 177 million beneficiaries.<sup>48</sup> The AfDB has piloted the PSF under its African Development Fund since 2015, has created the Africa 50 infrastructure fund to support infrastructure, and recently launched Boost Africa, a blended finance vehicle to support the most risky segment of business ventures.<sup>49</sup> The Africa Trade Insurance (ATI) Facility was established as a pan-African export credit agency to promote inter- and intraregional trade. At the WBG, IFC has blended more than US\$500 million in concessional investment capital since 2012 to support more than 90 investment projects that have leveraged more than US\$5 billion private financing. Similarly, MIGA's Conflict Affected and Fragile Economies Facility launched in 2013 has allowed MIGA to increase its exposure to these countries through a loss-sharing structure.

**86. This calls for a scaling-up of resources and efforts to bring private investments into difficult markets, through both bilateral and multilateral institutions.** New initiatives are already underway. SIDA, the Swedish aid agency, has entered into a Managed Co-lending Portfolio Program (MCP) agreement with the IFC to use its assistance resources to reduce the risk and enable European pension funds to participate in investments in poor countries. The EU's new External Investment Plan intends to boost investments in Africa and EU Neighborhood countries. With an input of €3.35 billion from the EU budget and the European Development Fund, the Plan will support innovative guarantees and similar instruments to crowd-in private investment, enabling the Plan to mobilize up to €44 billion in total investment. The new \$2.5 billion Private Sector Window created under the International Development Association (IDA18) aims to help large infrastructure projects through first loss or guarantee arrangements; facilitate local currency funding through absorbing counterparty risks or by pooling currency risks together; encourage SME financing through risk-sharing facilities; enable first movers in other sector through blended finance; and attract foreign direct investments and mobilize private sector risk participation through MIGA guarantees and reinsurance.

**87. Moral hazard has to be managed appropriately to avoid excessive subsidies to the private sector beyond what is justified for public policy reasons and to minimize market distortion because of the subsidized nature of these interventions.** IOs focusing on private

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<sup>48</sup> OECD, World Economic Forum, "Insights from Blended Finance Investment Vehicles and Facilities", January 2016.

<sup>49</sup> The Boost Africa Initiative is a €200 million blended financing investment program, developed in partnership with the European Investment Bank.

sector operations agreed to a set of principles on the use of blended finance in 2013, centered on additionality, minimum concessionality, achieving financial sustainability, improving transparency and governance. The IFC, MIGA, and other MDBs have started discussing the need to further refine these blended finance principles to incorporate their experiences and move toward a harmonized approach. These principles should be recognized and applied by partners, whether IOs, private investors, and governments, in using de-risking instruments in supporting private sector investment.

### *Initiatives and possible roles for partner countries and IOs*

88. Partner countries and IOs could commit to:

- Support ongoing de-risking initiatives and the effective implementation of the new ones to effectively crowd in private investment in the frontier markets. The WBG is planning a Development Finance Forum in West Africa in May 2017 to focus on expanding private investment and public-private partnerships in frontier markets. This provides an opportunity to identify investment opportunities including through leveraging these de-risking instruments and bringing the various initiatives together to share experience. The Forum can support the CWA initiative.
- Support various de-risking instruments, by both bilateral and multilateral institutions, including the IDA18 Private Sector Window, and AfDB's PSF that offer an opportunity to build these public private partnerships and support private investment. The utilization of these facilities will be carefully managed and transparently reported to ensure it achieves its intended development impact in attracting private investment to the poorest markets.
- Support the further refinement of a commonly accepted set of principles for "blended finance" to use public resources responsibly and transparently to support private investment into the frontier markets for public benefits. Discussion has already started on the working level and is being put on the agenda for the heads of the MDBs, and can be further supported in the G-20 context.

## **Domestic Debt Market Development**

### *Context and Key Policy Issues*

89. **Developing domestic debt markets brings several benefits.** Domestic bond issuance (corporate or public) is a complement to funding from external sources and from bank finance. It can help strengthen money- and financial markets, reduce foreign exchange risks, boost private savings and facilitate the availability of longer-term finance for infrastructure.

90. **Relatively well-developed African local currency bond markets exist** in South Africa, Egypt, and Nigeria, which combined account for approximately 88 percent of the share of total outstanding local currency bonds. Non-government bond markets remain a small share of market size, or approximately 20 percent and are similarly concentrated. Local currency government bond issuance in Africa has been on the rise, particularly in Kenya, Tanzania, Uganda, Nigeria and Ghana, where the stock of local currency government bonds in the three countries grew on average by approximately 92 percent between 2010 and 2015.

91. **Historically, almost all African countries have faced challenges in borrowing in local currency at longer maturities.** International borrowing in foreign currency tends to be

less costly in nominal terms but comes with exchange rate risks.<sup>50</sup> African countries also face trade-offs since local currency debt consists typically of shorter maturities that may increase rollover and interest rate risks. With local currency bond market development, maturities are slowly lengthening but given that the domestic investor base remains narrow and concentrated in commercial banks, this is to be expected since the overall size of domestic institutional investors remains small, outside of South Africa, and non-resident investors have generally shown limited interest.<sup>51</sup>

**92. In many African countries, capacity constraints of policymakers impede government securities market development.** Resource constraints typically relate to the availability of sufficient staff and capabilities in the debt management office, central banks, regulators, and the private sector as well as lack of financial resources to pay for external assistance and necessary system infrastructure.<sup>52</sup> Such resource constraints are critical to consider in order to have a realistic expectations of possible outcomes.

**93. The framework for developing bond markets is based on the assessment of different components, all of them relevant for African countries.**<sup>53</sup> It involves evaluating the macroeconomic policy settings, the investor base for debt instruments, the primary and secondary markets structures, the regulatory and legal framework for these markets, as well as the market infrastructure. Developing debt markets should also be part of a broader strategy to mobilize domestic finance and increase financial inclusion.

**94. Implementing policies in these areas requires the commitment from senior public authorities and coordination across different government sectors.** Developing domestic debt markets must be recognized as a medium-term process that requires strategic thinking and coordination through time among several segments of the government (Box 5 provides one example where several reforms have been implemented).

**95. In general, the set of policies should be preceded by a stable macro financial environment.** The macroeconomic policy shapes the needs of both borrowers and investors, and a stable macroeconomic environment is key to enhance confidence of the different players. Fiscal policy and financing should avoid crowding out private investment. Monetary policy settings and implementation practices need to constrain volatility of short-term interest rates and anchor inflation expectations.<sup>54</sup> Close coordination between fiscal and monetary authorities is warranted to better manage liquidity. Safeguarding financial stability is particularly important during the implementation phase of the policies, and building

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<sup>50</sup> For a discussion on original sin as the inability of a country to borrow abroad in its own currency or in longer maturities in its domestic market, see Eichengreen, Barry, and Ricardo Hausmann. 1999. *Exchange rates and financial fragility*. In *New challenges for monetary policy*, 329–68. Kansas City, MO: Federal Reserve Bank of Kansas City.

<sup>51</sup> Berensmann, Dafe, and Volz, *Oxford Review of Economic Policy*, Volume 31, Number 3-4, 2015, pp. 350-378.

<sup>52</sup> World Bank (2007), “Developing the Domestic Government Debt Market: From Diagnostics to Reform Implementation”, <http://documents.worldbank.org/curated/en/701101468150587348/pdf/405200Domestic101OFFICIAL0HOUSEONLY1.pdf>

<sup>53</sup> <https://www.imf.org/external/np/pp/eng/2013/070913.pdf>

<sup>54</sup> Please see “Evolving Monetary Policy Frameworks in Low-Income Countries and Other Developing Countries. IMF, 2015. Available at:

<http://www.imf.org/~media/Websites/IMF/Imported/external/np/pp/eng/2015/102315pdf.ashx>



appropriate buffers can mitigate potential destabilizing effects, possibly from increased volatility of capital flows.<sup>55</sup>

**Box 5. Morocco: Promoting stable government financing channels and domestic debt market development**

Since the 1990s, the Moroccan authorities have adopted a comprehensive strategy for public debt management and domestic market development. During this period domestic debt as share of total debt grew from approximately 40 percent to 80 percent. Elements of this strategy have encompassed:

- Clear and transparent objectives in a supportive domestic market;
- Active debt management, by conducting active liability management operations in both external and domestic markets;
- Upgrading debt market infrastructure by, among other actions, implementing an electronic auction system;
- Introducing mechanisms to support the secondary markets;
- Implementing institutional reforms in the area of debt management;
- Gradually extending maturities to up to 30 years; and
- Undertaking policies to attract foreign investors.

96. **Sound debt management policies play a key role in facilitating the development of a broader domestic bond market.** Actions by the debt manager can have a profound impact in either promoting or impairing the bond market development process. The existence of credible fiscal framework, together with capacity to forecast and manage cash flows is necessary in order to have a sound basis for analysis and implementation. The formulation of a medium-term Debt Management Strategy and an Annual Borrowing Plan are important steps in order to have a sound basis for the implementation of the debt management policy.<sup>56</sup> In that context, a regular and predictable issuance policy can provide the structure for a well-defined yield curve that can be used as reference for the private sector and contribute to the development of new financial products. In the region, particular attention could be devoted to gradually extending the maturity of public debt instruments, developing capacity in the debt management offices, and promoting investor relations, transparency and predictability.<sup>57</sup>

97. **The set of policies should respect constraints and take advantage of opportunities provided by the investor base.** Many African countries face a small and undiversified investor base, with limited ability of domestic financial institutions and long-term institutional investors to invest in longer-dated instruments. A stable and diversified investor base (comprised not only by banks, but also including institutional investors such as pension funds and insurance companies) facilitate the functioning of debt markets. In those countries where the institutional investor base is not yet properly in place, policies might need to be devised to

<sup>55</sup> The participation of nonresidents in the domestic government securities markets is generally not advisable at an early stage because of the risk of sudden or large-scale reversals in capital flows that can result in a boom-bust pattern in asset prices if secondary markets are shallow and illiquid.

<sup>56</sup> See IMF, International Monetary Fund and the World Bank, 2014, "Revised Guidelines for Public Debt Management," Washington, March.

<sup>57</sup> The experience of local currency bond market development in the West-African Monetary Union provides a good example of the key actions and challenges in a regional context.

incentivize its development. Many countries have recently attracted foreign investors to their domestic markets, which help deepen the market and lengthen the debt maturity. However, the financial stability risks posed by these investors need to be carefully evaluated.

98. **The legal and regulatory framework need to be conducive to facilitating the operations of primary and secondary markets of both government and corporate instruments.** A clear and well-defined legal framework for government securities is essential in defining the authority to borrow, as well as the broader conditions in which borrowing can take place. The regulatory framework needs to facilitate disclosure and transparency as well as access to the corporate bond market for both issuers and investors. Having in place capable and well-resourced regulators is essential to ensure a smooth functioning of these markets.

99. **The market infrastructure needs to support secondary trading, transparency, and financial stability.** Adequate clearing, settlement, and custody frameworks should be devised for both government and corporate securities. Trading transparency needs to be promoted by devising reliable price reporting mechanisms for secondary market transactions that is disseminated to relevant parties. Greater data transparency—promoted through the IMF data standard initiatives—can also help to significantly reduce bond spreads. Also, the presence of Credit Rating Agencies can facilitate the access of non-government issuers in the market, by providing independent analysis about credit worthiness of potential debtors.

#### *Initiatives and possible policy commitments for African countries*

100. **The successful development of domestic debt markets hinges considerably on the authorities' commitment to implement a series of policies, as outlined above.** These policies need to be implemented by different sectors of the government and be properly coordinated. In addition to sound macroeconomic policies, key commitments from the authorities are:

- Introduce an appropriate regulatory and supervisory framework. The regulatory and supervisory framework should promote the broadening of the investor base, including by facilitating the conditions for the development of long-term institutional investors. It should also aim at enhancing market functioning by, among other actions, establishing standard documentation and setting procedures for corporate bond issuance, and defining the role and functions of market intermediaries;
- Facilitate the conditions for the implementation of an efficient market infrastructure. The government should be committed to establish over-the-counter trading, as well as custody and settlement mechanisms that minimize costs and risks for trading and holding of debt securities;
- Support the development of the domestic institutional investor base. This includes vehicles such as pension funds, life insurance, and mutual funds in order to provide a natural demand for medium- and longer-term instruments;
- Implement sound debt management policies. The issuance policy should attain to a regular and predictable auction calendar, and aim at building benchmark instruments that allow for the development of proper pricing references along the yield curve.

## *Initiatives and possible roles for partner countries and IOs<sup>58</sup>*

101. **Multilateral and bilateral organizations can play a relevant role in developing domestic debt markets.** Follow-up technical assistance by AFRITACs, the IMF, the WBG, the AfDB, and other donors to strengthen African countries' efforts would be needed. Going forward, these institutions can assist country authorities through different roles, among which:

- Issue bonds in local currency of member countries. These instruments could act as a “bridge” for investors' first exposure to a country.
- Provide TA in different topics, such as: framework, monitoring, coordination, regulatory and supervision development (e.g. IMF, WBG, African Financial Market Initiative<sup>59</sup>/AfDB);
- Provide credit enhancements, so that project bonds have a credit risk profile acceptable to institutional investors.<sup>60</sup>
- Promote projects to improve the financial market infrastructure, Central Securities Depository.
- Promote initiatives to provide swaps and credit risk enhancements for local currency instruments.
- Seek contributions to the African Domestic Bond Fund, the first regional Fixed Income exchange-traded fund that will invest in African sovereign bonds.

## **Broaden Private Finance: Create Instruments for Institutional Investors**

### *Context and Key Policy Issues*

102. **In Africa, infrastructure and housing assets can represent an innovative and attractive asset class for institutional investors with long-term liabilities.** And vice versa, leveraging private capital should help some African countries address their huge private investment gaps in infrastructure and housing, which both require long-term finance and play a decisive role in supporting growth. As banks face additional regulatory challenges in extending long-term project finance and as governments have limited fiscal space, it becomes urgent to unlock additional flows from long-term institutional investors such as insurers, pension funds, and sovereign wealth funds that would complement shorter financing from banks. PPP finance does not constitute any silver bullet solution, but can significantly complement traditional funding sources (governments, donors).

103. **Yet institutional investors remain hesitant in investing in Africa.** For example, to connect infrastructure projects to investors, there are a number of hurdles to overcome, in order to mitigate real and perceived risks (liquidity, currency, project, political). Investors need the data, relationships, desire, and risk tolerance to understand, assess, and monitor any infrastructure portfolio. Beyond project preparation, more efforts are also needed on policy,

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<sup>58</sup> See, for instance, Capital Market Instruments to Mobilize Institutional Investors to Infrastructure and SME Financing in Emerging Market Economies. Report for the G-20, IMF/WB/OECD.

<sup>59</sup> The African Financial Markets Initiative, launched by the AfDB, aims to contribute to the development of domestic bond markets in Africa through its two complementary pillars: i) the African Financial Markets Database (AFMD) and ii) the African Domestic Bond Fund (ADBF). For additional information on African Financial Markets Initiative, [www.africanbondmarkets.org](http://www.africanbondmarkets.org)

<sup>60</sup> Innovations in risk mitigation products are being developed to catalyze infrastructure bond financing in emerging markets. For example, MIGA in conjunction with the EBRD, has pioneered a structure that enabled the first greenfield infrastructure bond in Turkey. This type of structure has the potential to be adapted to markets in Africa and replicated by other development banks/partners.

<https://www.miga.org/Lists/Press%20Releases/CustomDisp.aspx?ID=523>

legal, and regulatory issues to bring in institutional investors outside and within Africa. Public finance is also often required to play a catalytic role.

104. **Investors often lack expertise in African markets to assess the various risks and adequately structure transactions.** The suitable products or vehicles are often missing, as are the right enhancement solutions. Additionally, the regulatory and institutional framework is insufficient, in a number of markets, for these financial instruments to be developed. Few African banks are truly active and experienced in project finance. Africa only managed to close 158 project finance deals with debt totaling \$59 billion over the decade 2004-2013, which represents only 5 percent of infrastructure investment needs and 12 percent of the actual financial flows. Most residential mortgage markets in Africa also account for less than 5 percent of GDP, which implies a lack of market accessibility and depth, the access to long-term resources representing one usual hurdle for banks (in addition to other issues related to credit risk management in housing finance).

105. **A coherent and coordinated approach is needed to address these challenges and mobilize institutional investors while limiting their risk exposure.** This requires specific policies to reduce risks at source and instruments to mitigate risks (see previous sections). National sectoral and financial sector regulations also need reforms to lift impediments to invest in those asset classes (as done for instance in Mexico, see Box 6).<sup>61</sup> Many advanced G-20 countries place limits on the amounts and composition of foreign investment by pension funds. For EU-based investors, limits on investing outside the OECD are in the single digits relative to the size of the portfolio. While preserving prudential standards of solvent pension funds and the transition towards risk-based capital regimes of insurance firms, regulatory hurdles against infrastructure finance assets could be adjusted (suitably accommodating quantitative ceilings on asset classes, approval of new financial instruments, concentration levels, foreign investments, forex exposure, geographies) according to the risk/return profile of asset classes.

**Box 6. Pension fund policy reform and infrastructure finance in Mexico**

The regulator CONSAR has gradually deregulated investment restrictions as alternative investments have been created for pension funds. In July 2009, regulatory changes were made to create a new type of security known as CKDs (Cetificados de Capital de Desarrollo), designed to enhance projects for infrastructure and which are traded on the Mexican Stock Exchange. As the principal sources of capital for these instruments are Mexican mandatory pension funds, part of these regulatory changes involved amending these funds' investment rules to allow for the possibility of making investments in private equity, real estate and infrastructure projects through CKDs. Such investments were also encouraged by providing tax exemptions.

106. **The G-20 already endorsed several policy and regulatory guidance on mobilizing private investment in infrastructure**<sup>62</sup>, in particular from institutional investors through

<sup>61</sup> In that regard, pension fund assets in Africa (without South Africa) represent 21 percent of GDP, whereas the insurance sector and mutual fund industry remain smaller, so reforms could initially prioritize pension and social security funds, as well as non-resident investors.

<sup>62</sup> Including the [OECD Guidance Note on Diversification of Financial Instruments for Infrastructure and SMEs](#); OECD High-Level Principles on Long-Term Investment Financing by Institutional Investors, and the WB-IMF report on the development of Local Currency Bond Markets.

diversified capital market instruments, fixed income securities and equity instruments. The use of risk mitigation techniques and various funding models are important parts of the recommendations which should remain tailored to country-specific circumstances<sup>63</sup>. IOs can further adapt and implement these approaches in the countries.

107. **On a worldwide base, project finance structures tend to record a low probability of default** (and lower loss given default, with a similarly high 80 percent recovery ratio in advanced and emerging economies), when contracts are well structured. Project finance may contractually encompass multiple forms (syndicated loans, bridging facilities, etc.) to be tailored to each case. This requires specialized expertise that many banks even in advanced markets do not have. As seen in another region like Latin America, engaging foreign banks is also critical for knowledge transfer and competition to create a project finance culture among domestic banks.

108. **Tackling the financing gap will not only take place through listed markets but also through unlisted instruments**, new instruments like project bonds (as piloted in South Africa) but as well infrastructure funds (both equity and debt funds). Strategic investment funds, if well-structured and managed, can also be a powerful tool to mobilize private domestic and international investors, and achieve a high multiplier between public capital and private investment.

109. **Some prominent examples of infrastructure finance in Africa could serve as important guidelines for the region.** In South Africa, the renewable energy sector has already mobilized around \$12 billion of private sector financing since its 2011 launch. The size of the program, its quality and credibility in domestic and international markets are developing a promising framework, with WBG support, to refinance projects in the operation and maintenance phase through capital markets. In Kenya, a robust PPP unit and framework were developed over the last three years, which is bringing to market five demonstration transactions. To complement this effort, a comprehensive financing strategy is being developed, with continuous WBG support, to engage institutional investors in some greenfield projects through hybrid financing solutions. These structures would include joint bank financing in the shorter tenors and pension funds in the longer tenors through debt funds. This model is supported by public and private sector stakeholder, and follows a similar successful structure used in Colombia.

110. **In the other area of mortgage securities, liquidity facilities have started to be effectively used as leverage instruments to issue secure, low risk and well-rated local currency bonds, so that to catalyze and refinance the expansion of primary mortgage markets.** This is anticipated to boost housing investment, support growth and job markets, and reduce the growing quantitative and qualitative housing deficits in a rapidly urbanizing Africa. A new generation of WBG projects is taking place in Nigeria, Tanzania and in the WAEMU sub-region.

#### *Initiatives and possible policy commitments for African countries*

111. In addition to policies aiming at ensuring macroeconomic stability, developing debt markets and expanding the pool of high-quality, bankable and/or capital marketable infrastructure projects, discussed in other sections, African governments could:

- Improve the limited capacity of domestic banks in project finance and in housing finance. In the area of infrastructure finance, the active presence of foreign banks can accelerate the trend. National development banks should aim at crowding in private investors through co-financing and risk sharing products, rather than crowding them out by direct subsidized lending.
- Develop innovative governance and contractual frameworks to enable infrastructure sustainability and facilitate private financing. Strengthen institutions to ensure adequate design and transparency.
- Expand the use of equity investment instruments (including listed and unlisted equity funds where appropriate).
- Develop institutional investors (insurance companies, pension funds, social security funds, provident funds, mutual funds) as effective long term investors: e.g. withdrawal, redemption, valuation and investment rules.
- Improve the regulatory framework of pension funds and insurance companies.
  - Work with regulatory authorities to ensure investment regulations support long-term investments: adjust asset class restrictions, allow investing in new assets classes (private equity/ unlisted bonds/ collective investment schemes) if vetted by the regulatory authorities.
  - Adjust risk-based solvency and capital charges of insurers to reflect the actual risk of underlying investments.
  - Revisit regulations that allow access to funds before retirement (inducing managers to rather invest into short-term liquid assets).
  - Adopt structural and parametric reforms to improve the solvency of pension fund systems, as well as the coverage of the population.
  - Improve the governance of pension funds. Improve long-term investment strategies—particularly for funds governed by their own Acts as opposed to investment regulations (example of GPIF in South Africa). Create partnerships (for boards and fund managers). Require pension funds to use professional fund managers.
  - Create investment structures for non-listed assets which provide professional management and transparency (e.g. along the lines of the SPV structures created by regulator in Namibia).
- Align capital markets policy and regulations to support infrastructure finance instruments, through an adjusted disclosure regime; possible hybrid issuance regimes; adequate governance of new vehicles, adequate regulations to promote capital markets products (project bonds, investment funds, listed or not securities (re)financing projects, liquidity facilities, covered bonds, mortgage securitization)
- Introduce de-risking instruments to improve risk-adjusted yields; yet containing the resulting fiscal liabilities, in an environment short of derivative markets, but a high exposure of project finance to construction, forex and regulatory risks. Government can tailor partial guarantees.

### *Initiatives and possible roles for partner countries and IOs*

112. Partner countries and IOs could commit to:

- Expand, by both MDBs and G-20 bilateral agencies, risk mitigation facilities, launch demonstration projects, provide credit enhancement to new asset classes (project bonds; mortgage securities) with a return and risk profile acceptable to investors. For example, through IBRD/IDA/IFC/MIGA programs, or new co-financing tools like the recently established IFC Managed Co-Lending Portfolio Program, MDBs can crowd in large inflows from institutional investors if acting as intermediary and catalyst, in addition to being a funder and adviser.<sup>64</sup>
- Contribute to disseminate lessons learned from most successful infrastructure finance initiatives, as well as promote south-to-south knowledge exchange between the public and private sector on financial innovations.
- Review current regulations in individual G-20 countries on institutional investors with the objective to relax unnecessary restrictions to invest in Africa infrastructure and housing finance, notably in terms of limits by type of asset class, foreign exposure and exchange rate exposure, and investment concentration.
- Provide support to Africa pension fund reforms, assist regulators and supervisors, and develop and strengthen strategic investment funds.
- Work with domestic pension funds, other institutional investors and their service providers (fund managers / advisors) to support their early involvement in discussions on financial structuring of demonstration projects, including through the African Investment Forum.<sup>65</sup>
- Seize on investment trends in G-20 countries (sustainable investment in renewable energy; ESG initiatives), and align investment opportunities in Africa with these trends.
- Support implementation of the G-20/OECD principles of corporate governance to support market confidence and create opportunities for broadened private investment.
- Facilitate data collection on infrastructure investments and loans in Africa, allowing investors and lenders to perform due diligence on projects and model investments and financing.

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<sup>64</sup> The MCPP offers an attractive entry point for global institutional investors to co-invest into a well selected, managed and diversified portfolio of infrastructure projects in EMEs (so not Africa alone), with some built-in enhancement solutions in order to create an investment-grade equivalent asset.

<sup>65</sup> The Forum, established by the AfDB, is mandated to engage with sovereign wealth funds, pension funds, investment agencies and private equity, and to attract social impact financing for impactful development.

## Annex. Ongoing Initiatives in Africa

This Annex lists the various initiatives taken or hosted by the African Development Bank, the International Monetary Fund, the OECD, and the World Bank Group towards facilitating effective and sustainable domestic and international private investment, with relevance to Africa, many supported by G-20 members and others. Further initiatives from bilateral G-20 members who have requested it are also included.

### 1. Macroeconomic framework

#### 1.1. Macroeconomic stability and debt sustainability

INITIATIVE	DESCRIPTION	YEAR OF INCEPTION	FUNDERS	FINANCIAL SCALE
Debt Sustainability Frameworks (IMF)	Analytical Frameworks (LIC-DSF and MAC-DSA) for assessing debt sustainability	N/A	IMF	N/A
Tools for assessing fiscal transparency and the fiscal risk from PPPs (IMF)	Fiscal transparency Evaluation Tool and PPP Fiscal Risk Assessment Tool	N/A	IMF	N/A

#### 1.2. Domestic resource mobilization, investment friendly tax systems

INITIATIVE	DESCRIPTION	YEAR OF INCEPTION	FUNDERS	FINANCIAL SCALE
Addis Tax Initiative	Participating funders will collectively double their technical cooperation in the area of domestic revenue mobilization /taxation by 2020; Partner countries commit to step up domestic revenue mobilization for attaining the SDGs and inclusive development.	2015	Various	
Tools for assessing key elements of tax administration (IMF)	Analytical frameworks for assessing Tax/Revenue administration (Tax Administration Diagnostics Assessment, Revenue Administration Gap Analysis, Revenue Administration Fiscal Information)	N/A	IMF	
Resource Management Trust Fund (RM-TF)	RM-TF (succeeding the Tax Policy and Administration Trust Fund, TPA) helps to meet LLMICs' increasing demand for TA in revenue policy and administration, through supporting comprehensive reforms beneficiary countries make to their tax systems, including redesigning tax policy frameworks and strengthening revenue administrations.	2016 (TPA: 2011)	IMF, Australia, Belgium, Germany, Japan, Korea, Luxembourg, Netherlands, Switzerland	USD 60 million
Managing Natural Resource Wealth Trust Fund (MNRW)	MNRW assists resource-rich LICs/LMICs countries in mobilizing and managing their domestic revenues in a sustainable manner. The fund also helps foster a stable macroeconomic environment for exploration and exploitation of natural resources, and helps to ensure that resources are managed in a socially responsible way.	2011	IMF, Australia, European Union, Kuwait, Netherlands, Norway, Oman, Switzerland	USD 30 million



Partnership with the African Tax Administration Forum	Cooperation platform for training, research and statistics, also involving the AfDB, NePAD, SADC, and EAC.	MOU Renewed 2015	N/A	N/A
African Legal Support Facility (ALSF)	Provision of legal advice and technical assistance in negotiation of complex commercial transactions, creditor litigation and capacity building to African countries. ALSF also develops and maintains related knowledge resources and publications.	2008	AfDB, Belgium, Canada, ECOWAS, BIDC, France, Guinea-Conakry, India, Islamic Development Bank, Netherlands, Norway, UK, USA, BOAD, World Bank Group, KfW	

### 1.3. Public investment management to support external financing

INITIATIVE	DESCRIPTION	YEAR OF INCEPTION	FUNDERS	FINANCIAL SCALE
Public Investment Management Assessment (IMF)	Analytical framework for benchmarking of the quality of the management of public investment	N/A	IMF	
Public Investment Management Framework (OECD)	A high level Framework for the Governance of Infrastructure (under development), whose preparation has been endorsed by the G-20 Investment and Infrastructure Working Group. The focus in on whole-of-government PIM.	2016	N/A	N/A

### 1.4. State-owned enterprise (SOE) reform

INITIATIVE	DESCRIPTION	YEAR OF INCEPTION	FUNDERS	FINANCIAL SCALE
Network on Corporate Governance of SOEs in Southern Africa (OECD)	The Network undertakes consensus-based policy papers on governance reform of SOEs in the sub-region. The main areas include improving the governance of SOEs, and the enhancement of ethics in SOEs. Annual meeting reinforce the peer-learning process and dedicated regional taskforces, made of representatives from participating economies, ensure regional ownership	2007	N/A	N/A
Guidelines of Corporate Governance of State-owned Enterprises (OECD)	Guidelines are a benchmark for internationally accepted practices that support governance and efficiency improvements for state-owned enterprises.	2015	N/A	N/A

## 2. Business framework

### 2.1. Reliable regulation and institutions

INITIATIVE	DESCRIPTION	YEAR OF INCEPTION	FUNDERS	FINANCIAL SCALE
SSA Power (WBG)	Technical assistance facility to catalyze investment in clean energy through advice to companies and public sector agencies and market/sector level work to address market barriers and facilitate replication of advanced solutions. Priority countries are Cote d'Ivoire, Guinea, Sierra Leone, Togo, Malawi, Zambia and Zimbabwe.	2016	Various	
Resource Efficiency Advisory Services	Global technical assistance facility for catalyzing resource efficiency and clean energy solutions through advice to individual firms and sector work to develop scalable and replicable technical and transactional solutions. In the SSA region, REF advisory is active in South Africa, Kenya, Senegal, Ethiopia, Nigeria, Zambia, among other countries. Focus is on agribusiness and construction materials.	2015	Various donors	
Grid Connected Solar Development in Sub-Saharan Africa Project	Technical assistance facility to facilitate sustainable scale-up of solar electricity generation in SSA by improving enabling environment for investments and private sector participation in solar generation, including policy and regulatory support, planning, grid strengthening, system controls and dispatch arrangements, investment identification, and feasibility studies.	2018	World Bank, (TBD: ESMAP, PPIAF, WB China Trust Fund, Korea)	
Lighting Africa (IBRD/IFC)	Technical Assistance facility to support sustainable growth of the off-grid solar market by addressing supply and demand-side market barriers, including through providing Market Intelligence; Quality Assurance; Policy and Regulations; Access to Finance; Consumer Education; and Business Development Support.	2007	IBRD, IFC, GEF, ESMAP, Australia, Austria, Canada, Finland, Germany, Hungary, Iceland, Italy, Lithuania, Netherlands, Norway, Sweden, UK and USA.	

ESMAP Program in Support of Universal Energy Access	Technical Assistance facility for countries in the SE4ALL initiative, helping them to develop policy frameworks, strengthen institutions, access expansion planning (grid and off-grid), and mobilize financing for their national energy access programs. Includes Burundi, Guinea, Liberia, Mozambique, and Senegal, and TA for regional power pools, in SSA.	2013	ESMAP	
Public-Private Infrastructure Advisory Facility (IBRD)	Global technical assistance facility managed by The World Bank which aims to facilitate the provision of infrastructure services by the private sector in emerging markets.	1999	World Bank, IFC, France, ADB, Australia, Germany, Austria, Italy, Norway, Sweden, Switzerland, UK, USA	
Power Sector Reform Assistance (IBRD)	Support provided through a mix of Technical Assistance, Policy Advisory Support and Policy Based Lending, including for utility, regulatory, tariff, subsidy and electricity market reforms, transparency in procurement/bidding practices, and investment planning, which help build an enabling environment for private participation in the Power Sector.		World Bank	
Regional transmission infrastructure and Power Trade (IBRD)	Technical Assistance and Investment Finance for power trade and regional transmission infrastructure, which create better environments for private investment in the sector. Recent examples include: OMVG (Gambia, Guinea, Guinea-Bissau and Senegal) and Côte d'Ivoire, Liberia, Sierra-Leone and Guinea (CLSG) interconnection and building capacity in the Southern Africa power pool.		World Bank, AFD, AfDB, EIB, KfW etc.	
Business Integrity and Anti-Bribery (AfDB/OECD)	Network supporting 21 African governments to fight bribery and corruption and aiming to boost private sector competitiveness by promoting standards of corporate integrity and accountability.	2011	N/A	N/A
NePAD/OECD Africa Investment Initiative	Dialogue platform. Current focus: (i) design, assess, and implement investment policy reforms; (ii) catalyze investment in infrastructure; (iii) leverage cross-OECD collaboration and spearhead external partnerships. Focus on SADC.	Renewed 2014	N/A	N/A
Enabling Environment for Infrastructure Investment (WBG/OECD)	Policy Indicators on the Enabling Environment for Infrastructure Investment, following a G-20 mandate.	2015	N/A	N/A

## 2.2. Improved project preparation

INITIATIVE	DESCRIPTION	YEAR OF INCEPTION	FUNDERS	FINANCIAL SCALE
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ADF Project Preparation Facility	Reimbursable project preparation advances for PPPs recoverable from the project, if materialized, or future ADF allocations. Targeted to preparatory activities of limited scope required to validate data and revise documents before project appraisal and execution.	2000	AfDB	USD 6.77 million
Africa 50	Incorporated in Morocco, Africa50 seeks to mobilize both public and private finance to accelerate infrastructure development in Africa by investing in African infrastructure through Project Finance (PF) and Project Development (PD) windows. (AfDB contributing USD 100m for project finance, and approx. USD 28 million for project development.)	2013	As of 31 July 2016 23 African countries, the AfDB and 2 African central banks were shareholders.	Total subscription of USD 750 million as of 31 July 2016.
Africa Renewable Energy Fund (AfDB)	Private equity fund for small and medium-sized renewable energy projects in SSA. AfDB, Sustainable Energy Fund for Africa and the Global Environment Facility jointly support the preparation and investment of bankable projects. Latter two limit their returns to enhance returns by other investors.	2014	AfDB, Sustainable Energy Fund for Africa, Global Environment Facility	USD 250 million close in 2015
African Water Facility (AfDB)	Technical assistance/small grant facility for project preparation, sector governance and information systems, under an initiative of the African Ministers Council on Water (AMCOW). It is hosted and managed by the African Development Bank (AfDB). The Facility assists African countries mobilize and apply resources for the Water and Sanitation sector.	2006	Algeria, Australia, Austria, Burkina Faso, Canada, Denmark, France, Norway, UK, Senegal, Spain, Sweden, AFDB, European Commission, Bill and Melinda Gates Foundation, Nordic Development Fund	EUR 151.2 million mobilized since 2006
Agriculture Fast Track Fund (AfDB)	Technical Assistance facility for project preparation for bankable food security projects that support Africa's agriculture transformation agenda. The AFT provides grant funds for project development costs such as feasibility studies, market research, financial modeling, business plan development, and environmental and social impact studies.	2013	USA, Sweden, Denmark	USD 46.36 million
New Partnership for Africa's Development Infrastructure Project Preparation Facility Special Fund (NEPAD-IPPF)	Technical Assistance Facility to assist RMCs to prepare high-quality, bankable regional infrastructure projects aligned to the Programme for Infrastructure Development in Africa (PIDA) and Regional Infrastructure Master Plans to enable financing from public and private sources thereby contributing to bridging Africa's infrastructure financing gap.	Established 2004 Enlarged 2005	Canada, UK, Norway, Germany, Denmark, Spain, AfDB	USD 65.48 million
Fund for African Private Sector Assistance (AfDB)	Technical Assistance Facility, supporting the AfDB's Private Sector Development (PSD) Strategy through technical assistance and capacity building to African governments, regional economic communities and similar intergovernmental organizations, business associations, market regulatory institutions, business development service providers, business training and research institutions, and public/private enterprises.	2006	Japan, AfDB, Austria	USD 68.92 million

Urban and Municipal Development Fund (AfDB)	Proposed Technical Assistance Facility, hosted by AfDB, to support preparation of urban projects, technical assistance to governments and municipalities to strengthen their governance and implement home-grown and country-owned urban reforms, and to support knowledge development in urban area.	Expected Q2 2017	Nordic Development Fund, Switzerland (SECO)	USD 9.3 million
Infrastructures Infrastructure in Africa Special Initiative (WBG)	Global financial facility to help develop public-private partnerships and private projects for infrastructure in developing countries. It provides early-stage risk capital and actively participates in the project development phase to create private infrastructure projects that are commercially viable and able to more rapidly achieve financing close.	2009 expanded in FY14	World Bank Group	USD 150 million allocated
Global Facility on Mini-Grids	Technical Assistance Facility for activities such as geospatial planning, feasibility studies, design and preparation of bid documents as well as promoting an enabling environment for private sector participation in mini-grids. Examples includes support to mini-grid developments in Rwanda, Ghana, Liberia, Congo DRC and Mali.	2015	ESMAP, DFID	

### 2.3. Standardization of contracts for projects and financing

INITIATIVE	DESCRIPTION	YEAR OF INCEPTION	FUNDERS	FINANCIAL SCALE
Benchmarking PPP Procurement 2017 (IBRD/IFC)	This report aims to inform decision-making on the design of PPP procurement policies and regulations, by benchmarking against good practices across four areas of the PPP project cycle: preparation; procurement; contract management and unsolicited proposals. The WBG hope to publish this regularly, increase the number of countries (not least in Africa) and possibly increase the scope beyond the 4 areas covered.	2016		
Scaling Solar (WBG)	This joint WBG program brings together WBG services and instruments, including simple and rapid tendering using templates and credit enhancement, to help create viable, competitive and transparent markets for grid connected solar PV power plants in sub-Saharan Africa.	2015	WBG, Denmark, Netherlands, USAID, UK, DEVCO	

## 3. Financing framework

### 3.1. Efficient risk mitigation instruments

INITIATIVE	DESCRIPTION	YEAR OF INCEPTION	FUNDERS	FINANCIAL SCALE
African Guarantee Fund (AfDB)	The African Guarantee Fund helps financial institutions to increase their exposure to SMEs in Africa through providing guarantees and capacity development assistance to SMEs finance. AGF raises its capital from bilateral donors and development finance institutions. Once it has proven its viability, it expects to attract capital from private investors such as pension funds and social investors.	2012	AfDB, Denmark (DANIDA), Spain (AECID)	Portfolio of guaranteed lending of USD 230 million since 2012
Guarantee Facilities (AfDB)	To further strengthen private sector financing in development, the AfDB has introduced partial risk and partial credit guarantees to help eligible borrowers crowd in private financing where the Bank is not able to provide such financing directly.	2010	AfDB	N/A
Private Sector Credit Enhancement Facility (AfDB)	The PSF provides guarantees to the African Development Bank on selected private sector operations in in low income economies (LICs) and fragile states, freeing up capital for the AfDB and thereby increasing the AfDB's capacity to extend additional private sector loans in these countries.	2015	AfDB	USD 230 million seed grant, USD 270 million additional contribution 2017-19
Guarantee Facilities (IBRD)	World Bank Guarantees can mitigate a variety of critical sovereign risks and attract private sector equity investment and long-term commercial financing in infrastructure development. Guarantees can also help sovereign governments access the commercial financial markets.		World Bank	
EU External Investment Plan	The Plan sets up a new European Fund for Sustainable Development (EFSD): a €1.5bn guarantee facility for private investment in Africa, the Southern Mediterranean, and the Eastern Neighborhood in combination with €2.6bn foreseen through two new regional investment platforms, building on existing blending facilities. This will be accompanied by TA to improve the regulatory environment and develop bankable projects, and policy dialogue to improve the investment climate.	2017	EC (and possibly member states)	
EU-Africa Infrastructure Trust Fund (EU-AITF) (2007)	Increase infrastructure investment in sub-Saharan Africa by blending long term loans from financiers with resource grants			
IDA 18 Private Sector Window (IDA PSW)	IDA PSW is a platform for expanding private sector investment in IDA-only countries through several dedicated facilities: Risk Mitigation Facility, MIGA Guarantee Facility, Local Currency Facility and Blended Finance Facility	2017	IDA	Start-up phase
Luxembourg Rail Protocol	This Protocol to the Cape Town Convention on International Interests in Mobile Equipment, 2001 will, when ratified by sufficient countries, enable investors to have much greater security on investments in rail equipment such as rolling stock which crosses borders, and will therefore reduce risk to	2007		

	investors and costs to purchasers of such equipment.			
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### 3.2. Domestic debt market development

INITIATIVE	DESCRIPTION	YEAR OF INCEPTION	FUNDERS	FINANCIAL SCALE
Africa Pension Funds Network (AfDB)	This is a platform for peer learning and exchange among African pension funds, recently launched by the Making Finance Work for Africa (MFW4A) Partnership, with a focus on increasing pension fund support for long-term investments, such as private equity and infrastructure across Africa. This will require regulatory changes in some jurisdictions and sustained engagement with regulators and trustees.	2014	MFW4A Partnership (see below)	N/A
African Financial Markets Initiative (AfDB)	This Initiative aims to contribute to the development of domestic bond markets in Africa through: i) the African Financial Markets Database (AFMD) and ii) the African Domestic Bond Fund (ADBF). The ADBF aims to improve liquidity in local capital markets which in turn should lower borrowing rates. It will be the first multi-jurisdictional Fixed Income ETF in Africa.	2008	AfDB	Fund has USD 25 million from AfDB; total USD 200 million target fund size
Financial Sector Development Fund (AfDB)	Dedicated to supporting inclusive financial markets and dynamic institutions that promote robust African economies, FSDF provides Technical Assistance (TA) and Seed Capital Grants to early stage innovative projects. Focusing on: the need to activate capital markets, and develop instruments to scale up investment to raise private investment from pension funds, hedge funds, and other institutional investors; Africa's financial systems foundations via policy, legal, regulatory, and supervisory frameworks; Financial Inclusion by supporting Digital Financial Services companies and financial technologies (Fintech).	Projected 2017	Luxembourg; looking for additional donors.	USD 30 million target fund size
Local Currency Initiative (AfDB)	The AfDB introduced this in order to assist clients to mitigate foreign exchange risk and to help develop domestic capital markets. The Bank can lend in up to 10 African currencies. It also provides loans in local currency through its synthetic local currency loans, whereby the loan is booked by the Bank as a hard currency loan which the client exchanges into local currency at an agreed exchange rate.	2005	AfDB	Total approved portfolio USD2.6bn equivalent
Making Finance Work for Africa (AfDB)	The Making Finance Work for Africa Partnership (MFW4A) is a platform for joint action, disseminating ideas, and coordinating amongst and between donors and African financial sector stakeholders, to address financial sector development priorities on the continent. MFW4A provides research, knowledge management, advocacy and networking services.	2008	AfDB, AFD, BMZ/GIZ, EIB, IMF, MinBuza	USD 6.06 million resource available

Efficient Securities Markets Institutional Development program (IBRD/IFC)	This Technical Assistance Facility, jointly managed by the Swedish International Development Cooperation Agency (SIDA), IFC and the World Bank, aims to develop well-functioning securities markets in order to provide support to emerging African capital markets.		SIDA, IFC, IBRD	
Pan-African Domestic Medium Term Note Programme (IFC)	IFC's Pan-African bond program aims to facilitate local currency bond issuances by domestic and international issuers. Under the program, IFC has so far enabled several domestic medium-term note programs in local currencies.			Notes include some USD 90 million equivalent in Zambia, Nigeria and Namibia.
Africa Affordable Housing	Addressing affordable housing gap by investing in supply- (developers) and demand-side (mortgage financing) initiatives. CITICC Pioneer Pan-African affordable housing project targeted at middle and lower middle income.	2015	IFC and CITICC -NMRC, FBN Mortgages -Old Mutual, Nedbank	
Guarantco	Funded by the Private Infrastructure Development Group (PIDG) trust and the Dutch Development Bank (FMO), GuarantCo provides partial guarantees to lenders which serve as credit enhancements to facilitate local debt instruments.	2006	PIDG Trust, FMO	Up to USD 30 million per transaction

### 3.3. Crowding in Private Finance

INITIATIVE	DESCRIPTION	YEAR OF INCEPTION	FUNDERS	FINANCIAL SCALE
Boost Africa (AfDB and EIB)	This investment program is to provide funding to private equity funds supporting start-ups and early stage SMEs across the continent, in order to generate sustainable employment opportunities for Africa's youth and women and enhance entrepreneurship and innovative business opportunities. There is also a separate Technical Assistance Facility (max EUR 20 million); and an Innovation and Information Lab (EUR 10 million).	2016	AfDB, EIB, EC	EUR 150 m initial investment envisaged, shared equally between the 3 institutions
Climate Investment Funds (AfDB/IBRD)	These funds provide grants, concessional loans and risk mitigation instruments to leverage substantial additional funding for climate solutions from other MDB, national and private sector development resources. CIF includes a Clean Technology Fund (CTF), and a Strategic Climate Fund (SCF) which finances a Pilot Program for Climate Resilience, a Forest Investment Program and a Scaling Up Renewable Energy Program in Low Income Countries.	2008	AfDB, ADB, EBRD, IDB, World Bank	USD 8.3 billion
Loan Syndication (AfDB)	By bringing in private partners through syndication, the Bank can structure deals large enough to finance some of these big projects, and hence respond to the needs of RMCs. The Bank has recently begun a syndication program, and intends to scale it up going forward.	2011	AfDB	



FIG Global Warehouse Finance Advisory in Sub-Saharan Africa (IFC)	IFC's Global Warehouse Finance Program (GWFP) is a comprehensive \$500 million investment and advisory program to increase post-harvest financing of agricultural commodities in warehouses. GWFP increases access to finance to small and medium enterprises (SMEs) and small-hold farmers in emerging countries by providing them with a specific modality of inventory financing called "warehouse finance".	2015	Netherlands, Japan	USD 500 million
The Africa Hydromet Program	The Program aims to modernize the hydrological, meteorological and early warning services of Sub-Saharan Africa through knowledge, investment and partnerships. It has potential for leveraging the private sector in upgrading Hydromet systems and services; in development of services and products that meet the felt needs of all users; and as service delivery partner in last-mile delivery to the end-users.	2016	IDA, EDF, Climate Resilience through Early Warning Systems, GEF, GCF	
Regional Off Grid Electrification Project (IBRD)	This is a regional financing and technical assistance facility to facilitate off-grid electrification by addressing key barriers for private sector participation and the development the off-grid solar PV market in western African region including the Sahel. The facility will provide various forms of finance and also technical assistance for creating an enabling ecosystem, including quality assurance, knowledge and technology transfer and policy and regulatory support.	2018		
EU's Electrification Financing Initiative (ElectriFI)	The EU's Electrification Financing Initiative (ElectriFI) is an innovative mechanism to unlock, accelerate, and leverage investments to increase access to affordable, reliable, and sustainable energy with a special focus on Africa. The G7 Leaders' Summit in Germany explicitly acknowledged ElectriFI in the Declaration of 8 July 2015. A contribution of USD 10 million targeted at Sub-Saharan Africa was made by USAID Power Africa to ElectriFI in 2016. Since its launch by the European Commission in December 2015 during COP21 in Paris, the ElectriFI initiative has expanded and currently operates a budget of EUR 238 million.	2015	European Union, USAID Power Africa	EUR 238 million
Trust Funds (IBRD)	World Bank administers a number of Trust Funds on behalf of developing partners that promote private participation in the Energy Sector. Examples includes; Russian Trust Fund for Energy – Small and medium size enterprise support in SSA, the Trust Fund for Norway's Support to the Regional Power Infrastructure Projects in Southern Africa, and the Swedish Trust Fund for Tanzania.		Russia, Norway, Sweden etc.	
KOAFEC (Korea Africa Economic Cooperation) Action Plan (AfDB/Korea)	This Action Plan recognizes the critical role of the private sector and will use aid to leverage private sector investment and encourage greater engagement of the private sector and financing into the countries and areas where the private capital is scarce. The priority areas of cooperation are centered on the following five pillars, which correspond to the African Development Bank's High Fives: Transforming Agriculture, Enhancing Africa's Energy, Accelerating Industrialization, Integrate Africa, Improving Quality of Life. Financing is in concessional loans from the Economic Development Cooperation Fund (EDCF), TA and capacity building through the KOAFEC Trust Fund and Knowledge Sharing Program, and private infrastructure financing from Korea Eximbank.	2006	Korea	USD 5 billion, USD 1 billion EDCF, USD 20 KOAFEC Trust Fund and Knowledge Sharing Program, and USD 4 billion Korea Eximbank

African Investment Forum	The AIF will promote strategic partnerships in Africa by linking African enterprises and major projects with potential partners and investors by showcasing bankable projects, attracting financing, and providing platforms for investing across multiple countries. It will also serve as a unique forum for international business and social impact investors looking to deploy funds in Africa and connect investors with both public and private sector projects throughout the continent.	2016	AfDB	N/A
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### 3.4. Crowding in Institutional Finance

INITIATIVE	DESCRIPTION	YEAR OF INCEPTION	FUNDERS	FINANCIAL SCALE
Managed Co-Lending Portfolio Program (MCP)	The core objectives of this program are to (i) increase the familiarity of institutional investors with emerging markets; and (ii) pilot a replicable structure for “crowding in” institutional capital. It gives investors access to IFC’s global network of infrastructure experts, and its pool of new investments. Through an IFC’s proposed first-loss, IFC can also create an investment-grade equivalent asset to attract those investors that, due to their own regulatory constraints, require such credit profile.	2016	IFC	
Long-term Financing for Infrastructure (OECD)	G-20/OECD High Level Principles of Long-Term Investment Financing by Institutional Investors, and follow-up reports on effective approaches to implementation of these principles, and on diversification of financial instruments for infrastructure and SMEs (latter endorsed by G-20 in 2016).	2013-16	N/A	N/A

### 3.5. Crowding in Bondholders

INITIATIVE	DESCRIPTION	YEAR OF INCEPTION	FUNDERS	FINANCIAL SCALE
Green Bond Program (AfDB)	The bonds enable investors to undertake project-level exposure as they become comfortable with the asset class. This, along with other products such as catastrophe bonds, channel efforts towards areas, such as energy efficiency, which play a vital role in helping African countries transition towards a climate-resilient lower-carbon development path.	2013	AfDB	USD 500 million initial offering; two SEK 1 billion offering

### 3.6. Crowding in Official Finance

INITIATIVE	DESCRIPTION	YEAR OF INCEPTION	FUNDERS	FINANCIAL SCALE
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Infrastructure Consortium for Africa (ICA/AfDB)	The ICA was established to support increased investment to infrastructure in Africa, from both public and private sources. The ICA is committed to improve infrastructure service delivery and advocates for increased investment for infrastructure development across Energy, Transport, Water and ICT.	Established in 2005 Operational since 2006	G8 countries, RSA, World Bank Group, AfDB, EIB, European Commission, DBSA. African Continental Bodies (AUC and Agency) and Specialized institutions (RECs, Power Pools, Corridors etc.) attend the meetings as observers.	USD 4.86 million
Islamic Finance Fund for Africa (AfDB)	The IFFA Fund is a proposed Africa-wide fund to allow the AfDB and partners enhance the contribution of the Islamic Finance to growth and poverty reduction in Africa. It will comprise both a financing and a technical assistance component.	Projected Q2 2017	ICD/IsDB	USD 15 million over 5 years
Migration & Development Fund	This Fund provides financing for improving knowledge on migrant remittances in Africa; supporting reforms of the regulatory frameworks required to improve transfer conditions; developing financial products; supporting for productive investment in the migrants' countries of origin; and supporting local development in these countries.	2009	France, IFAD	USD 8.7 million
Multi-Donor Water Partnership Program (AfDB)	The Program helps to operationalize the Bank's Integrated Water Resource Management Policy, enhance commitment to IWRM among RMCs, and support the coordinating efforts of the Bank with respect to the various water initiatives.	2006	The Netherlands, Canada, Denmark, Sweden (SIDA), IsDB	USD 6.4 million
Rural Water Supply and Sanitation Initiative and RWSSI Trust Fund (AfDB)	This platform was adopted by African governments and international development partners as the common framework for resource mobilization and investment at the First International Conference on Rural Water Supply and Sanitation in Africa, held in Paris in April 2005. The Trust Fund was also created to raise additional resources for financing relevant activities, including a 2016-2020 Strategic Plan to address current challenges.	2003	Burkina Faso, Canada, Denmark, France, Italy, the Netherlands and Switzerland	USD 178.89 million

### 3.7. Crowding in the Financially-excluded

INITIATIVE	DESCRIPTION	YEAR OF INCEPTION	FUNDERS	FINANCIAL SCALE
Microfinance Capacity Building Fund (AfDB)	This is a technical assistance facility aimed at scaling-up capacity building efforts to financial intermediaries and to support stakeholders for the benefit of poor and low-income people in Africa, with a special emphasis on women and rural areas.	2009	Government of Spain, UNCDF	USD 6.8 million

Partnership for Financial Inclusion (IFC)	This seven-year program works with microfinance institutions, banks and mobile network operators across the African continent to develop and test innovative business models for financial inclusion. The Partnership also pursues an extensive research and learning agenda, harnessing and sharing insights gained in program projects for the industry and the public good.	2012	MasterCard Foundation (USD 37.4 million)	
Banking on Women (IFC)	Under this program IFC is seeking to increase access to finance for women entrepreneurs by leveraging IFC's extensive global network of financial institutions. It also offers advisory services to financial institutions and customized training for women entrepreneurs.	2010	IFC, GIZ, USAID, AusAid, SECO, Bill and Melinda Gates Foundation	
MCF Farmer Finance (IFC)	The objective of the proposed Program is to improve incomes of smallholder farmers and the livelihoods of rural households through access to financial and other value-added services, including financial intermediation, farmer support and enablers such as mobile technology.	2015	IFC	USD 40 million
Financial Sector Stability Fund (FSSF)	The FSSF will support financial sector stability, inclusion, and deepening, focused on LLMICs. Using standardized diagnostic assessments ("financial sector stability reviews," or FSSRs) to detect risks and vulnerabilities in country financial sectors and by providing dedicated capacity development services, the FSSF will assist country authorities in addressing challenges related to the Financing for Development (FfD) agenda and the SDGs.	2017	IMF, development partners	USD 30 million

### 3.8. Crowding in Land-value

INITIATIVE	DESCRIPTION	YEAR OF INCEPTION	FUNDERS	FINANCIAL SCALE
Land Value Capture	The Land Value Capture program supports the local governments of the cities of Johannesburg and Durban to set up Tax Increment Financing (TIF) schemes to capture land value increase as a result of infrastructure investment ex-ante and raise financing for such infrastructure improvements against the future revenue stream for property tax arising from such valorization.	2016	The World Bank, South Africa	

### 4. Not Easily Classified

INITIATIVE	DESCRIPTION	YEAR OF INCEPTION	FUNDERS	FINANCIAL SCALE

New Deal on Energy for Africa	The New Deal is built on five inter-related and mutually reinforcing principles: (i) raising aspirations to solve Africa's energy challenges; ii) establishing a Transformative Partnership on Energy for Africa; (iii) mobilizing domestic and international capital for innovative financing in Africa's energy sector; (iv) supporting African governments in strengthening energy policy, regulation and sector governance; and (v) increasing African Development Bank's investments in energy and climate financing.	2016	AfDB	USD 3.5 billion per year for 10 years (through 2025)
Feed Africa Initiative (AfDB)	Fulfilling Africa's potential for Agricultural transformation will require seven sets of enablers: 1) increased Productivity; 2) increased value addition; 3) increased investment in enabling hard & soft infrastructure; 4) expanded agricultural finance; 5) improved agribusiness environment; 6) increased inclusivity, sustainability and nutrition; 7) coordination of actors as a partnership to drive transformation.	2016	AfDB	USD 3.2 billion per year for 10 years (through 2025)
Industrialize Africa (AfDB)	The Bank will launch six flagship programs to accelerate industrialization. (i) foster successful industrial policies by providing advice to governments and funding key PPP projects; (ii) catalyze funding into infrastructure and industry projects (iii) improve access to market finance for African enterprises; (iv) expand SME-focused lines of credit, and provide TA to SME development institutions; (v) link African enterprises and major projects with potential partners and investors; and, (vi) support governments to develop industry clusters, through TA and funding in implementation and monitoring.	2016	AfDB	USD 4 billion per year for 10 years (through 2025)
Jobs for Youth in Africa	The aim is to increase direct and indirect employment, resulting in reduced poverty, inequality, and economic and conflict driven migration, and increased social cohesion and political stability, through Innovation, Investment, and Integration. This will include direct and indirect debt and equity investments and reducing risks by providing guarantees and first-loss provisions for banks' lending to SMEs, especially those owned or managed by youth.	2016	AfDB	USD 500 million per year for 10 years (through 2025)
Conflict Affected States in Africa Initiative	The initiative contributes to IFC's work in fragile and conflict-affected states by removing upstream bottlenecks and supporting clients through (a) presence on the ground to collect market intelligence and be closer to clients, (b) the provision of flexible funding for technical assistance interventions with clients, and (c) creation and dissemination of operational knowledge on private sector development in FCS.	2008	Ireland, The Netherlands and Norway	
Africa Climate/SEF program	The program aims to improve access to finance for climate smart investments in SSA, such as renewable energy, energy efficiency, resource efficiency, water efficiency and smart, resilient, agriculture and crop insurance. The program will emphasize small-scale renewable energy, especially off-grid/captive renewables.	Expected 2017	Canada	
Great Lakes (WBG)	The joint approach seeks to mobilize and synchronize diplomatic, private sector involvement and other forms of development efforts at the international, regional and country levels to secure and sustain peace, and generate a development dividend in the Great Lakes area	2013	World Bank Group	
Horn of Africa (WBG)	The joint approach raises the profile of employment issues arising from regional conflict, and promotes more mutually beneficial economic relationships between nations and host communities.	2014	World Bank Group	

Sahel Initiative	The core countries of the Initiative, Burkina Faso, Chad, Mali, Mauritania and Niger are beset by natural and climate induced challenges, as well as by conflicts and demographic pressures. The initiative aims to respond to these challenges including by encouraging entrepreneurship; improving the investment climate, and transforming key sectors where increased private sector participation is needed.	2013	World Bank Group	
Health in Africa (IFC)	The project aims to improve health services delivered by the private sector in SSA by documenting and advocating the importance of the private sector in this area and outlining an agenda to support improvement in their effectiveness; identifying successful business models; building on IFC's investment and advisory activities in these fields and identifying pilot projects; and having IFC engage with a wider range of potential partners to explore new initiatives.	2006	Gates Foundation	
SME Ventures (IFC)	The ultimate goal of this global project is identify and support up to 15 new fund managers with the objective of 1) building Fund Manager Capacity and operational platforms to function to IFC standards 2) Understand the Fund Managers' pipeline/existing portfolio constituents and TA needed to SMEs, and 3) enabling Environment development/enhancement (Macro-Context) represented in the financial infrastructure, and Private Equity Practice ecosystem.	2015	IFC	
Forestry Africa (IFC)	The overall goal of the programme is to promote sustainable growth of the forestry sector in Africa through helping IFC Clients improve the productivity of their forest plantations or naturally-managed forests; to apply sustainable land use practices, and to monitor and market the carbon in their forests.	2011	IFC	
2030 Water Resources Group (IFC)	This is a global partnership that brings governments, IFIs, NGOs, and private companies together to work towards a water-secure future within their respective countries. These multi-stakeholder platforms develop proposals for water programs, projects, and policy reforms; support public-private partnerships; and develop proposals for innovative finance mechanisms.	2012	IFC, Sida, SDC, Hungary, Nestle, The Coca Cola Company, PepsiCo, Grundfos, Dow Chemical	
The Global Water Security and Sanitation Partnership	This fund is administered by the Water Global Practice to support client governments in integrated and innovative approaches to water and sanitation challenges. The funding will support activities from 2016 to 2022 in five priority themes: sustainability, inclusion, institutions, financing, and resilience. While this is a Global Initiative, it will leverage investments in the water sector in the Africa region	2016	Sweden; Norway; the Bill and Melinda Gates Foundation; Switzerland. Future potential donors to include the Netherlands; Australia; and Austria	
The Cooperation in International Waters in Africa	This initiative has leveraged US\$75 million in grant funding to transboundary water institutions in the region. It assists riparian governments in Sub-Saharan Africa in addressing constraints to cooperative water resources management and development, with the goal of unlocking the potential for sustainable, climate-resilient growth. CIWA supports projects across the African continent, including in the Nile, Niger, and Zambezi basins.	2011	Denmark; Norway; Sweden; Netherlands; United Kingdom; European Union	

The High Level Panel on Water	The Panel consists of 11 sitting Heads of State and Government and one Special Adviser, to provide the leadership required to champion a comprehensive, inclusive and collaborative way of developing and managing water resources, and improving water and sanitation related services.	2016	The World Bank; The UN	
Africa Climate Business Plan	This plan, launched at COP-21 in Paris in November 2015, aims to raise awareness and accelerate resource mobilization for priority climate-resilient and low-carbon initiatives in Africa. The plan estimates that implementation will cost about \$19.3 billion to be raised by 2020, \$8.5 billion of which is expected to come from the International Development Association (IDA), and the rest from bilateral and multilateral sources, dedicated climate finance sources, and the private sector.	2015	WBG, other lenders and donors	
Africa Renewable Energy Initiative (AREI)	This Africa-owned and led initiative aims to accelerate access to renewable energy in Africa and mobilize substantial financial resources from private investors, development finance institutions and multilateral development banks by 2020, building on existing work and initiatives. Under the mandate of the African Union and endorsed by African Heads of State and Government, the initiative is set to achieve at least 10 GW of renewable energy generation capacity by 2020, and mobilize the African potential to generate at least 300 GW by 2030.	2016	AfDB, France, Germany, EU, USA, Canada, UK, Japan, Italy, Sweden, Netherlands	USD 10 billion by 2020
Renewable Energy Resource Mapping Initiative	This initiative has since 2013 been carrying out renewable energy resource assessment and mapping studies, focusing on biomass, small hydro, solar and wind. The results are being used to inform government strategies and the investment decisions of commercial developers. It also helps lower the resource risk in project development, thereby leading to lower electricity prices for solar power plants.	2013	ESMAP	
Africa Clean Cooking Energy Solutions Initiative	(ACCES) Africa Clean Cooking Energy Solutions Initiative promotes enterprise-based, large-scale dissemination and adoption of clean cooking solutions in Sub-Saharan Africa. Examples include The Uganda Stove Distribution Challenge Fund.	2012	ESMAP	
RTACs: AFRITACs and METAC (IMF)	Network of six Regional Technical Assistance Centers (RTACs) that provide technical advice supporting macroeconomic institution building; economic reform implementation; and the planning, designing, and implementation of policies that focus on economic growth and stability, domestic resource mobilization, fair tax systems, public financial management, good financial governance, strengthening financial stability/inclusion, enhancing data availability and transparency as a basis of evidence-based policy decisions, and support to fragile states.	AFRITACs: East 2002 West 2003 Central 2007 South 2011 West2 2013  METAC 2004	IMF; European Union; United Kingdom; Netherlands; Switzerland; Germany; France; Luxembourg; Lebanon; Canada; Australia; Kuwait; Italy; AfDB; EIB; Brazil; and 47 African member countries	Funding needs 2017-21 approx. \$360m