AFRICA'S SOCIO-ECONOMIC AND POLITICAL FUTURE:
AFRICAN UNION'S AGENDA 2063 IN PERSPECTIVE

THE INVESTMENT THAT AFRICA NEEDS:
THE AVAILABILITY OF INDIGENOUS FINANCE

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AT THE ANNUAL CONFERENCE OF THE AFRICAN BAR ASSOCIATION

HELD IN NAIROBI, KENYA

JULY 2018

INTRODUCTION[1]

Agenda 2063 is a strategic plan designed by the African Union for Africa's socio-economic and political transformation over a period of fifty years beginning from May 2013. Agenda 2063 was designed in consultation with a broad range of stakeholders and seeks to transform the continent to the Africa which Africans dream, and would be proud, of. Financing is undoubtedly a vital and an indispensable component of Agenda 2063. Finance is the lifeblood of any economy. Adequate, accessible and affordable finance is a catalyst for economic growth and its importance cannot be overstated. Financing is required to facilitate infrastructure development, boost economic and business activities which will create job opportunities and improve the general wellbeing of the populace.

The biggest impediment to economic growth of countries in Africa has been paucity of development finance. This has compelled a number of countries in the continent to depend heavily on foreign aid for their development financing needs. Africa's development finance deficit is clearly manifested in the continent's growing infrastructure gap ranging from unreliable and inadequate energy or electricity supply, poor urban-rural road network, inefficient railway or ports systems to other decaying or dilapidated industrial facilities. These have adversely affected Africa's ability to be competitive at the global scene. The continent's enormous infrastructure deficit underscores the need for resource mobilisation to finance its economic growth and sustainable development.

Agenda 2063 strongly favours the mobilization of domestic resources in financing the Africa's development aspirations and agenda. There is a recognition that reliance on foreign aid to finance Africa's development needs is unsustainable. There is a further recognition that dependence on foreign aid has its inevitable adverse consequences which outweigh the benefits. Against this background, there is deliberate plan to mobilise and pool together Africa's domestic resources in financing Agenda 2063. The availability of, and access to, indigenous financing resources will play a very crucial role in the success and sustainability of Agenda 2063. Against this background, this paper examines the capacity and ability of Africa to mobilise domestic resources for financing its development objectives under Agenda 2063.

This paper is broadly structured into three (3) parts for easy comprehension. The first part of the paper examines Agenda 2063 and the seven aspirations which underpin the Agenda. Special attention is given to two of the seven aspirations which touch on financing and domestic resource mobilisation. The second

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part of this paper analyses Africa's financing needs and challenges. It then proceeds to examine the rationale for indigenous resource mobilization for financing Africa's developmental agenda. The third part of this paper extensively explores the continent's indigenous financing options as well as the prospects and potential challenges.

It should be borne in mind from the onset that the issue of indigenous financing and domestic resource mobilization in Africa is highly complex. Against this background, this paper seeks to induce more in-depth thinking, reflection and discussions on this topical issue.

A. AFRICA UNION'S AGENDA 2063

The Agenda and its aspirations

Agenda 2063 is a shared strategic framework for inclusive growth and sustainable development of Africa. The Agenda was adopted by the African Union in May 2013 during the African Union's golden jubilee. The Agenda sets out aspirations for an integrated, prosperous and peaceful Africa, driven by Africans. It seeks for the actualization of an Africa which will be a dynamic force to reckon with in the international scene. The Agenda is designed to be implemented through successive ten-year national plans and will coincide with the centennial anniversary of the African Union in 2063. Agenda 2063 was first unveiled on 26 May 2013 at the 21st Ordinary Session of the Assembly of Heads of State and Government of the African Union which was held in Addis Ababa, Ethiopia. Whilst commemorating the 50th anniversary of the African Union, leaders of African States adopted a solemn declaration rededicating themselves and their respective States to Africa's development. The leaders also agreed on long term national and continental development strategic planning and implementation.

Primarily, Agenda 2063 seeks to pool together and optimize Africa's resources to develop Africa. The Agenda is encapsulated in, or underpinned by, seven aspirations. These seven aspirations reflect the socio-economic and political desires of Africans by the year 2063. These aspirations are:

(a) A prosperous Africa based on inclusive growth and sustainable development;
(b) An integrated continent, politically united, based on the ideals of Pan Africanism;
(c) An Africa of good governance, respect for human rights, justice and the rule of law;
(d) A peaceful and secure Africa;
(e) An Africa with a strong cultural identity, values and ethics
(f) An Africa whose development is people-driven, especially relying on the potential offered by its women and youth; and
(g) An Africa as a strong, resilient and influential global player and partner.

These seven aspirations are to be achieved through the instrumentality of some strategic initiatives designed to facilitate the continent's integration, human capital development, industrialization, agricultural development, efficient management of natural resources, regional peace and security. Significantly, there is a recognition that the state of development and the individual aspirations of African countries may differ from one country to another. Accordingly, each Member State is expected to adapt and implement policies and strategies which underpin the Agenda in a manner which suits its domestic circumstances with the aim of meeting the aspirations behind Agenda 2063.

Availability of financing, especially indigenous financing, will be crucial to the realization of all the aspirations of Agenda 2063. However, a close examination of the seven underpinning aspirations of the Agenda will reveal that the two most relevant to the issue of indigenous financing are aspirations 1 and 7. To actualize (i) a prosperous Africa based on inclusive growth and sustainable development and (ii) an Africa that is a strong, resilient and influential global player and partner driven, will require massive domestic resource mobilization. At this juncture, it is pertinent to closely examine these two aspirations with the aim of laying a proper background for the examination of availability of indigenous financing.

A prosperous Africa based on inclusive growth and sustainable development

The aspiration is that by 2063, Africa will be prosperous and will have the capacity and resources to finance its socio-economic growth and sustainable development. It is also envisioned that by 2063 the collective gross domestic product of African countries will be proportionate to Africa's share in the world's population and natural resources endowments. By 2063, it is envisioned that the economies of African countries will be properly structured to boost sustainable economic growth, facilitate infrastructure development, economic opportunities and decent jobs for Africans. There is a determination to eradicate hunger and poverty in Africa and build shared prosperity through socio-economic transformation of Africa. By 2063 Africans are expected to have a high standard and quality of living including affordable access to healthcare, decent housing, clean water, energy, public transportation and other basic necessities of life. Indeed, it is hoped that by 2063, African countries will be amongst the best performers in global quality of life measures.

Agriculture is the mainstay of most rural communities in Africa. It is hoped that by 2063, agriculture will be modernized to boost food production and increase the contribution of agriculture to the growth of national economies. For instance, there is the aspiration that by 2025 the hand hoe will be a thing of the past. There is a recognition that if the agricultural sector is made to become more modern and productive through sustainable investment and innovation through science and technology, it will become more attractive to the continent's teeming youths. The aspiration also embodies a determination to develop the continent's human capital resources which is viewed as its most valuable resource. By 2063, it is hoped that Africa will have a properly educated populace equipped with requisite knowledge and skills to drive its development and also meet the challenges of a highly competitive and technologically driven world.

Africa as a strong and influential global player and partner

The seventh aspiration under Agenda 2063 envisions an Africa that is a strong and an influential social, economic and political global player and partner. It envisions Africa assuming an increasingly important role in global affairs as opposed to being passive, taking a backseat or worse still, being over dependent on foreign assistance. Accordingly, by 2063, it is expected that Africa would be a major partner in global affairs and peaceful co-existence and a continent which takes full responsibility to finance her development.

The aspiration is that by 2063 Africa will be responsible for financing its development and will not be dependent on foreign countries and donor agencies. Further, by 2063 it is expected that Africans would be skilled, well trained and properly positioned to mobilise, exploit and manage the continent's resources with the aim of utilizing the proceeds to finance Africa's development. It is also envisioned that Africa's capital markets would be well positioned to substantially contribute to the continent's development finance needs. The pooling together of these indigenous resources and responsible stewardship will ensure that Africa is self-sufficient and fully capable of financing her development as opposed to relying on foreign aid and donations.

B. AFRICA'S FINANCING NEEDS AND INDIGENOUS FINANCING

Africa's financing needs

Highlighting Africa's infrastructure deficit and funding gaps will give a clear understanding and appreciation of the magnitude of the continent's financing needs. It will also enable a fair assessment as to whether or not the continent has the indigenous financing resources that is capable of meeting its financing needs or funding gaps. For many decades, Africa's infrastructure deficit has remained a key constraint to the economic growth of African countries and their competitiveness globally. The continent is undoubtedly in need of enormous and long-term financing. The World Bank Group claims that Africa's infrastructure deficit reduces the continent's per capita gross domestic production growth by 2% a year and cuts business productivity by as much as 40%.[2]

Africa's largest infrastructure deficits are in power or energy and roads. According to research from The World Bank Group, the 48 countries of sub-Saharan Africa (with a combined population of 800 million) generated 90GW in 2012; that's roughly the same amount of power as Spain (with a population of 45

[2] World Bank. *Africa's Pulse.* April 2017 edition. URL: http://documents.worldbank.org/curated/en/348741492463112162/pdf/114375-REVISED-4-18-PMWB-AfricasPulse-Sping2017-vol15-ENGLISH-FINAL-web.pdf. Accessed May 2, 2018.

million).[3] As regards, the roads in the continent, it is estimated that only one-third of Africans living in rural areas are within two kilometers of an all-season road, compared with two-thirds of the population in other developing regions.[4] Generally, the cost of addressing Africa's infrastructure deficit is estimated to be approximately $90 billion every year for the next decade, with spending needed for new investments as well as operations and maintenance of what is already on ground.[5] There is no gainsaying that small and medium enterprises are primary drivers of economic growth. In relation to Africa, the International Finance Corporation estimates that African-based small and medium enterprises are facing a funding gap of over $136 billion annually.[6]

Africa's population is on the increase and existing infrastructure are increasingly being put under stress and strain. The United Nations project that power demand in Africa will rise from 125 gigawatts which was ideally required in 2010 to 700 gigawatts by 2040. Transportation volumes on the continent is expected to increase by about 6 to 8 times and higher for landlocked African countries. Port throughput is projected to rise from 265 million tonnes in 2009 to 2 billion tonnes in 2040. Water pressure is expected to increase, endangering Nile, Niger, Orange and Volta basins.[7]

The above clearly show that Africa's financing needs are indeed enormous. To ensure that the aspirations which underpin Agenda 2063 are actualized, there has to be a massive mobilization of domestic resources to adequately meet the continent's enormous financing needs.

The need for indigenous Finance

Commendably, Agenda 20163 places emphasis on resource mobilization in Africa to tackle the continent's economic and development challenges. African heads of States, leaders, policymakers, and indeed all Africans are to look inwards to generate the financial resources required for the realization of the aspirations which underpin Agenda 2063. In years past, African countries have been heavily dependent on foreign aid. While foreign aid may have helped in meeting some of Africa's needs, it is far from sufficient and in any event, it is unsustainable. In some cases these foreign aid or assistance may merely be one-off or seasonal and not permanent. In other cases the foreign donors may not be consistent in providing the aid or may even choose to discontinue for any or no reason. Indeed the foreign

[3] World Bank Group. *Africa's Infrastructure – A Time for Transformation* by Foster, Vivien and Briceño-Garmendia, Cecilia. URL https://siteresources.worldbank.org/INTAFRICA/Resources/aicd_overview_english_no-embargo.pdf. Accessed May 2, 2018.
[4] International Monetary Fund. *Africa's Rise—Interrupted?* by Radelet, Steven. Vol. 53, No. 2, June 2016. URL: http://www.imf.org/external/pubs/ft/fandd/2016/06/radelet.htm Accessed May 4, 2018.
[5] Ernst & Young. *Banks, Bill*. Addressing Africa's infrastructure deficit https://www.ey.com/gl/en/industries/government---public-sector/dynamics---collaborating-for-growth_addressing-africas-infrastructure-deficit Accessed May 2, 2018; World Bank Group. *Regional Infrastructure in Sub-Saharan Africa: Challenges and Opportunities.* http://siteresources.worldbank.org/1818SOCIETY/Resources/1818AFRICApaperFINAL.pdf Accessed May 5, 2018.
[6] International Finance Corporation. *IFC Promotes Efforts to Unlock the Potential of African SMEs* https://ifcextapps.ifc.org/ifcext/Pressroom/IFCPressRoom.nsf/0/5BC16A50CA6B49EE852581D80046DB44?OpenDocument Accessed May 2, 2018.
[7] United Nations. *Financing Africa Infrastructure Development*. Policy Brief 2015. http://www.un.org/en/africa/osaa/pdf/policybriefs/2015_financing_infrastructure.pdf Accessed May 4, 2018.

donors have no compelling duty or obligation to be consistent or regular in providing aid considering that, as opposed to trade, these aids are often merely gratuitous.

Apart from being unsustainable and insufficient, foreign aid[8] has a high tendency of encouraging government irresponsibility or abdication of responsibility. Cases abound where aid in form of goods have been accepted by African countries to the detriment of local manufacturers. Some of the aid given to African countries have indirectly undermined the growth of local industries and efforts by governments to boost local production and expertise. From a perspective, stifling the growth of local industries through receipt of foreign alternatives via aid also stifles employment opportunities and sources of revenue for government through taxes. Further, rather than focus on intra-African trade, some African countries have in the past preferred to receive freebies and handouts from international donors thus undermining regional integration, competitiveness and economic growth.

A further risk associated with foreign aid and an externally driven and financed agenda is the possibility of imposition of foreign interests to the detriment of Africa's. It is no secret that the foreign aid which some African countries depend on for survival have directly or indirectly become tools for promoting or imposing the political and economic interests of the donor countries and institutions. In practice, it is not uncommon for the donors or financiers to insist on some form of economic or political restructuring or changes in exchange for the handouts. This is not surprising given that he who pays the piper calls the tune.

African countries have been receiving foreign aid right from their colonial days. Over the same period of time, there is clear evidence that the infrastructure deficit and funding gap in most African countries have continued to exponentially increase. On the basis of this alone it is clear that foreign aid has not been able to effectively boost sustainable development in Africa. On the contrary, and as earlier explained, it has been shown to be an impediment, encouraging irresponsibility, dependency and corruption. The enormous task of building an Africa which Africans would be proud of cannot be achieved and/or sustained with foreign aid or financing. The Europeans, Americans, Asians foreign development finance agencies and institutions will not develop Africa for Africans. Africa's economic and infrastructure development has to be driven and financed by Africans.

A number of past regional and continental initiatives towards facilitating or fast-tracking economic growth and development in Africa have not been very effective largely due to financial and strategic challenges in relation to their implementation. In some cases reliance was heavily placed on foreign funders some of whose priorities where not exactly in sync with the objectives of the initiatives. It is in a bid to avoid this kind of incentive problem that proponents of Agenda 2063 are pushing for Africans to mobilize Africa's domestic financial resources in achieving the objectives of the Agenda.

[8] This excludes aid provided to countries experiencing natural disasters of other limited forms of man-made disasters like civil wars.

C. INDIGENOUS FINANCING OPTIONS: PROSPECTS AND CHALLENGES

It is imperative to explore innovative ways of mobilizing the financial resources required in driving and sustaining the aspirations of Agenda 2063. In addition to the traditional sources of financing, concerted effort must be made to exploit and maximize Africa's untapped financing potentials. There are indeed a broad range of financing options and resources which are available in Africa. Commendably, there have been several initiatives aimed at exploring how Africa may finance its development. Some of these initiatives have been carried out under the auspices of the African Development Bank, the High Level Panel on Alternative Sources of Financing the African Union, the NEPAD Planning and Implementation Agency, the United Nations Economic Commission for Africa, the High Level Panel on Illicit Financial Flows etc. These initiatives have sought to identify some possible domestic sources for generating resources for Africa's development finance needs. This part of the paper identifies and examines possible indigenous financing resources for Africa's development needs.

Bank Facilities and other schemes

Banks drive economic growth through the process of financial intermediation. Financial intermediation is the process in which commercial banks mobilize funds from surplus economic units in the form of savings and channel the funds to deficit sectors of the economy in need of funds. A primary function of commercial banks is accepting deposits. In consequence, banks serve as a reservoir for surplus funds from the public. Long term deposits may be invested in viable economic ventures by way of loans, overdrafts, trade finance, mortgages etc. Banks thus provide investable funds for private businesses and governments to finance projects and enterprises in different sectors of the economy such as agricultural, construction, hospitality, entertainment etc. These facilitates economic growth and development.

The above highlights the crucial role expected of banks in resource mobilization towards the actualization of Agenda 2063. How prepared are African banks to play these vital roles? Since the 1990s many African countries have implemented diverse banking sector reforms with the aim of ensuring that domestic banks are profitable and well capitalized to effectively carry out their functions. These series of restructurings and recapitalizations appear to be yielding fruits. In the past two decades, African banks have been playing active and leading roles in some of the largest syndicated loan transactions and project finance arrangements on the continent. In fact the increased role of African banks in infrastructure financing is seen in the growing volume of syndicated deals without foreign participation. There are also numerous financing deals where foreign banks have participated but with African banks as lead arrangers of the syndicate.[9] These show that a number of African banks have truly come of age. In spite of these encouraging trends, it is imperative to note that these achievements and gains in the banking sector have

[9] International Monetary Fund. Mauro Mecagni, Daniela Marchettini and Rodolfo Maino. *Evolving Banking Trends in Sub-Saharan Africa Key Features and Challenges.* September 2015. Page 30. https://www.imf.org/external/pubs/ft/dp/2015/afr1508.pdf Accessed May 5, 2018.

not been even across Africa. While the banking sector in some countries have achieved considerable progress, others have either struggled or lagged behind.

There appears to be a consensus that most of the well capitalized banks in Africa tend to focus their financing on large corporate clients and governments. This may be premised on the ground that such lending are less risky. However, this is to the detriment of small and medium enterprises. A recent analysis of Nigeria's credit allocation, based upon official data, showed that Nigerian banks are still adopting a cautious approach on lending to small businesses to avoid a surge in non-performing loans. The report revealed that 83% of credit given by banks were above N1 billion. Given that the financial needs of small and medium enterprises are often less than millions, it is clear that small and medium enterprises got very little share of these loans. The story is similar in most countries in Africa. The African Development Bank estimates that of Africa's 50 million small and medium enterprises, (i) over 70% suffer from insufficient financing, and (ii) less than 25% have access to bank loans or lines of credit (compared to 43% in developing countries) -- leaving a funding gap of $140 billion.[10]

Small and medium enterprises are the primary drivers of economic growth and facilitators of employment opportunities. For instance in Morocco, small and medium enterprises represent 95% of all businesses.[11] In Kenya, small and medium enterprises constitute 98% of all businesses and create 30% of jobs annually. In South Africa small and medium enterprises constitute 40% of all businesses and contribute 36% to the economy. These figures highlight the importance of small and medium enterprises. In reality, it may be impossible to achieve an accelerated economic growth without adequate financial support for small and medium enterprises especially from commercial and development banks in African countries. Governments, Central Banks and regulators have to explore policies and systems which would compel, encourage or incentivize bank lending to small and medium enterprises. Commendably, a number of countries have established development or specialized banks and other schemes to boost availability of finance to small and medium enterprises.

One of the factors responsible for the dearth of financing for small and medium enterprises is the perception of the high risk of defaults. There also appears to be an incentive problem. For instance, given that banks can make adequate returns from lending to government and larger corporations they will have little or no incentive to embark on more risky lending to small and medium enterprises. One of the ways in which Central Banks and governments may encourage banks to lend responsibly to small and medium enterprises is by setting up effective credit rating and reporting system with well-developed credit bureau.

[10] African Development Bank Group. *Private Sector Development Strategy*. (http://www.afdb.org/en/documents/document/2013-2017-private-sector-development-strategy-32801/ Accessed May 6, 2018.

[11] Amina Hachimi, Abdelouhab Salahddine and Hamid Housni. "SME Financing in Morocco: Issues and Alternatives." (2017), Journal of Innovation & Business Best Practice, DOI: 10.5171/2017.420530, URL: http://ibimapublishing.com/articles/JIBBP/2017/420530/420530.pdf Accessed May 3, 2018.

This financial infrastructure would assist banks in making more commercially sound decisions in relation to lending to small and medium enterprises. Commendably, a number of African countries have implemented efficient credit reporting systems backed by efficient legal framework. Banks and other institutional lenders may also be incentivized to lend more to small businesses with the establishing of proper insolvency and business rescue legal regimes. A sound insolvency regime, which clearly lays down the procedure for liquidating ailing businesses and settling claims of multiple creditors or rescuing such businesses, would create certainty and give lenders some comfort.

Given the difficulty in accessing affordable financing from commercial banks, many small businesses across Africa are exploring alternative financing either with or without the support of governments. An alternative financing strategy in Africa which has gained traction is microfinance. Microfinance institutions provide financing to small and medium enterprises that are unable to raise capital from commercial lenders. There are diverse microfinance schemes and institutions across Africa. Approaches to microfinance have ranged from traditional group-based systems, to specialised lending by banks sometimes in collaboration with non-governmental organisations. Microfinance institutions, through diverse microfinance schemes, help in bridging the financing gap by providing small loans to small and medium enterprises, especially in rural areas of African countries. The microfinance loans often use collateral substitutes (such as group guarantees) and can increase over time based on sound repayment patterns. In addition to microfinance and beyond traditional lending, other innovative ways which small businesses and new entrepreneurs may mobilise finance for their business needs include leasing, crowd funding, factoring etc.

Capital Markets

The framers of Agenda 2063 have rightly recognized and acknowledge the potential which Africa's capital markets hold in generating the much needed funding for the continent's financing needs. Hence, Agenda 2063 makes a strong case for the development of capital markets in Africa with a view to (i) strengthening domestic resource mobilization, and (ii) doubling the contributions of the capital markets to Africa's development finance.

There is no gainsaying that capital markets play a crucial role in economic development. Capital markets provide a platform for businesses to raise equity for financing their operations, acquisitions and growth and these have direct impact on the economy. Capital markets also facilitate national integration and financial inclusion by providing the public with opportunities to invest in high yielding economic sectors. Governments also raise debt finance for development projects through the issue of bonds and other government securities in the capital markets.[12] A further function of capital markets is that they enable the diversification of the financial sector by complementing the banking industry. In this regard, capital markets provide long term financing to individuals and development or project finance for governments. Funds raised from issuance of government securities may be used to finance capital projects, green bonds may be used for financing environmental friendly and climate change investments, Real Estate Investment Trusts may be used in facilitating affordable housing finance.

Presently, there are about 29 stock exchanges servicing 36 capital markets in Africa. The present number of stock exchanges is a significant increase from 5 exchanges which existed in the continent shortly before 1989.[13] In 1993, the Association of Securities Exchange Association was set up in Kenya to (i) provide a forum for mutual communication, exchange of technical assistance among its members, and (ii) facilitate the process of financial integration with capital in order to accelerate economic development.[14] ASEAN may inevitably have a pivotal role to play in facilitating the integration of stock exchanges across the continent for the purpose of mobilizing development finance.

There is no doubt that Africa's capital markets have the potential of substantially contributing to the continent's financing needs. An indication of this huge potential may be seen in the funds which have been generated from initial public offerings and rights offerings in the markets in recent years. For instance between 2013 and 2017 there have been 134 initial public offerings compared to the 110 between 2012 and 2016. Further, about $9.1 billion has been raised from initial public offerings between 2013 and 2017 compared to $6.5 billion raised between 2012 and 2016. In relation to rights issues, between 2013 and 2017 about $43.6 billion has been raised from 385 rights issues compared to $38.4 billion raised between 2012 and 2016.[15] Instructively, these impressive figures are in spite of the challenges and shortcomings which bedevil African capital markets. It simply means that if the shortcomings are eliminated the figures will exponentially increase.

Capital markets in Africa have come a long way and there are continuous and ongoing efforts to deepen the markets and attract more listings to increase capitalization and liquidity. Some of the advanced markets like the Johannesburg stock exchange, the Egyptian stock exchange, the Nigerian stock exchange, the Casablanca stock exchange and the Nairobi stock exchange – have expanded from mere trading in equities to the introduction of other innovative asset classes and products. These include different types of derivatives products, exchange traded funds, sukuk bonds, etc. These products have helped in deepening these markets and increasing market capitalizations.

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[12] KPMG. Cheadle, Robbie. *The Role of Stock Exchanges in Growing The African Financial Market.* http://www.blog.kpmgafrica.com/the-role-of-stock-exchanges-in-growing-the-african-financial-markets/ Accessed May 3, 2018.
[13] In the period before 1989, Africa could only boast of five stock markets in sub-Saharan region and three stock markets in the Northern region. Presently, there are 29 stock exchanges as a representation of 38 countries' capital market.
[14] "ASEAN Mission" Last modified May 2, 2018. URL: http://african-exchanges.org/en/about-asea#contentCarousel/mission-vision
[15] PWC. *PWC - 2017 Africa Capital Markets Watch*. https://www.pwc.com/ng/en/publications/africa-capital-markets-watch.html May 3, 2018.

The foregoing notwithstanding, most stock exchanges across Africa are bedeviled with several challenges and shortcomings some of which may impair the ability of the markets to play an effective part in mobilizing funds for development projects. Accordingly, it is imperative to address these challenges, some of which are highlighted below, in order to maximize the potentials of the markets as catalysts for economic development.

A major challenge faced by a number of the stock markets in Africa is the problem of low levels of liquidity. Illiquidity in the market may be attributed to a number of reasons. Principally, it is due to the fact that most of the markets are equities-driven. Worse still, some of the shares traded do not change hands perhaps due to the unattractiveness of the shares traded coupled with the fact there may not be so many options or alternative class assets available for investors. A number of countries have adopted different measures to tackle the problem of illiquidity in their capital markets. For instance, Nigerian Stock Exchange now has nine Exchange traded funds whilst plans to introduce exchange traded derivatives are underway.[16] Nairobi Stock Exchange has introduced the NEXT – a derivatives market that facilitates trading in futures contracts in the market.[17] In Egypt, the Capital Market law has been amended to introduce futures trading, commodities exchange, permitting the establishment of privately owned stock exchanges, facilitating sukuk issuances, and reducing the listing fees.[18] There is need for African markets to be more innovative by creating alternative asset classes that would deepen, and inject liquidity into, the markets.

Another challenge facing some capital markets in Africa is that of size. A number of capital markets in Africa are small in terms of listings and/or capitalization. This will potentially impede their ability to generate substantial funds to finance development projects in their jurisdictions. For instance, The Rwandan Stock Exchange has just eight listed companies with a market capitalization of about $3.4 billion.[19] There are other small exchanges in Africa such as the Botswana Stock Exchange with a market capitalization of $4.3 billion, Lusaka Stock Exchange with $6.3 billion market capitalization, Malawi Stock Exchange with 13 listed companies and a $1.6 billion market capitalization, Namibian Stock Exchange with $1.01 billion market capitalization. It is apparent that some of these small exchanges which struggle to get listings may be unable to substantially contribute to financing developmental goals in those countries.

The problem of the reluctance of firms to list their equities in exchanges is not peculiar to the above small-size exchanges. Even the more established exchanges on the continent appear to be grappling with a

[16] "Nigeria Stock Exchange Derivatives". Last modified May 3, 2018. URL: http://www.nse.com.ng/issuers/listed-securities/listed-etp http://www.nse.com.ng/products/derivatives
[17] Nairobi Stock Exchange". Last modified May 9, 2018. URL: website: https://www.nse.co.ke/about-next.html
[18] Daily News Egypt. *Egypt's Capital Market Law amendments are credit positive: Moody's.* URL: https://dailynewsegypt.com/2018/02/19/egypts-capital-market-law-amendments-credit-positive-moodys/ Accessed 5May 5, 2018.
[19] Invest In Africa. *"African Stock Market Performance as at 30 April 2018."* URL: https://investinginafrica.net/african-stock-markets/african-stock-market-performance/ Accessed May 6, 2018.

similar challenge. For instance, a recent report has claimed that there is an ”inherent capital markets growth potential that exists on the continent.” However, the report also observed that Africa is home to approximately 700 companies with annual revenues in excess of $500 million but only 40% maintained a listing.[20] Accordingly, it is hoped that in the coming years, governments and regulators will explore ways and policies of increasing listings on their bourses. In recent years, some countries have taken proactive steps to compel listings in their markets. For instance, in June 2017, President John Magufuli of Tanzania ordered eight telecoms operators, including three with international backing, to float 25% of their shares on the country's bourse.[21] In Nigeria, there is an ongoing debate on whether or not the Nigerian government should compel multinational oil firms and telecoms giants to list their shares on the Nigerian stock exchange.[22]

There are other factors which are either impeding the growth of capital markets in Africa or have the potential of doing so. These factors range from lack of transparent and accountable regulators, weak institutions, perceived absence of the rule of law and order, inadequate shareholder protection, political instability, unstable macroeconomic environment, corruption to low income levels with lack of domestic savings. These factors may deter investors from either listing their shares or acquiring shares from the markets. Accordingly, it is not just enough to compel companies to list their equities on bourses, governments and regulators must create a conducive and enabling environment with effective legal and regulatory structures to enable capital market activities to thrive.

Domestic Taxes

Taxes are central to economic development in Africa. Revenue generated from taxes are often invested in infrastructure and economic development. Taxes have always been an important source of revenue for governments in Africa. Even prior to the conception of Agenda 20163, in 2012 sub-Saharan Africa's tax revenue was about ten times larger than the $51.9 billion in Official Development Assistance which Africa received.[23]

Rwanda is often viewed as a good example of an African country with an efficient and well-planned tax regime. Between 2001 and 2003, Rwanda was able to double its revenue generated from tax. This was achieved with a synergy of legislation, efficient administration, an effective taxpayer registration system

[20] PWC. PWC - 2016 Africa Capital Markets Watch. URL: https://www.pwc.co.za/en/assets/pdf/africa-capital-markets-watch-2016.pdf Accessed May 18, 2018.
[21] Alvar Mwakyusa. Tanzania: List or Quit, JPM Tells Telecom Firms. Tanzania Daily News. June 2, 201. URL: http://allafrica.com/stories/201706020144.html
[22] Communications Week. FG to Compel Telcos, Oil Companies to List on NSE. March 13, 2015. URL: https://nigeriacommunicationsweek.com.ng/fg-to-compel-telcos-oil-companies-to-list-on-nse/ ; Vanguard News. Companies doing business in Nigeria must be listed on NSE – Dogara. June 15, 2016. URL: https://www.vanguardngr.com/2016/06/companies-business-nigeria-must-listed-nse-dogara/
[23] World Economic Forum. Ghosh, Gargee. Why taxes will be central to Africa's development. URL: https://www.weforum.org/agenda/2016/05/why-taxes-will-be-central-to-africa-development/ Accessed May 4, 2018.

and compliance. As a consequence of this, Rwanda was able to increase spending on the country's health sector. Specifically, from 2008 to 2013, the Rwandan government's expenditure on health increased from 3.2% of its GDP to 6.5%. Further, its per capita health spending doubled from $32 to $70, while external funding dropped by 15%.[24]

Rwanda's success story is in stark contrast with the experience in many other African countries. Notwithstanding efforts to strengthen tax administration, many African countries have been unable to maximize revenue generation from tax. Consequently, the tax to gross domestic product ratio of some African countries have been quite slow to rise whilst some are on a steady decline. In spite of the huge potentials of taxes as a domestic source of revenue, tax systems in many African countries are still relatively blighted by weak tax laws and inefficient tax administration. This inefficiency often manifests in relation to illicit financial flows, taxation of extractive industries and inability to fight transfer-pricing abuses by multinational firms.

One of the core challenges for African countries is finding a balance between a tax regime that is business oriented and investment friendly, and one which can generate revenue for financing economic development. This highlights the importance of proper consultation and research before the imposition or implementation of certain tax regimes. Further, there is also the challenge of low compliance among taxpayers and difficulty in enforcement which may be attributed to wide range of reasons including lack of education and proper awareness, double taxation, unreasonably high taxes, perceived inefficient use of taxes or outright corrupt practices by tax officials of politicians.

To maximize the efficiency and effectiveness of tax administration in Africa, it is imperative for outdated or weak laws to be revised and strengthened. The relevant authorities must ensure that tax laws are not unnecessarily complex or harsh. Tax regimes must be fair and reasonable from the perspectives of both the taxman and the tax payers. Tax holiday and exemption regimes ought to be published and made transparent. There has to be increased efficiency and transparency in the collection and administration procedure. This will incentivize and increase the level of compliance.

The relevant stakeholders in Africa will have to explore ways of plugging tax revenues lost to the informal sector. Over the years, tax authorities in Africa have struggled to manage the very large informal sector. It is estimated to account for about 50 to 80 percent of the GDP of some countries. This informal sector consists of businesses which are not incorporated or officially recognized in any way. Non registration may be due to a number of factors ranging from high taxes, expensive transaction, complexity in registration procedure to intention to avoid taxes.

[24] World Economic Forum. Ghosh, Gargee. Why taxes will be central to Africa's development. URL: https://www.weforum.org/agenda/2016/05/why-taxes-will-be-central-to-africa-development/ Accessed May 4, 2018.

Illicit Financial Flows

The challenge of illicit financial flows (IFFs) is often categorized or discussed under taxes or tax evasion. However, there are other means by which Africa's financial resources are often illicitly transferred abroad – such as by mispricing of goods and services by multinationals, abuse of capital exportation rules, money laundering, smuggling, human and drug trafficking, illegal logging etc. The Word Bank Group defines IFFs as "money illegally earned, transferred or used that crosses borders."[25] Over the years IFFs have drastically reduced Africa's domestic resources and tax revenue which would otherwise have been invested in economic and industrial development. Proceeds from natural resources such as oil and gas, diamonds, gold and platinum are illegally transferred abroad to develop other climes to Africa's detriment.

The magnitude of the challenge posed by IFFs can be seen in recent reports of the capital lost by African governments to illicit transfers. For instance a recent joint report by the Organisation for Economic Co-Operation and Development and the African Development Bank published on 20 February 2018 and produced in collaboration with The World Bank Group, NEPAD and the Inter-Governmental Action Group against Money Laundering in West Africa entitled "Illicit Financial Flows, the economy of illicit trade in West Africa,"[26] stated that West Africa alone loses an average of $50 billion every year. This is more than the Official Development Assistance to Africa which stood at $46.1 billion as at 2012, The high-level panel of the United Nations Economic Commission for Africa claims that illicit flows from Africa between 1970 and 2008 was about $854 billion[27]. The effect of this is that Africa's domestic resources and the accruing revenue are regularly and illegally being transferred abroad to the detriment of the continent's financing needs.

The means in which an illicit transfer may be curbed will substantially depend on its nature. In some cases, it may require African governments to take steps in preventing or curbing the commission of illegal activities within their territories. This may range from promoting transparency and accountability in the polity, curbing smuggling of goods, implementing stronger and more transparent tax regimes, ensuring transparency in banking systems and transactions. For instance, the Nigerian government has taken a number of initiatives to deal with illicit transfers including the introduction of Bank Verification Codes for all Nigerians, introduction of a single window trade platform in all ports in the country, introduction of the Voluntary Assets and Income Declaration Scheme - a tax amnesty scheme for tax offenders etc. In all or most cases, tackling IFFs in an effective manner will require a concerted international cooperation between African nations and the destinations of these illegal flows or transfers. Accordingly, African governments have to be more engaged at the international level to overcome this challenge.

[25] "Illicit Financial Flow". Word Bank Group. Last modified May 4; 2018. http://www.worldbank.org/en/topic/financialsector/brief/illicit-financial-flows-iffs

[26] African Development Bank. Illicit Financial Flows in West Africa. URL: https://www.afdb.org/en/news-and-events/illicit-financial-flows-in-west-africa-launch-of-new-joint-african-development-bank-and-oecd-report-17860/ Accessed May 9, 2018.

[27] https://qz.com/653937/africa-loses-more-money-to-illicit-financial-flows-than-it-receives-in-foreign-aid/

Sovereign Wealth Funds

Sovereign wealth funds are government administered investment vehicles that own and manage portfolios of assets with set objectives. The assets in the portfolios are usually derived from the government's assets resulting from balance of payments surpluses, official foreign currency reserves, and scale surpluses and privatization receipts. Accordingly, sovereign wealth funds are often established by natural resource rich countries as a means of stabilizing fiscal or foreign exchange revenues and accumulating savings for future generations. Sovereign wealth funds enable these resource rich nations to avoid what is commonly referred to as the 'resource curse' or 'paradox of plenty'.[28]

Sovereign wealth funds have increasingly become an important source of development finance. A sizeable number of African countries have established sovereign wealth funds. As at 2016, there were at least 20 sovereign wealth funds that had been established by African governments. In 2015, it was reported that assets of African countries under the management of sovereign wealth funds had topped over $159 billion (which was then 6.4 percent of Africa's GDP). [29] Significantly, Africa's sovereign wealth funds are regarded as the most diversified compared to other continents. For instance, while countries like Nigeria, Algeria, Angola, Libya, Morocco and Ghana are funding their sovereign wealth funds with proceeds from oil, Botswana's source is diamond, Senegal and Rwanda's are non-minerals while Kenya and Zimbabwe's are minerals.[30]

Sovereign wealth funds are increasingly becoming a vital source of development finance. A major advantage of sovereign wealth funds is that they are capable of securing intergenerational equity. This will be the case where the funds are invested in long-term infrastructure projects whose benefits are enjoyed across generations. Accordingly, sovereign wealth funds ensure that finite resources such as oil are transformed into long-term intergenerational assets like infrastructure.[31] Commendably, a number of African countries are already deploying funds from their sovereign wealth funds for infrastructural and industrial development. For example, funds from Angola's sovereign wealth fund have been deployed in the construction of large infrastructure projects such as the deep-water port in Cabinda and power plants. Funds from Nigeria's sovereign wealth fund have been invested in energy, roads and bridges and water

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[28] Mthuli Ncube, "Sovereign Wealth Funds and Africa's Unique Challenges". August 11, 2017. URL: https://www.afdb.org/en/blogs/industrialisation-and-trade-corner/post/sovereign-wealth-funds-and-africas-unique-challenges-17252/

[29] Quantum Global. Sovereign Wealth Funds as a driver of African Development http://quantumglobalgroup.com/wp-content/uploads/2017/10/Sovereign-Wealth-Funds-as-a-driver-of-African-development.pdf Accessed May 6, 2018.

[30] Quantum Global. Sovereign Wealth Funds as a driver of African Development http://quantumglobalgroup.com/wp-content/uploads/2017/10/Sovereign-Wealth-Funds-as-a-driver-of-African-development.pdf Accessed May 6, 2018; Boubacar Diallo, Fulbert Tchana, Albert G. Zeufack. Sovereign Wealth Funds and Long-Term Investments in Sub-Saharan Africa Policy Research Working Paper 7903, World Bank Group, Macroeconomics and Fiscal Management Global Practice Group & Africa Region Office of the Chief Economist. December 2016. URL: https://papers.ssrn.com/sol3/papers.cfm?abstract_id=2881696 Accessed May 3, 2018

[31] Mthuli Ncube, "Sovereign Wealth Funds and Africa's Unique Challenges". August 11, 2017. URL: https://www.afdb.org/en/blogs/industrialisation-and-trade-corner/post/sovereign-wealth-funds-and-africas-unique-challenges-17252/

resources. In Gabon, funds from the country's sovereign wealth fund have been used in the construction of railway lines and ports.

Notably, some funds from sovereign wealth funds in Africa have been invested overseas (i.e. outside the continent). This may seem ironic given that Africa is presently bedeviled with a number of development challenges ranging from infrastructure deficit, high rate of poverty and unemployment. A number of reasons have been given for this trend including the need to globally diversifies income, maximise financial returns, lower the volatility of government revenue, avoid the Dutch Disease,[32] minimise the absorption capacity problems, minimize the tendency for mismanagement or corruption etc. However, in the face of limited access to international capital markets, scarcity of domestic capital, pressing economic development needs and the constraints on growth caused by widening infrastructure gap – it is may be expedient for large portions of sovereign wealth funds to be invested in Africa to meet its enormous development challenges.[33]

Concerns remain as regards the transparency, accountability and proper management of sovereign wealth funds. Accordingly, to maximize the potential of sovereign wealth funds as a major source of Africa's development finance, there has to be a well-defined framework for such funds in relation to governance, transparency and accountability and risk management.[34]

Remittances

Remittances are basically the money or goods that migrants send back to families and friends in their countries of origin. Hundreds of millions of dollars are yearly remitted to Africa by Africans leaving outside the continent. These monies are often remitted to family members for immediate needs, and in other cases business partners and friends for business or investment purposes. Accordingly, where remittances are pooled together and properly managed, they have the potential of being a viable source of development finance for Africa. An advantage of remittances is that they are more dependable and stable than other forms of foreign exchange inflows such as foreign direct investment, overseas development assistance, portfolio equity etc.[35]

Remittances constitute a significant ratio in the gross domestic product of a number of African countries meaning that it plays a very significant part in their economies. For instance, in 2017, remittances

[32] When large inflows of foreign exchange earnings relative to the size of the economy result in increased real exchange rate and as a result damages the non-oil sector of the economy.
[33] Joe Amoako-Tuffour. "Should Countries Invest Resource Revenues Abroad When Demands for Public Infrastructure Are Pressing at Home? The Dilemma of Sovereign Wealth Funds in Sub-Saharan Africa." Journal of African Economies' 2016, Vol. 25, AERC Supplement 2, pp. ii41–ii58
[34] Quantum Global. Sovereign Wealth Funds as a driver of African Development http://quantumglobalgroup.com/wp-content/uploads/2017/10/Sovereign-Wealth-Funds-as-a-driver-of-African-development.pdf Accessed May 6, 2018.
[35] UNECA. Diaspora Remittances and Other Financial Flows in Africa. URL: https://www.uneca.org/sites/default/files/uploaded-documents/AEC/2013/aec_sent_29_july_2013.pdf Accessed May 13, 2018.

constituted about 27.1% of Liberia's GDP, 21% of Cameroon's, 20.8% of Gambia's and 15.2% of Lesotho. Further, it constituted about 5.6% of the gross domestic product of Nigeria (Africa's largest economy).[36] The World Bank Group estimates that officially recorded remittances to low and middle-income countries globally stood at $466 billion in 2017 with $38 billion of this sum sent to Africa. This is an increase of 8.5% from the $429 billion recorded in 2016. The World Bank Group has also estimated that 2018 will record a further 4% increase in remittances.[37] The magnitude of funds remitted globally may be appreciated when it is recognized that the total remittances made in middle income countries were far greater than the official development assistance given to those countries. In 2000 remittances were six times more than official development assistance and in 2015 remittances three times more than the official development assistance.[38]

In comparison with other forms of financial inflow into Africa, remittance funding go directly to the remittance targets in most occasions. Remittance are also often done in a timely manner given that the remitter will be aware of the financial needs of the families back in Africa. Accordingly with diaspora remittance, the risk of misappropriation of the remitted funds is substantially reduced compared to inflows such as overseas development assistance which often risks being misappropriated. A further significant advantage of remittances is that they usually do not attract interests and are not laced with conditionality like foreign aids or loans. It is almost a norm for foreign aid or loans to be accompanied by conditions ranging from economic restructuring, privatization, regulation or deregulation. This is not the case with remittances and there is no risk that remittances may be used as a leverage to influence national policies and decision making.

One of the challenges Africa faces in relation to remittances is the cost of remittance. This may potentially impede the maximization of this source of revenue for the continent. The World Bank Group estimates that the global average cost of sending $200 was 7.1% in the first quarter of 2018. Sub-Saharan Africa is clearly the most expensive place to remit money to with an average cost of 9.4%.[39] Against this background, there is the need for African governments to take proactive measures to reduce the costs of remittances and also simplify the process of remittance. Further, remittances show that Africans in diaspora care about their home countries and, more importantly, their families and loved ones back home. However, remittances may not offer a path to financing sustainable development in Africa at the national level. Most remitted funds are usually earmarked for the immediate use of the family members or

[36] Kate Hairsine. Africa loses billions due to high cost of remittances. April 24, 2018. URL: http://www.dw.com/en/africa-loses-billions-due-to-high-cost-of-remittances/a-43506362 Accessed May 16, 2018.
[37] Business Daily. Remittances hit record in 2017, Africa most expensive MONDAY, APRIL 23, 2018 10:16 https://www.businessdailyafrica.com/markets/marketnews/Remittance-payments-hit-record-in-2017--World-Bank/3815534-4494242-9p5fj9/index.html; Migration Data Portal. Remittances https://migrationdataportal.org/themes/remittances Accessed May 22, 2018.
[38] Flore Gubert. Migration, Remittances And Development: African Perspective https://www.oecd.org/migration/forum-migration-statistics/4.Flore-Gubert.pdf8 rem
[39]Business Daily. Remittances hit record in 2017, Africa most expensive MONDAY, APRIL 23, 2018 10:16 https://www.businessdailyafrica.com/markets/marketnews/Remittance-payments-hit-record-in-2017--World-Bank/3815534-4494242-9p5fj9/index.html; Migration Data Portal. Remittances https://migrationdataportal.org/themes/remittances Accessed May 22, 2018.

loved ones of the remitters. In consequence, such funds may not be directly available as development finance.

Instructively, on 28 July 2016, the Nairobi Action Plan on Remittances[40] was affirmed in Kenya by representatives of African Diaspora Development Organisations, Money Transfer Organisations, private sector organisations, civil society organisations, governments and international development agencies, at the Fifth Diaspora Development Dialogue. The action plan affirms a commitment to, inter alia, (i) ensure that by 2030 transaction costs of remittance are reduced to less than 3%, and (ii) eliminate remittance corridors with costs higher than 5%. The group also made a commitment to identify corridors for remittance transfers where the partners commit to substantially reduce the costs by 2020, from Europe to Africa and within Africa.

Sovereign Bonds

Over the years, African governments have issued bonds to either plug budget deficits or infrastructure funding gaps. These bonds range from sovereign bonds, agency bonds, corporate bonds, supranational bonds, subnational bonds to Eurobonds. Generally, bonds are debt instruments which are issued by an entity to bondholders to raise funds. They represent a long-term financial obligation of the entity to the bondholders who have loaned funds to the entity for a defined period of time at a variable or fixed interest rate. The entity/borrower has the obligation of paying the bondholders specified sums of money which are also known as coupons in addition to the repayment of the principal on an agreed future date. Although companies often issue bonds, this discourse will focus on sovereign bonds i.e. bonds issued by governments as a means of generating development finance.

Sovereign bonds may be structured in diverse ways. However, they all have the above functional effect. Sovereign bonds are usually issued by governments through their national debt offices. The practice is for the proceeds of such bonds to be used as a support for government spending. They can be used to plug funding gaps for development finance and other budget deficit. Given that these bonds are backed by national governments they are usually regarded as very safe investments. In consequence, sovereign bonds usually have the highest credit rating. In some jurisdictions, government agencies and departments may be permitted to issue bonds to finance low cost developmental projects. These are often loosely referred to as agency bonds.

A genre of sovereign bonds which is increasingly gaining traction in the financial markets is the diaspora bonds. These bonds are often issued by governments in African countries to their citizens abroad or in diaspora to enable the citizens tap into their assets in the destination country. The potential of diaspora

[40] Convened by the Africa-Europe Diaspora Platform, the Ministry of Foreign Affairs of the Government of Kenya and the African Institute of Remittances. A copy of the action plan can be found at: http://www.adept-platform.org/wp-content/uploads/DDD5-Nairobi-Action-Plan-on-Remittances-28-July-2016-1.pdf June 10, 2018,

bonds is enormous given that there are over 140 million Africans living outside Africa. The importance of diaspora bonds have been further amplified in recent times by the decline or instability in foreign direct investment and official development assistance. The huge remittances recorded in recent times also underscores the capacity of Africans in diaspora to contribute to the development of Africa.

Issuance of diaspora bonds can serve as a viable alternative to borrowing from international capital market or development finance institutions. In practice, proceeds of diaspora bonds are usually earmarked to finance developmental projects which appeal to the diaspora. Diaspora bonds may be contrasted with remittances most of which are used for the immediate needs of families of the diaspora and may not actually impact directly on infrastructure or economic development.

A demerit of diaspora bonds is that they can only be effectively used by countries with large diaspora population. Accordingly, where a country has a small diaspora population, this bond may not be a very effective means of revenue mobilization. Nigeria which has a very large diaspora population has recently taken advantage of this means of development finance. In 2008, Ethiopia blazed the trail by issuing the first ever diaspora bonds by an African country which it called “Millennium Corporate Bond”. Ethiopia issued its bond to address a critical national electricity crisis. The bond issuance was aimed at financing the construction of a 5,250MW dam on the Nile River with an estimated cost of $4.8 billion. Traditional financing for this energy project was difficult to obtain. Ethiopia’s bond issue did not meet revenue generation expectations for reasons ranging from lack of trust in (i) the ability of the utility to service the debt, (ii) the full faith and credit guarantee of the government and (iii) the overall political climate in Ethiopia.[41]

In contrast to Ethiopia’s experience in 2008, Nigeria’s sale of $300 million diaspora bonds denominated in United States dollars in 2017 was well received with an oversubscription by 130%. That was in fact Nigeria’s second time of issuing diaspora bonds having debuted the market in 2013 with $100 million issuance which was also a success. The Ethiopian experience of 2008 appears to suggest that when marketing bonds to the diaspora community, the framing is important. The viability of the bonds and the underlying projects will have to be highlighted as well as the underpinning patriotic discount. Ignoring one of these and laying emphasis on just one may have detrimental effect on outcome. Accordingly, it has sometimes been said that that diaspora participation exists in the space between investing and charity.[42]

Another genre of bond which has gained prominence over the years as a means of finance is the Eurobond. Eurobonds are usually denominated in dollars notwithstanding the name. With Eurobonds,

[41] Seliatou Kayode-Anglade and Nana Spio-Garbrah1. Diaspora Bonds: Some Lessons for African Countries, URL: https://www.afdb.org/fileadmin/uploads/afdb/Documents/Publications/Economic_Brief_-_Diaspora_Bonds_Some_Lessons_for_African_Countries.pdf Accessed May 6, 2018.

[42] Michael Famoroti. The Potential of diaspora bond in Africa. Stears Business Ltd. URL: https://www.stearsng.com/article/the-potential-of-diaspora-bonds-in-africa Accessed May 6, 2018.

issuers have the discretion of choosing the countries which they wish to offer the bonds. Seychelles was the first sub-Saharan African country to issue sovereign bonds when the country issued a $30 million bond in 2006.[43] This was followed in 2007 by DR Congo which issued $454 million, Gabon which issued $1 billion and Ghana which issued $750 million. Several other African countries such as Senegal, Nigeria, Namibia, Côte d'Ivoire, Zambia, Rwanda, Kenya, Ethiopia, Angola and Cameroon have subsequently issued Eurobonds. More African countries are expected to join the trend. In 2017, Nigeria raised $3 billion in a two-part international bond sale this was indeed Nigeria's third issue for that year.[44] About four African sovereigns namely Nigeria, Egypt, Kenya and Ivory Coast have issued sovereign debt raising about $12.8 billion in the first three months of 2018.[45] This is more than half the $18 billion raised in 2017 and exceeds the total amount raised in 2016.[46] From the foregoing, there is clearly no doubt that Eurobonds may be used as a veritable means of financing Africa's infrastructure and economic development.

However, governments have to be circumspect when issuing these debt to raise capital so as not to end up enslaving themselves and being overburdened by onerous debts. The World Bank Group, in a recent publication,[47] has expressed concern over the rising debt profile of African countries in relation to their gross domestic product. The World Bank Group which classified 18 countries as being at high risk of debt distress (compared with eight in 2013) noted that that higher debt burdens and increasing exposure to market raise concerns about debt sustainability.

Nigeria has also pioneered the issuance of the green bonds in Africa. Indeed Nigeria is only the fourth country in the world (after Poland, France and Fiji) to offer the environmental friendly green bond.[48] The sovereign green bond is a tax-exempt bond issued by the government of a country for development of brownfield sites and environmentally friendly projects. Put differently, green bonds are debts raised for green building and sustainable designed projects. In its debut in December 2017, the sovereign green bond by Nigeria was well received by diverse investors and recorded $101 million oversubscription.[49] Nigeria's Debt Management Office claims that the total subscription of the bonds by both local and foreign

[43] John Mbu. "Why Eurobonds are an important source of finance for Africa. February 2016
[44] Paul Wallace. Nigeria Raises $3 Billion in Its Biggest Eurobond Sale Yet. Bloomberg. November 20, 2017, https://www.bloomberg.com/news/articles/2017-11-20/nigeria-set-to-issue-3-billion-of-eurobonds-in-biggest-sale-yet Accessed May 5, 2018.
[45] LSEG. A Stellar Start of the Year For African Sovereign Issuance. URL: https://www.lseg.com/markets-products-and-services/our-markets/london-stock-exchange/fixed-income-markets/sovereign-supranational-and-agency-bonds/african-sovereign-issuance-london
[46] Paul Wallace. Africa's Eurobond Love Fest Set to Continue as Issuers Line Up. March 7, 2018. URL: https://www.bloomberg.com/news/articles/2018-03-07/africa-s-eurobond-love-fest-set-to-continue-as-issuers-line-up Accessed May 5, 2018.
[47] The World Bank Group. Press Release: Economic Growth in Africa Rebounds, but not fast enough. ULR: http://www.worldbank.org/en/news/press-release/2018/04/18/economic-growth-in-africa-rebounds-but-not-fast-enough
[48] Financial Times. Nigeria joins regional race on green bonds. URL: https://www.ft.com/content/01870140-3364-11e8-ac48-10c6fdc22f03 Accessed May 7, 2018.
[49] Peter Egwuatu. Debut Sovereign Green Bond Records N101 million. Vanguard Newspaper. January 5, 2018. URL: https://www.vanguardngr.com/2018/01/debut-sovereign-green-bond-records-n101m-oversubscription/ Accessed May 8, 2018.

investors was N10.791 billion ($29.4 million) as against a total offer of N10.69 billion ($29.1 million).[50] This underscores the potential of green bonds as major development financing mechanism.

Private Equity

Private equity funds are collective investment schemes or funds which invest in private or unlisted companies. Africa is gradually becoming one of the most attractive destinations for private equity investments. Back in the early 1990s, there were just over 10 private equity funds in Africa with a combined portfolio valued at about $1 billion. Presently, there are over 200 private equity funds in Africa managing investment portfolios in excess of $30 billion.[51] It is estimated that between 2008 and 2015, over $16.4 billion was raised in sub-Saharan Africa by private equity funds for investment.[52] From 2013 through 2015 alone, private equity funds mobilized $10 billion to invest in Africa and completed $14.8 billion in deals—more than double the level of the previous three years.[53] This means that there are more funds to invest in diverse deals and infrastructural and developmental projects in the continent whilst the investors also reap high returns on those investments.

The above highlights the fact that the continent is ripe for private equity activities and investments. It further highlights the important role which private equity can potentially play in financing Africa's economic and industrial development drive. There is no doubt that investments from private equity firms can deliver significant social, infrastructural and economic returns. Accordingly, private equity investments offer a massive opportunity for Africa to accelerate its economic and infrastructure development.

The huge financial investments in African-based companies by private equity firms are viable alternatives for companies in Africa which may be unable to raise capital through conventional channels, such as borrowing from banks or selling equities. Private equity firms thus inject liquidity into the polity and fill the gap between self-financing and conventional capital market activity for African-based companies. Generally, private equity is considered to have greater liquidity than most other sources of finance such as capital market equities – some of which are small in size and shallow in relation to the assets class available for investment.

With the conducive investment environment and an efficient regulatory framework, African-based private equity funds have the potential of significantly contributing to Africa's development finance needs.

[50] Shakirudeen Taiwo, Africa's first 'Sovereign Green Bond' by Nigeria records N101m oversubscription. Pulse. January 5, 2018.URL: http://www.pulse.ng/bi/finance/finance-africa-s-first-sovereign-green-bond-by-nigeria-records-n101m-oversubscription-id7808325.html Accessed May 5, 2018.
[51] Patrick Dupoux, Marc Becker, Tawfik Hammoud and Seddik El Fihri. Why Africa Remains Ripe for Private Equity. September 15, 2016. URL: https://www.bcg.com/publications/2016/private-equity-globalization-why-africa-remains-ripe-private-equity.aspx Accessed May 23, 2018.
[52] Judith E. Tyson. Sub-Saharan Africa and international equity: Policy approaches to enhancing its role in economic development. African Business Central. Working Paper 424, September 2015. URL: http://www.africanbusinesscentral.com/wp-content/uploads/2016/01/Sub-Saharan-Africa-and-international-equity-policy-approaches-to-enhancing-its-role-in-economic-development-ODI.pdf Accessed May 2, 2018.
[53] Patrick Dupoux , Marc Becker , Tawfik Hammoud and Seddik El Fihri. Why Africa Remains Ripe for Private Equity. September 15, 2016. URL: https://www.bcg.com/publications/2016/private-equity-globalization-why-africa-remains-ripe-private-equity.aspx Accessed May 23, 2018.

Pension funds

The pension fund portfolios of African countries are rapidly expanding. These funds may also be effectively and efficiently used in financing the continent's infrastructure and industrial development. A recent PwC report[54] indicates that the total assets under management in 12 selected African countries[55] was $293 billion in 2008. This doubled to $634bn by 2014. It is believed that this figure will rise to $1.1 trillion in 2020. Pension funds are sometimes categorized as one of the three classes of sovereign wealth fund (earlier examined) – the other two classes being stabilization fund and savings fund.[56]

The extent to which pension funds can be used for financing infrastructural projects or other forms of investments will largely depend on the national laws, if any, regulating or restricting the use of such pension funds. For instance, the OECD Annual Survey of Investment Regulation of Pension Funds[57] showed that in Kenya, pension funds may invest up to 70% of the value of their total assets under management into listed equities on any of the stock markets in Kenya, Uganda or Tanzania. In Nigeria, pension funds may only invest up to 25% (direct investment limit) of the value of their total assets under management into listed equities and such investments are subject to further restrictions. Further, in South Africa, pension funds may invest up to 75% of the value of their total assets under management into listed equities on the JSE Limited (Johannesburg Stock Exchange) and 25%, subject to further restrictions, into equities listed on a foreign exchange that is a member of the World Federation of Exchanges.[58]

The issue of investing pension funds in infrastructure or other investment is understandably an emotive one. Accordingly, caution ought to be exercised in the utilization of pension funds in financing developmental projects. In the case of Nigeria where pension assets funds had topped N7.79 trillion (about $20.5 billion) at the end of February 2018, there are watertight guidelines regulating the use of the funds either by private individuals or state governments. Consequently, despite the regular clamour that the funds be deployed to fill Nigeria's infrastructure funding gap, pensions funds have so far only been invested in zero-risk government securities and bonds.[59] Under the Nigerian pension funds regime, as much as 15% of the total value of pension fund assets may be invested in infrastructure through infrastructure bonds and another 5% of the total value of pension fund assets could be invested in infrastructure through infrastructure funds, making 20% of the total value of accumulated pension asset.

[54] PWC. Africa Asset Management 2020. URL: http://www.amafrica2020.com/amafrica2020/docs/am-africa-2020.pdf Accessed May 7, 2018.
[55] These countries are Algeria, Angola, Botswana, Egypt, Ghana, Kenya, Mauritius, Morocco, Namibia, Nigeria, South Africa and Tunisia.
[56] Boubacar Diallo Fulbert Tchana Tchana Albert G. Zeufack. Sovereign Wealth Funds and Long-Term Investments in Sub-Saharan Africa. The World Bank Group Macroeconomics and Fiscal Management Global Practice Group & Africa Region Office of the Chief Economist. Policy Research Working Paper 7903. December 2016. ULR: https://papers.ssrn.com/sol3/papers.cfm?abstract_id=2881696 Accessed May 4, 2018.
[57] OECD. Annual Survey of Investment Regulation of Pension Funds 2017. URL: https://www.oecd.org/daf/fin/private-pensions/2017-Survey-Investment-Regulation-Pension-Funds.pdf Accessed May 13, 2018.
[58] Ibid.
[59] Nike Popoola. N4.75 Trillion Pension Funds Invested in FG Bonds, Securities. Punch. September 10, 2017. URL: http://punchng.com/n4-75tn-pension-funds-invested-in-fg-bonds-securities/ Accessed June 3, 2018.

In order to maximize the use of pension fund assets in financing developmental and infrastructural projects in Africa, there must be a fair, transparent, clear and predictable policy framework to invest in infrastructure.[60] This is premised on the fact that the governance, regulation, and supervision of pension funds may limit or restrict the ability of investing available pension funds' assets in infrastructure.

Public Private Partnership

Public private partnership, as the name clearly suggests, is a contract between a private entity and a public sector institution aimed at providing public assets or services. In a typical public private partnership arrangement the private party undertakes to perform a function, such as the provision of public assets or services, which would usually be performed by the public institution. The arrangement involves a transfer, by the public institution of significant project, technical and financial risk and management responsibility to the private entity.[61] On its part, the State or public institution may be required to pay for the services, including new infrastructure, maintenance and facilities management, through monthly or annual payments. In some cases, the public institution may be required to provide capital and operating costs for the project, asset or service.

Public private partnership has become a veritable vehicle for providing infrastructure and services by governments in Africa in collaboration with the private sector. There has been a massive increase in the use of public private partnerships in providing public utility assets across Africa in the last decade. This increase has been driven by a number of factors one of which is governments' budget deficits and funding gaps. Hence, across the length and breadth of the continent public private partnerships are being used to execute public utilities like roads, bridges and railway lines, electricity and energy projects, schools, hospitals and other infrastructural projects.

Public private partnership initiatives are undoubtedly playing a significant role in driving Africa's infrastructure development. In South Africa, official records indicate that the first public private partnership initiative was in 1998.[62] From 1998 to 2017, the South African government's official record shows that 31 major public private partnership projects undertaken (including hospitals, transport and roads, tourism and head office accommodation projects) had been completed. Further, the total value of all projects amounts to R65.3 billion (about $5.2 billion). The record also projects that out of the R947.2 billion (about $75.9 billion) planned for public-sector infrastructure spending over the next three years, public private

[60] Amadou N. R. Sy. Leveraging African Pension Funds for Financing Infrastructure Development. United Nations. March 2017. URL: http://www.un.org/en/africa/osaa/pdf/pubs/2017pensionfunds.pdf Accessed June 3, 2018.

[61] The World Bank Group. "Public-Private-Partnership in Infrastructure Resource Center." Last modified February 20, 2018. URL: https://ppp.worldbank.org/public-private-partnership/overview/what-are-public-private-partnerships , Accessed June 11, 2018.

[62] South African Treasury Website> 2017 Budget Review: Public-private partnerships. Page 19. URL: http://www.treasury.gov.za/documents/national%20budget/2017/review/Annexure%20E.pdf Accessed May 17, 2018.

partnerships projects account for R16.5 billion ($1.3 billion) – about 1.7% of the total public sector infrastructure budget estimate.

Other notable capital-intensive projects which have been executed across the continent through diverse public private partnership models include: (i) The Bujagali hydroelectric power station in Uganda. Inaugurated in October 2012 with a capacity of 250 megawatts (340,000hp). The Bujagali hydroelectric station is the most powerful hydroelectric energy source in Uganda. (ii) The Cenpower in Ghana which is expected to be among the largest private Independent Power plants in Ghana accounting for approximately 10% of Ghana's total installed capacity and approximately 15% of its available thermal generation capacity. (iii) The Offshore supply base in Western Cape in South Africa. The project which is South Africa's first offshore supply base is expected, on completion, to generate investments in oil and gas worth between R1.8 billion ($136 million) and R2.2 billion ($166 million) at the Saldanha Bay industrial development zone. (iv) The KivuWatt in Rwanda power plant inaugurated in May 2016. The second phase of the $200 million 26 MW (35,000 hp) methane gas-fired thermal power plant country is expected to increase the total capacity to over 100 MW. (v) The Murtala Muhammed Airport 2 in Lagos. A build, operate and transfer contract for an airport terminal awarded in 2003. It is the first of its kind in Nigeria. (vi) The 49.4km Lekki-Epe Expressway in Lagos, Nigeria. The first toll-road concession in West Africa. (vii) Aldwych Lake Turkana Wind Farm in Kenya which covers 40,000 acres (160 km^2) and at Ksh70 billion ($692 million) is reputed to be the single largest private investment in Kenya's history. (viii) Alexandria Hospital in Egypt which is the country's first healthcare public private partnership project. (ix) The Tšepong in Lesotho – a 425-bed hospital.[63]

Given the increasing importance and effectiveness of public private partnerships as a viable vehicle for spearheading major infrastructure projects, efficient public private partnerships are vital for the realization of Africa's development goals. To actualise the aspirations which underpin Agenda 2063, the public and private sectors must seek innovative and sustainable ways of maximizing the potentials of public private partnerships. Over the years diverse models of public private partnerships have evolved. These models have been created to either suit a planned project or other objectives of the contracting public sector institution. Some of the notable models of public private partnerships include concession, lease, the build-own-operate, build-operate-transfer, the build-operate-own-transfer, the build-lease-transfer, build-operate-lease-transfer, operate-maintain-transfer, lease-develop-operate, rehabilitate-operate-transfer, equities management project, finance management project etc. In executing public utility projects, it is incumbent on public sector institutions to either adopt any of the existing models or create one which fits the purpose of the project.

[63] Yescombe, E.R. Public-Private Partnerships in Sub-Saharan Africa: Case Studies for Policymaker., Dar es Salaam: UONGOZI Institute, Mkuki na Nyota Publishers, 2017.

The merits of public private partnerships cannot be overstated. These initiatives provide development financing where a government is faced with budgetary constraints. In consequence, they reduce government sovereign borrowings and associated risks while freeing up resources for other purposes. Public private partnerships also accelerates the pace of development by ensuring that projects which would have ordinarily been postponed to a future date due to financial constraints are executed sooner. Public private partnerships are also useful where a government desires to hold an interest or retain ownership of a public utility or infrastructure. It is arguable that that public assets are better maintained by the private sector under public private partnership arrangements. This is in contrast with the poor maintenance culture often associated with the public sector. These saves the State the costs of frequent replacements.

Public private partnerships are not without potential downsides or risks. First, there may be a risk of unnecessary political interference in the project. Any form of political instability or changes in government may adversely affect the project. An example is the case of the build operate and transfer and concession of the MMA2 Terminal in Lagos, Nigeria where the seven year old concessionaire has had to deal with about six different Ministers of Aviation and five different Chief Executives of the Federal Airports Authority of Nigeria, some having differing policies, divergent opinions and perspectives on the concession agreement. There are presently several court cases in relation to disputes arising from the concession agreement. Another significant challenge which public private partnership projects in Africa face is currency risks. While most finance for public private partnership projects are denominated in US dollars, revenues from the project are usually in local currency. Local financial markets may be unable to provide the volume of foreign exchange required for the financing. Lack of transparency in bidding and contract award process, corruption, absence of solid legal frameworks and lack of sufficient experience and expertise are some of the other challenges that must be tackled in order to maximize the potential of public private partnerships as a driver of economic growth and infrastructure development in Africa.

Natural Resources

Africa has enormous natural resources which, in the past years, have attracted huge investments in exploration and extraction. Africa's minerals industry has been described as the largest in the world.[64] About forty of the continent's countries are either producing or have proven reserves of crude oil and gas. The continent is home to five of the world's top oil producing countries. In 2016, Africa accounted for about 9% of global oil output.[65] As at 2017, DR Congo, Botswana and South Africa were ranked among the top five countries in the world with the largest diamond reserves.[66] Surveys show that Africa has

[64] Wikipedia. Minerals Industry of Africa, Last modified May 26, 2018, URL: https://en.wikipedia.org/wiki/Mineral_industry_of_Africa Accessed May 23, 2018.
[65] Ecobank Research. Africa FICC – Africa Accounts for an Estimated 9% of World Oil Output in 2016. Investor Advocate. April 18, 2018. URL: https://investadvocate.com.ng/2018/04/19/africa-ficc-africa-accounts-estimated-9-world-oil-output-2016/ Accessed June 12m 2018.
[66] The Statista Portal. Countries with the largest diamond reserves as of 2017 (in million carats). Statista. URL: https://www.statista.com/statistics/267905/world-diamond-reserves-by-country/ Accessed June 2, 2018.

gradually expanded its metal and mineral production of 15 important metals by 78% between 2010 and 2017 compared to only 30% in the Americas and Asia. Many African countries have discovered new natural resources including high grade iron-ore and diamonds in the past decade, and, in addition, the continent has vast arable land and timber resources and rich coastal fishing grounds.[67]

The good news for Africa is that the global economy today is fueled and driven by commodity consumption. This presents the continent with a great opportunity to generate revenue from its resources for financing its development. Increased revenues from natural resources will lead to increase in budget spending which will in turn boost economic and infrastructure development.

In the past, a substantial amount of Africa's resources had either been exploited by foreign countries and their multinationals or accruing revenue embezzled by corrupt African leaders. Corruption and lack of fiscal responsibility has been the bane of resource management in Africa. Africa's natural resources have for many decades been a source of power and wealth for the continent's ruling elites and multinational corporations, and less often for Africans themselves.

For Africa to be able to deploy its natural resources as a means of financing its development, transparency and accountability is required in the management of financial resources realized from natural resources. African leaders must have the political will and honesty to ensure that the Africa's vast natural resources are invested in building Africa. Governments, stakeholders, Africans and local advocacy groups must intensify efforts towards ensuring that accountability, transparency and access to information in the extractive sector is consistently maintained. Current efforts at increasing transparency and accountability in the management of natural resources appear to be yielding fruits as about twenty four African countries[68] have signed up to the Extractive Industries Transparency Initiative which aims to promote governance by strengthening transparency in the extractive industries.

D. CONCLUSION

Africa's infrastructure deficit and economic development challenges are enormous, but so are its resources which can be mobilised to facilitate accelerated and sustainable development. Africa has the resources and the potential to finance the aspirations which underpin Agenda 2063. Governments of African countries have a critical and pivotal role to play in actualizing the continent's development goals and aspirations. The greatest challenge towards actualising the aspirations of Agenda 2063 is the ability, capacity, competence and political will of leaders and policy-makers in various African countries to (i) integrate the ideals and goals of Agenda 2063 into their national developmental plans, and (ii) mobilise

[67] AFDB. Africa's Natural Resources: What is the Agenda? URL: https://www.afdb.org/en/annual-meetings-2013/programme/africa%E2%80%99s-natural-resources-what-is-the-agenda/ , Accessed June 2, 2018.
[68] EITI. EITI Implementation status. URL: website: https://eiti.org/countries Accessed June 4, 2018.

and deploy the vast resources of their respective countries in an efficient, effective and transparent manner towards financing the continent's development goals.

The roles of continental and regional organisations[69] and African-focused initiatives[70] are also crucial in the realization of Africa's development goals. There are a number of indigenous initiatives which have been established Africa to foster the continent's economic and infrastructural growth. The seeming proliferation of initiatives may be attributed to the shared concern for Africa's infrastructure deficit and other challenges.[71] The important roles which these continental and regional bodies and initiatives play in facilitating regional integration and stimulating economic and infrastructure development cannot be overstated. These initiatives are undoubtedly imperative in actualizing the aspirations which underpin Agenda 2063.

[69] For example: Arab Maghreb Union, Common Market for Eastern and Southern Africa, Community of Sahel-Saharan States, East African Community, Economic Community of Central African States, Economic Community of West African States, Intergovernmental Authority on Development, Southern African Development Community etc

[70] For example: Africa Development Initiative, New Partnership for Africa's Development, Africa Global Partnership Platform, Presidential Infrastructure Champions Initiative, Programme for Infrastructure Development in Africa, Regional Infrastructure Development Master Plan, Africa Infrastructure Country Diagnostic, Africa50, New Deal on Energy for Africa, Transformative Partnership on Energy for Africa etc

[71] Amadou N. R. Sy. Leveraging African Pension Funds for Financing Infrastructure Development. United Nations. March 2017. URL: http://www.un.org/en/africa/osaa/pdf/pubs/2017pensionfunds.pdf Accessed June 3, 2018.