

FINANCING AGENDA 2063 FIRST 10-YEAR PLAN

AGENDA 2063 FINANCING, DOMESTIC RESOURCE MOBILIZATION AND PARTNERSHIP STRATEGY

Financing Needs for First Ten Years: Agenda 2063 Financing and Resource Mobilization Strategy (RMS) outlines the key areas where resources will be required, the potential sources to finance each of these needs, processes for operationalization for matching demand and supply for funds at the national and regional/continental levels and institutional arrangements for making it happen. The focus of this chapter is the first ten years within the context of the RMS.

Annex 5 of the First 10-Year Plan outlines areas requiring financing by aspiration and the potential sources for funding each need while table 6.1. shows a succinct presentation of the areas requiring scaled-up financing at both continental/regional and national levels in the first ten years based on annex 5.

Sources of Finance for the First Ten Years: The typology of the sources for financing the ten year needs as per Annex 5 ranges from government budgetary increases, crowd sourcing for social causes, pure commercial finance from both public and private sources/savings including domestic capital markets, concessional loans, market price-based commercial loans, equity and other market instruments, FDI, portfolio investments by the private sector (debt, bonds, equity and other securities).

Domestic resource mobilization (DRM) is meant to contribute at 75% to 90% to the financing of Agenda 2063 on average per country, namely through: (i) enhanced fiscal resource mobilization, (ii) maximization of natural resource rents – OGM, agriculture, maritime, tourism, etc.; (iii) the leveraging of the increasingly important pool of African institutional savings – pension funds, central bank foreign exchange reserves, sovereign wealth funds and capital market development; (iv) enhanced retail savings mobilization through financial inclusion namely; (v) the curbing of illicit financial flows; (vi) the reduction of inefficiency and governance/corruption-based financial leakages and wastages – government, infrastructure services, agriculture value chain, etc. The remaining of the Agenda 2063 will be rightly financed through external financing mechanisms including (i) FDI, official development assistance (ODA); (ii) financial cooperation from emerging development partners such as BRIC countries, Arab world, etc.; (iii) FDI, PPP et other forms of investment partnerships; (iv) the leveraging of Diaspora remittances and savings; (v) improved access to the international financial markets

Channeling Resources into Agenda 2063 Programs and Projects: It is to be noted that Africa needs not only funds, but also a more effective and inclusive means of channeling funds (including financial institutions and markets, financial instruments and financial services) to where they can be most effective and where there is market failure in the allocation of the needed resources.

From that perspective, three levels of financial intermediation vehicles and resource channeling vehicles will be considered as part of the first 10-year implementation plan:

- Existing commercial financial intermediation vehicles such as, on the one hand, commercial banks, microfinance institutions (MFI), development finance institutions (DFI), insurance companies, etc. that will need to be up-scaled through additional capitalization and capacitated in relevant financial services and project finance expertise areas; and on the other hand, stock exchanges and bond markets that will need to be expanded, deepened and regionalized.
- New commercial financial intermediation vehicles to be created such as Africa 50 Fund, Africa Credit Guarantee Facility (ACGF), Africa Investment Bank (AIB), Africa Infrastructure Development Facility (AIDF), Diaspora bonds, Diaspora remittances securitization, African-owned private equity funds, African Angel Investors Network (AAIN), regional stock exchanges, regional commodity exchanges. Other processes that will promote commercial financing include: Intra-African investment promotion, PPPs targeted at African investors and local government DRM tools such as retail bond for infrastructure services for example
- Non-commercial finance channeling or intermediation vehicles to be considered include existing vehicles such as AU, RECs and Member State budgets and new vehicles to be created such as African Integration Fund (AIF), Fund for African Women, Youth Empowerment and Entrepreneurship Fund; but also crowd funding solutions for social or emergency causes.

Facilitation Measures for Access to Finance: During the currency of the first ten year plan the following facilitation measures will be put in place at the national, regional and continental level, depending on its appropriateness within the context of Agenda 2063 Resource Mobilization Strategy (RMS).

- Developing / implementing framework conditions for generic investment climate and enabling conditions for financial industry development, PPP/Infrastructure financing, large industrial project financing, private equity/venture capital market development, SME finance/banking and micro-finance.
- Setting up relevant project development funds, viability gap funds, capitalization funds, blending facilities to address demand side readiness.
- Establishing information infrastructure (country rating analysts, corporate governance standards, credit bureau and collateral registries etc.)
- Developing expertise in financial advisory services and specialist financial services where there is significant gap across Africa (project finance, capital market, private equity/venture capital, financial engineering, risk management and industry-specific financial services)
- Putting in place risk sharing and guarantee facilities to “de-risk” investment into African securities and enhance the risk of lending to African SME namely.

Implementation arrangements of the RMS for the First Ten Years: The articulation of the institutional arrangements for the implementation of the RMS is still under consideration. The evolving consensus within Agenda 2063 implementation framework is that:

- Under the direction of the Agenda 2063 Ministerial Committee and its Secretariat, the AUC/NPCA, African Development Bank will be the lead institution in facilitating, coordinating, monitoring and evaluation of Agenda 2063 RMS.
- Identifiable key stakeholders in the implementation of the RMS at the continental level in addition to the AU and AfDB include UN-ECA at continental level; and RECs, regional DFIs and regional stock exchanges at the regional level. At the national level, governments and financial sector-related organizations (stock exchange association, banking association, Insurance sector association, MFI association, etc.) and other non-state actors will be assigned responsibilities appropriate to their relevance and competencies.

LEVERAGING AFRICA'S STRATEGIC PARTNERSHIPS FOR THE FINANCING AND IMPLEMENTATION OF AGENDA 2063

The African Union has entered into a number of strategic partnerships to support its development process: Africa-EU, Africa-USA, Africa-Japan, Africa-China, Africa-India, Africa-Arab League of States, Africa-South America, Africa-Turkey, and Africa-Korea with more demand for partnership in the pipeline. However, the full potential of the financial pledges and technical assistance pledges embedded in these partnerships are yet to fully leveraged from the African side. Hence, going forward the following three levels of actions need to be considered by the AU to take maximum advantage of its strategic partnerships:

- Preparing a comprehensive AU policy framework and articulating a partnership strategy for all high-potential partners around a limited number of interventions with meaningful socio-economic transformational benefits;
- Maximizing Africa's potential to exploit the full potential of its partnership by enhancing its strategic, governance, technical, logistical and financial support to the partnership management function of the AUC; by bringing more clarity to the implementation model of Africa's various continental programs (PIDA, CAADP/3ADI, AIDA/APCII/RADS/AMV, BIAT) to facilitate result-oriented cooperation with its strategic partners; and by improved involvement and coordination of/among Africa's various stakeholders of the partnership process: AUC, NPC, AfDB, RECs, Member States, PSO, CSO and other AU organs; and
- Deepening transformational benefits of the partnerships through alignment to Agenda 2063 priorities, namely: Agenda 2063 flagship projects, natural resource-based and STI-based industrialization and technology transfer, intra-African trade and export development, private sector and MSME development, financial market development, support to the post-2015 Agenda in social and sustainable development and domestic financial resource mobilization.



Agenda 2063 Financing, Domestic Resource Mobilization and Partnership Strategy

Sources

Internal Resources

External Resources

Strategies

Domestic Resource Mobilization
70 - 90% of financing

External Resource Mobilization
10 - 30% of financing

Programmatic Areas

Programmatic Areas of Domestic Resource Mobilization

Fiscal revenue optimization
Maximizing resources (OGM, land, forestry, tourism assets, etc.) rents
Savings mobilization
Capital market widening, deepening and regionalization
Leveraging institutional investors' assets (pension, insurance, SWF, foreign reserves)
Regional private sector resource (CSI/CSR, philanthropy, Intra-African Investment)
Intra-African investment promotion
Wealthy African resource leveraging (philanthropy, Strategic/angel investment, etc.)
Curbing illicit financial flows and corruption
Controlling inefficiencies/losses in public services (infrastructure losses, expenditure management, procurement efficiency, value chain losses in agriculture)

Intermediation Vehicles

Existing vehicles - banks, MFI, DFI, Insurance Cos, stock exchanges, AU/REC/MS budget
New vehicles to be created - Africa 50 Fund, ACGF, AIDF, AIB, AIF, AWF, HLPASF, etc.
Other significant gap areas: Financial Inclusion vehicles (SME, MFI, Impact Investing, Insurance and micro/index/agricultural insurance); Private equity/venture capital (seed, early-stage, growth capital); Infrastructure/large industrial project financing vehicles (liquidity, PDF, VGF, capitalization, risk enhancement/de-risking vehicles)

Financial Instruments

Banking liquidity (loan, line of credit), risk sharing/risk enhancement instruments
Capital market bond, equity and related risk enhancement/de-risking instruments
Project finance, investment banking, private equity/venture capital services
Industry-specific financial expertise - OGM, PPP/infrastructure, new economy, etc.
Project development fund (PDF); Viability gap fund (VGF); Capitalization Fund, etc.

Intermediation Vehicles & Key Issue Areas

Related Instruments

Programmatic Areas of External Resource Mobilization

1. DAC/ODA - based Partners

Multilateral channel, bilateral channel
Strategic partnership channels (e.g. JAES, TICAD, Power Africa and MCC, etc.)

2. Emerging Partners - BRICS, Arab, MINT and other Partners

Bilateral & strategic partnership channels (e.g. FOCAC
FDI, PPP & JV Industrial Partners
FDI, JV, PPP

4. International (private) Financial Market

Project finance market, Eurobond market & international equity market
International syndicated loan market & swap market

Islamic finance market, Int'l leasing market, political risk insurance (PRI) market

5. Diaspora Remittances and Savings

Remittance transfer, remittances securitization, Diaspora bonds/funds

Key Issue Areas

Partner's level: Aid effectiveness, tied aid, "Phantom ODA" that never flows to Africa, catalytic role of aid, limited focus on African transformation as defined by African, quality of FDI /PPP / JV deals

Africa's level: Low absorption capacity, technical capacity, IPSAS certification, enhanced policy/governance leadership, fragile/post-conflict countries, country risk

Financial Instruments

(i) TA grants, investment grants, blending facilities, concessional loans; (ii) ECA facilities, DFI credit/investment/risk facilities (PRI included), catalytic finance; (iii) global public good financing solutions; (iv) ECPF packages; (v) International private financial market instruments; etc.

Critical Enabling Conditions

Peace, security & regional stability Accelerated growth Progress in regional integration More intra-African trade AUC/REC "IPSAS" certification Financial industry culture & skills