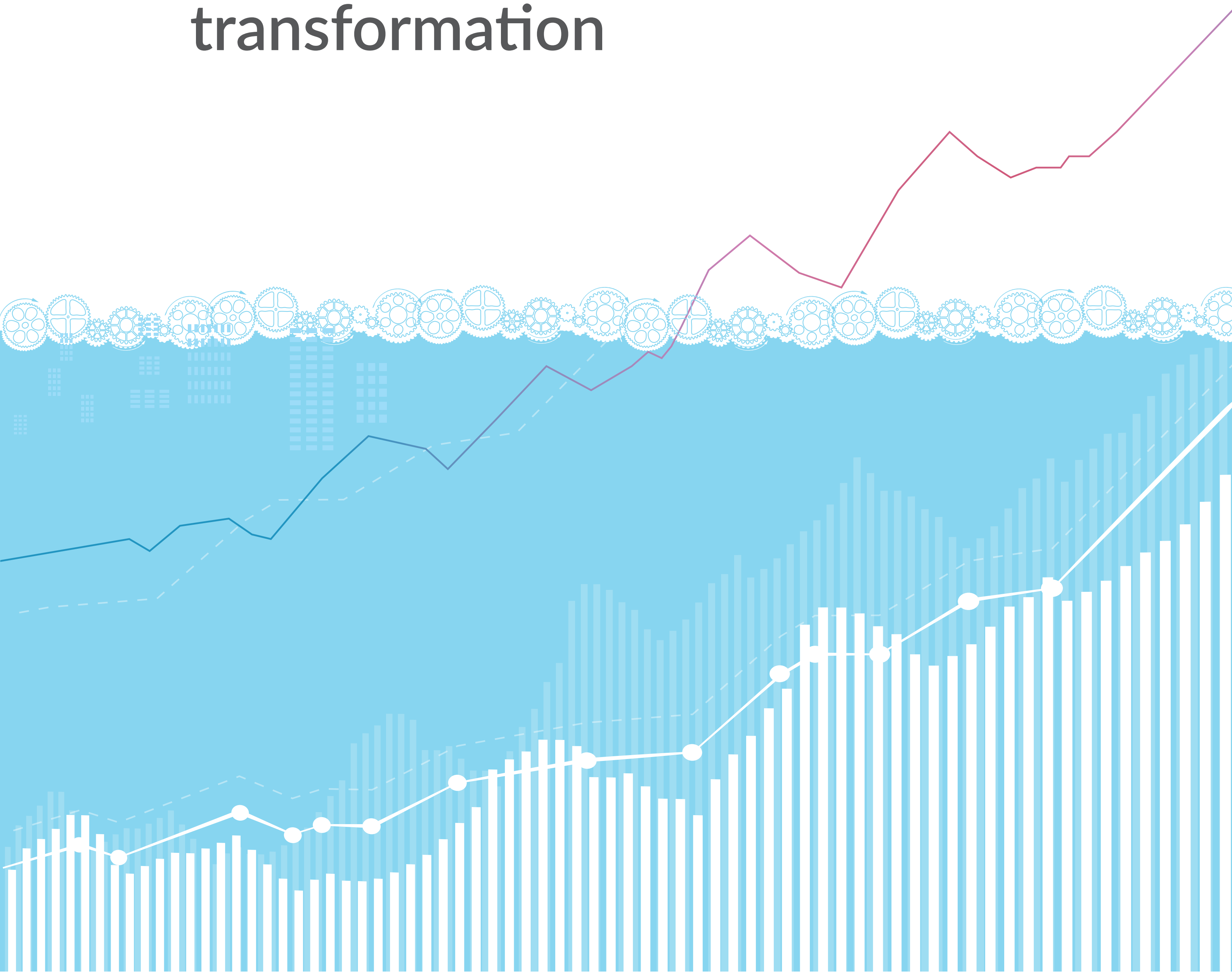
Strategies for mobilizing domestic resources and investments for structural transformation



United Nations
Economic Commission for Africa

Strategies for mobilizing domestic resources and investments for structural transformation

United Nations
Economic Commission for Africa

Ordering information

To order copies of *Strategies for mobilizing domestic resources and investments for structural transformation*, please contact:

Publications Section
Economic Commission for Africa
P.O. Box 3001
Addis Ababa, Ethiopia

Tel: +251 11 544-9900
Fax: +251 11 551-4416
E-mail: ecainfo@uneca.org
Web: www.uneca.org

First printing July 2017

Designed and printed by the ECA Printing and Publishing Unit. ISO 14001:2004 certified.
Cover photos: © Shutterstock

Table of contents

Figures

Tables

Boxes

Abbreviations

AfDB	African Development Bank
CBN	Central Bank of Nigeria
FDI	foreign direct investment
GDP	gross domestic product
GFC	gross fixed capital
GFCF	gross fixed capital formation
GTP	growth and transformation plan
IFAD	International Fund for Agricultural Development
ILO	International Labour Organization
IMF	International Monetary Fund
ODA	official development assistance
OECD	Organization for Economic Cooperation and Development
UNDP	United Nations Development Programme
WTO	World Trade Organization

Acknowledgements

This paper was prepared under the overall guidance of Adam Elhiraika, Director, Macroeconomic Policy Division, Economic Commission for Africa (ECA). The ECA drafting team comprised Gamal Ibrahim, Uzumma Erume, Derrese Degefa and Jean Abel Traore. Prof. Olu Ajakaiye, African Centre for Shared Development Capacity Building, also contributed to drafting the report.

Executive summary

Africa has witnessed a resurgence in economic growth since the beginning of the century but, while there has been significant growth across countries, it has not been sufficiently inclusive, given the widespread poverty, high unemployment and worsening inequality (ECA and African Union Commission, 2013b).

In order to address the challenges of structural transformation and inclusive development, there is now a noticeable revival of development planning and a growing recognition of the role of the State in economic development. Development plans focus on industrial policies, which aim to leverage domestic capabilities, technological advance and natural resource management in a highly complex globalized market context. Such ambitions have been reflected in the African Union's first ten-year implementation plan for Agenda 2063, the recently adopted regional development framework for inclusive growth and sustainable development, and the Sustainable Development Goals.

This study argues that the developmental State requires national development goals to be based on democratic public discussion during which the State forges comprehensive relationships with all stakeholders, public (national and regional), private and civil society.

Fundamental to the success of the plans developed by African countries is the ability to mobilize resources and allocate them to productive sectors that will support the growth and diversification of the economy and thus be the driver of inclusive sustainable development. Using the case studies of Ethiopia, Morocco and Nigeria, the study provides examples of strategic approaches to mobilizing resources and investment for structural transformation. The case studies analyse the various efforts to improve resource mobilization and investment, particularly in sectors considered drivers of economic growth, examine the institutional, policy and regulatory dimensions of successful implementation, and identify best practices.

This report proposes policy recommendations that fall into nine interconnected themes to enhance resource mobilization and investment for Africa's economic transformation.

First, domestic resource mobilization and investment should be integral parts of development plans. Strong development plans supported by sound, transparent and responsive institutions are key to leveraging country-specific strengths, establishing complementary industries, enhancing forward and backward linkages, and expanding markets.

Second, there is a critical need for broad and comprehensive tax reforms for structural transformation and inclusive development. Progressive fiscal reforms should enhance the tax base, address fiscal imbalances and the regressive orientation of indirect taxes, and encourage a shift from a tax system characterized by a multiplicity of inconsistent taxes with high rates and excessive tax alleviations aimed at encouraging investment to a more consistent, simplified and efficient tax system.

Third, Governments should encourage a more developmental role for domestic savings in order to enhance investment and private sector development. This includes creating incentives to encourage banks to provide loans with high economic and social benefits, building an effective information technology infrastructure for the financial sector to enhance financial inclusion, and re-establishing and/or recapitalizing development banks.

Fourth, African countries need to deepen capital markets and learn from the experience of South Africa, Nigeria, Morocco, Egypt and Kenya. In

particular, strong and all-stakeholder governance systems should be put in place to minimize the risks of capture and unethical practices by dealers and operators.

Fifth, in addressing the issue of illicit financial flows and other development leakages, the recommendations in the report of the African Union Commission–ECA high level panel on the subject should be instrumental in tracking, stopping and retrieving illicit financial flows out of Africa. African Governments should support Sustainable Development Goal 16.4 and paragraphs 23 and 24 of the Addis Ababa Action Agenda calling for the need substantially to reduce illicit financial flows by 2030.

Six, more needs to be done to make better use of international public and private finance, since it can be used to unlock and leverage domestic resources to address the critical challenges hindering equitable economic transformation.

Seven, African Governments should encourage the use of the emerging innovative sources of finance that present a largely untapped pool of capital to finance Africa's structural transformation. Due attention should, however, be paid to the institutional arrangements governing these modes of finance.

Eight, to address the challenge of the persistent fiscal deficit, African Governments should accelerate their efforts to improve the quality of output and competitiveness, enhance massive expenditure on physical infrastructure, strengthen institutions and build capacity in the design and implementation of public policies with emphasis on budget transparency, public expenditure management and aligning sectoral strategies to the overall structural transformation strategy.

Nine, coordinated short- and long-term strategies are essential for enhancing domestic resource mobilization. African Governments should, however, pay special attention to the challenge of sectoral and institutional composition of investment and engage in participatory development planning processes to encourage long-term investment in productive sectors.

I. Financing Africa's structural transformation: Opportunities and challenges

A. Overview

Africa has recently stepped up its policy initiatives aimed at addressing the financing gap in order to bring about structural transformation and achieve inclusive development objectives by relying more on public and private domestic resources. These initiatives include Agenda 2063 and the Common African Position on the Post-2015 Development Agenda, the work of the Planning and Coordination Agency of the New Partnership for Africa's Development (NEPAD), the Ninth African Development Forum, and the report by the High-Level Panel on Illicit Financial Flows.

At the global level, the Addis Ababa Action Agenda adopted in July 2015 and the underlying Sustainable Development Goal framework ensure an integrated approach that links sustainable and inclusive development to the overarching goal of structural transformation. The Action Agenda is more comprehensive than previous financing for development agreements, such as Monterrey 2002 and Doha 2008, including goals to end poverty and hunger, protect the environment, and promote inclusive economic growth and social inclusion (paragraph 1). It also highlights the importance of aligning climate, humanitarian and development finance (paragraphs 62-66) and calls for a substantial reduction in illicit financial flows by 2030 (paragraphs 23-24).

The need to mobilize resources for Africa's economic and social development is stark given the quantity of resources required to transform African economies. The World Bank and other donors and multilateral institutions have estimated that the region needs $93 billion a year just to fill the infrastructure gap (Foster and Briceno-Garmendi, 2010). Preliminary estimates by the Economic Commission for Africa (ECA) show that additional financial resources required to meet the 2030 Sustainable Development Goals range from $6.5 billion to $246 billion a year between 2015 and 2030, depending on the target goals of poverty and inequality and assumptions about savings, FDI, official development assistance (ODA) and remittances (ECA, 2015).

While resources can be mobilized through domestic and external sources, domestic sources are assumed to be more relevant to meeting the sustainable medium- to long-term transformation needs of African economies, given their level of stability compared with external resources. The premise is that the sustainable transformation of African economies can only be achieved if domestic resources are mobilized and invested efficiently in productive activities that will promote inclusive growth and economic diversification.

Africa has witnessed a resurgence in economic growth since the beginning of the century in a wide variety of sectors, including resources, finance, retail trade, agriculture, transport and telecommunications. Renewed growth has been strongly linked to improved economic management, a decline in political conflicts, increasing diversification of trade and investment ties within Africa and between Africa and the rest of the world, a falling debt burden and widespread reforms to improve the business environment. While growth has been significant across countries, it has not been sufficiently inclusive, in view of the widespread poverty, rising unemployment and worsening inequality (ECA and African Union Commission, 2013b).

This is the paradox of current African growth and it has significant implications for savings, investment, consumption and tax revenues. Strategies are therefore needed to mobilize

domestic resources and investment for inclusive and transformative growth and development because inclusive growth would broaden the tax base, reduce resource gaps, expand policy space, improve the quality of human capital and attract quality domestic and foreign investment. A diversified productive structure is required that generates adequate jobs, enables households and firms to earn decent incomes, and enhances government revenue to ensure efficient and effective domestic resource mobilization.

B. Tackling impediments to improving resource mobilization and investment for structural transformation

The bulk of research on development finance has focused on identifying the key challenges Africa faces in mobilizing and retaining resources (both domestic and external), and potential policy solutions (ECA and NEPAD, 2014; AfDB, 2013). These challenges include low savings rates, a limited tax base, and practices that restrict the growth of intra-African trade and provide opportunities for large-scale commercial tax evasion. In the area of infrastructure development, African countries have found it difficult to attract the necessary capital to finance and maintain large-scale and expensive infrastructure projects, and even exploiting alternative financing models, such as public-private partnerships, has proved difficult for some.

There are also challenges that stem from poor public sector governance and planning. Although many African countries have improved their macroeconomic management over the last decade, the same cannot be said for public financial management. There is still a pervasive disconnect between public financial management, national budgets and planning which makes it difficult for countries to identify gaps in funding and channel funds into priority development areas (North-South Institute, 2010). This financing issue is also tied to problems identified in the management of ODA, which at the national level is often unpredictable, fragmented and misaligned with national development priorities. Such assistance is often used to support the delivery of public services, which in turn exacerbates aid dependency and reinforces the culture of poor public financial management.

Furthermore, the financial systems in many African countries are ill-equipped to mobilize capital in ways appropriate for households and the private sector (World Bank, 2006; ECA, 2014b). As many of these economies are characterized by informal small and medium enterprises, which make up the bulk of economic activity and provide a source of income for a large proportion of households, it is important that financial services are tailored to mobilize capital for this sector, where it is needed most to encourage growth, formalization and employment opportunities. In the early 2000s, a number of African countries undertook banking reforms to consolidate the widespread proliferation of unregulated banks, improve prudential requirements (and therefore better manage risk) and encourage competition to increase access to financial services for individuals. Despite these improvements, banks are still wary of providing (even expensive) credit facilities to small and medium enterprises, often cannot provide services accessible to the large informal sector and those located in rural areas, and are reluctant to fund large infrastructure projects because of poor risk assessment capacity, poor management of cost recovery and lack of guarantees.

Because investment in knowledge is risky and difficult to collateralize, financial systems, particularly in developing countries, are ill-equipped to signal the value of potential knowledge acquisition and potential risk, ultimately discouraging such investment or expenditure (Greenwald and Stiglitz, 2012). Moreover, Emran and Stiglitz (2009) point out that good entrepreneurs are often poached, making initial financing less profitable for the first lender, while Rashid (2011, 2012) argues that, as a result of financial liberalization policies, foreign banks entering the local market concentrate on "safe" investments, lending predominantly to governments and multinationals, thus eroding domestic banks' share of deposits, increasing lending costs and further reducing the credit available to small businesses.

The immaturity of financial systems also affects the emergence and efficiency of the majority of capital markets in Africa. The development of capital markets has also been slow and has failed to provide an efficient conduit for capital for a number of reasons, including low capacity, stifling regulatory frameworks, poor technological infrastructure and legal frameworks that are incapable of providing sufficient protection to investors through contract enforcement. The pervasiveness of illicit financial flows, estimated to cost the continent billions of dollars per year, is another significant factor.

This analysis highlights two main challenges facing African countries. The first is ensuring diversified growth that translates into massive decent employment-generation and poverty-reduction, while the second is mobilizing domestic resources for the desired structural transformation of the region's economies. In addition, the widespread dominance of natural resources, finance, retail trade, agriculture, transport and telecommunications activities alongside limited manufacturing activities limits the ability of the continent to mobilize broad-based domestic resources for investment and by implication hinders structural transformation. In order words, overdependence on agriculture, natural resources and the services sectors can only support limited transformation, in view of the fact that only industrialization has the capability to generate the decent direct and indirect employment and strong forward and backward linkages with other economic sectors, including the external sector, necessary to ensure sustainable development in Africa.

Africa is not the only continent struggling with the challenge of mobilizing resources for its development goals. A number of United Nations organizations and other development institutions have stepped up efforts to address resource mobilization and investment issues across a number of sectors. The United Nations Economic and Social Commission for Asia and the Pacific has discussed and researched this issue in a number of forums and, in June 2014, hosted the Intergovernmental Committee of Experts on Sustainable Development Financing, where a number of high-level government officials and representatives of the private sector and civil society convened to discuss domestic resource mobilization, climate financing and capital markets, among others.[1]

Similar efforts have been made to improve development financing in the Latin America and the Caribbean region, where several countries have undertaken reforms or initiatives to improve taxation, remittances and financing small and medium enterprises.[2]

Improving the mobilization of domestic resources for transformation will have significant efficiency and cost implications for the public sector and for enhancing the availability of capital for successful investment, growth and innovation by deepening the financial sector. A number of studies have been conducted on Africa's development financing gap and the deficiencies in financial systems that impede resource mobilization and investment.[3]

1 UN ESCAP has been active in research on resource and investment issues in the Asia-Pacific region including through the Asia-Pacific Development Journal, and other specific studies such as Financing an inclusive and green future, available from http://www.unescap.org/resources/theme-study-sixty-sixth-session-commission-financing-inclusive-and-green-future. A number of studies have also been conducted on tax reforms in India; http://www.unescap.org/sites/default/files/apdj-7-2-3-rao.pdf;

2 See: More than revenue: Taxation as a development tool, Inter-American Development Bank, 2013, available from http://www.iadb.org/en/research-and-data/dia-publication-details,3185.html?id=2013; Financing for development and middle-income countries: New challenges, available from http://www.eclac.org/publicaciones/xml/4/46354/2011-601-Financingfordevelopment-WEB.pdf; Maximizing the development impact of remittances, UNCTAD, 2013, available from http://unctad.org/en/docs/ditctncd2011d8_en.pdf; and Chapter 3, Financing SMEs in Latin America in Latin American Outlook 2013: SMEs policies for structural change, 2013, United Nations Economic Commission for Latin America and the Caribbean and OECD. Paris: OECD Publishing.

3 For more recent work see ECA and NEPAD Planning and Coordinating Agency (2014). ECA (2013). Mobilizing domestic financial resources for implementing NEPAD national and regional programmes and projects: Africa looks within; ECA (2013). Capital markets development for productive investments in Africa; ECA (2013) Financing small and medium scale industries in Africa; ECA (2012) Finance and investment: mobilizing resources for financing AU/NEPAD projects; and ECA (2012) Building PPP for climate-friendly investment in Africa, and many others carried out by other institutions.

A wide range of mechanisms and sources of finance have been analysed and critiqued but the difficulties of successfully harnessing resources through these proposed avenues remain as a result of lack of planning, expertise, appropriate regulatory frameworks and enforcement, and the poor investment environment in many African countries. Even with the vast body of work undertaken in this area, it is critical that further research be conducted to collate all these studies and that initiatives be successfully implemented to develop practical proposals for African countries to identify and mobilize financial resources for selected sectors.

C. Objectives of the study

Using case studies from Ethiopia, Morocco and Nigeria, the study provides examples of strategic approaches to mobilizing resources and investment for structural transformation and endeavours to distil best practices, particularly those that have been used for public service delivery and private sector development applicable to key sectors. The aim is to examine the measures and initiatives undertaken to improve the mobilization of resources and investment for structural transformation. The country case studies examine successful undertakings to improve resource mobilization and investment, particularly in sectors considered drivers of economic growth, and the institutional, policy and regulatory dimensions of their implementation, and identify best practices.

In this context, the study seeks, in particular, to shed light on strategies to mobilize resources and investment for structural transformation and assesses the following:

a) Resource mobilization and investment in Africa, key challenges facing countries and their impacts on growth and development in specific areas of the economy;

b) Key resource mobilization and investment strategies adopted by countries in Africa and, more specifically, by the sample countries, including institutional, policy and regulatory conditions;

c) Policy measures case study countries have introduced to improve development financing including those targeting specific sectors such as agriculture and agri-business (including niche markets), energy, construction, infrastructure, manufacturing (textiles, processed goods, heavy goods, petroleum, wood, leather, plastics, etc.), small and medium enterprises and trade facilitation;

d) Best practices and conditions under which they were implemented that could improve development financing.

The study is composed of seven chapters. Chapter II provides a classification of structural transformation in Africa that underpins the domestic resource mobilization-structural transformation nexus and outlines the rationale for the selection of the three case studies in the context of an overview of development finance in Africa. Chapter III presents an analysis of development finance instruments commonly used in Africa. Chapters IV and V examine the mobilization of state resources and other sources of domestic finance based on the experiences of the three case study countries. Chapter VI describes the scale and composition of investment in Africa and provides a rationale for the strategies proposed to form the basis of structural transformation. Chapter VII contains key recommendations for managing the circular relationship between structural transformation, investment and domestic resources mobilization, better utilizing the related instruments and managing the associated risks, and tackling investment for economic transformation issues.

II. Africa's structural transformation: A methodological approach

A. Introduction

Structural transformation is generally described as the allocation of resources from low to high productivity activities within and across sectors, underpinned by four interrelated processes: a declining share of agriculture in gross domestic product (GDP) and employment; the emergence of a modern industrial and service economy; rapid rural to urban migration; and a demographic transition from high to low rates of births and death (ECA, 2015). The experience of structural change in Africa has been very limited compared to other developing regions. Africa is still characterized by high rural populations, economic output dominated by the low productivity agriculture sector, and low contributions by the industrial and services sectors (ECA, 2013 and 2014a).

In recognition of the critical role of industrialization in structural transformation, three country case studies have been selected following a classification of 29 African countries according to their industrialization and per capita GDP. The aim was to provide a rationale for the choice of the three countries on the basis of specific strategies to mobilize domestic resources and investment. The analysis is undertaken in two stages: a general classification of African countries, followed by a more focused approach based on the Industrialization Intensity Index (III), which measures the role of manufacturing in the country and the technological complexity of manufacturing. The chapter then focuses on the role of development planning in industrialization and economic transformation.

B. Structural transformation in Africa: A typology of countries

The classification of African countries according to their structural transformation relies on the large body of theoretical arguments and empirical evidence showing that manufacturing is the main engine of growth and a catalyst for the transformation of the economic structure of agrarian societies (Szirmai and Verspagen, 2015; UNIDO, 2013b; Szirmai, 2012). For developing countries, the degree of industrialization captured by manufacturing is strongly and positively correlated with the level of per capita income. In cross-section analyses, the relationship between per capita GDP and share of manufacturing is curvilinear rather than linear, with low levels of per capita GDP associated with low shares of manufacturing, intermediate levels with high shares and high income economies with lower shares (UNIDO, 2013 b; Rodrik, 2009; Rowthorn and Coutts , 2004).

The special role of manufacturing in the process of economic growth and transformation is well documented (Szirmai and Verspagen, 2015; ECA and African Union Commission, 2012 and 2015). It is argued that productivity is higher in the manufacturing sector than in the agricultural sector. Manufacturing is also assumed to have more potential for productivity growth than other sectors. Compared to agriculture, the manufacturing sector is assumed to offer special opportunities for capital accumulation. Productive investment opportunities in manufacturing encourage high savings rates. The manufacturing sector offers special opportunities for economies of scale, which are less available in agriculture or services. Linkage and spillover effects are assumed to be stronger in manufacturing than in agriculture or mining and, as per capita incomes rise, the share of agricultural expenditure in total (consumption) expenditure declines due to low income elasticity and the share of expenditure on manufactured goods increases. Countries specializing in agricultural and primary production

will therefore have a demand impediment to growth, unless they can profit from expanding world markets for manufactured goods.

Following these arguments, 29 African countries were classified according to degree of manufacturing and level of per capita GDP (figure II.1). The degree of manufacturing is captured by the manufacturing value added per capita (MVA), which is recognized as a relevant indicator for capturing the industrialization level of a country. Moreover, value added per capita is preferred because, it is not influenced by the ups and downs of other sectors of the economy. As expected, figure II.1 provides evidence of a positive correlation between the level of per capita GDP and the manufacturing value added per capita in the sample African countries.

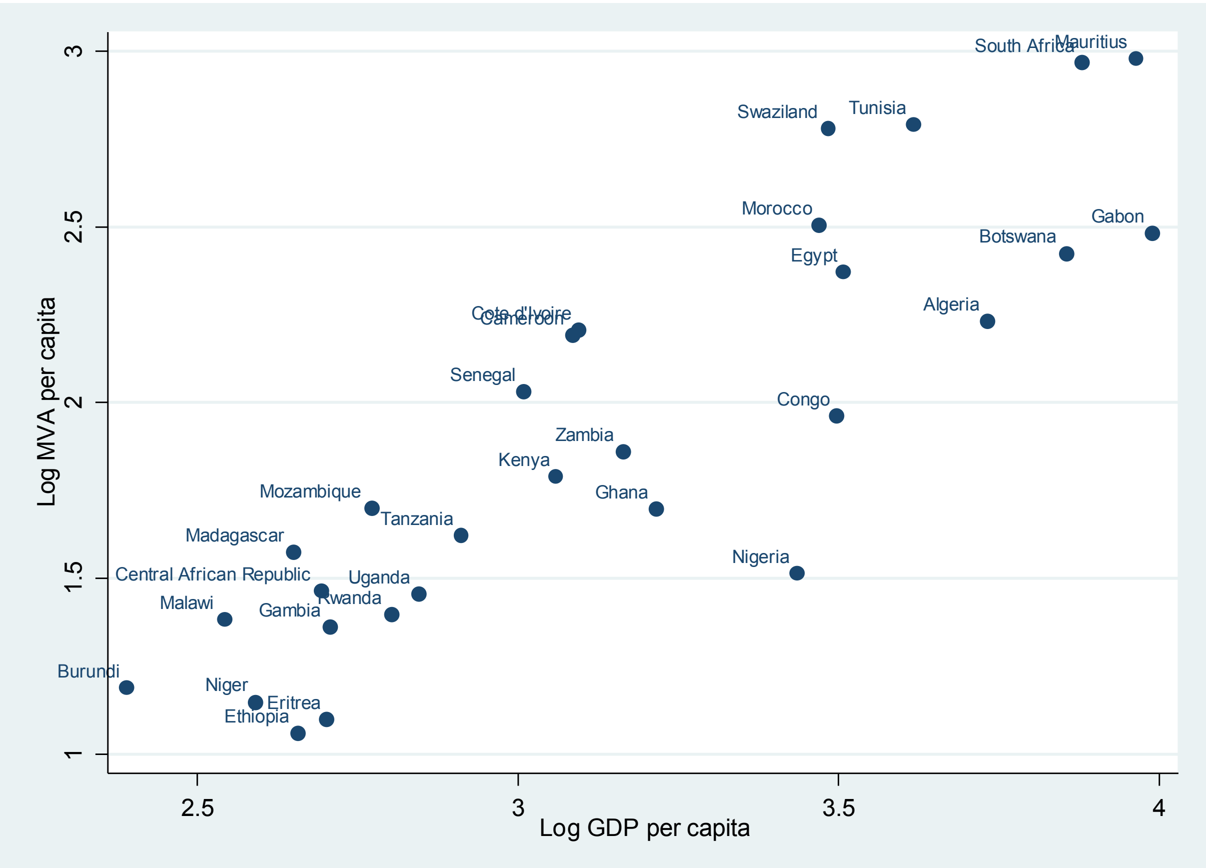
The selected African countries can be divided into three major categories as shown in the table II.1 below.

Category A: These countries had the highest manufacturing value added per capita (between \$170 and \$950) combined with the highest GDP per capita of the sample. In this category, Morocco had a satisfactory performance in terms of manufacturing value added per capita (about \$319.5) and GDP per capita (about \$2,948.95).

Category B: These countries recorded relatively low manufacturing value added per capita (less than \$170) and GDP per capita. In this category, Nigeria had the lowest manufacturing value added per capita (\$32.6) but one of the highest GDP per capita. Nigeria's economic growth is mainly driven by oil exports and natural resources.

Category C: These countries generally have the lowest manufacturing value added per capita (less than \$50) along with the lowest GDP per capita (less than \$820). Ethiopia had the lowest manufacturing value added per capita (\$1.4) and about \$455 GDP per capita.

Figure II.1
Industrialization level and GDP per capita of selected African countries in 2012



Source: *Calculations based on UNIDO data and United Nations Statistics Division-National Accounts Database, December 2014.*

Table II.1
Countries categorized by industrial performance and income level

	Category A	Category B	Category C
Countries	Botswana, Egypt, Gabon, Mauritius, Morocco, South Africa, Swaziland, Tunisia	Cameroon, Congo, Côte d'Ivoire, Ghana, Kenya, Nigeria, Senegal, Zambia	Burundi, Central African Republic, Eritrea, Ethiopia, the Gambia, Madagascar, Malawi, Mozambique, Rwanda, Uganda and the United Republic of Tanzania

Furthermore, based on the Industrialization Intensity Index,[4] which measures the role of manufacturing in the country and the technological complexity of manufacturing, category A countries had the highest score (between 0.34 and 0.37) followed by category B (between 0.32 and 0.21) and category C (less than 0.21). The Industrialization Intensity Indexes of the three countries chosen for the case studies, Morocco (category A), Nigeria (category B) and Ethiopia (category C). were 0.34, 0.21 and 0.11, respectively.

C. The rationale for the selection of the country case studies

Based on this analysis, the countries selected as case studies are representative of Africa as a whole. The experiences of Ethiopia, Morocco and Nigeria are expected to provide lessons applicable to other African countries. The three countries are at various stages of structural transformation performance and provide the opportunity to examine their strategies, particularly for mobilizing domestic resources and investment for structural transformation, which are the focus of subsequent chapters.

Morocco has a highly diversified economy compared to other African countries, driven by sectoral strategies, including an industrial strategy, and improving the business climate to attract and channel investment. Nigeria is a natural resources-led economy but the non-oil sector has been the main driver of growth during the last decade, with services contributing about 57 per cent, and manufacturing and agriculture around 9 and 21 per cent respectively (African Economic Outlook, 2015). The economy is thus diversifying and becoming more services-oriented, in particular through retail and wholesale trade, real estate, and information and communications technologies. Ethiopia is among the five fastest growing economies in the world. It has experienced a decade of continuous expansion during which real GDP growth averaged 10.8 per cent per annum. Over the 12 months from July 2013 (the country's fiscal year runs from July to July), all of the economy's main sectors performed well. Agriculture (which represents 40.2 per cent of GDP) grew by 5.4 per cent, industry (14 per cent of GDP) by 21.2 per cent and services (46.2 per cent of GDP) by 11.9 per cent (African Economic Outlook, 2015). The contribution of manufacturing to GDP is still limited, and this sector needs to be tackled in the second phase of the Growth and Transformation Plan.

D. The revival of development planning in Ethiopia, Morocco and Nigeria

There is now a noticeable revival of development planning in Africa and a growing recognition of the role of the State in economic development. Between 2008 and 2013, no fewer than 30 African countries adopted new long-term visions and three-to-five-year plans to bring them about. Development planning institutions that had been dismantled or downgraded under the injunctions of the Bretton Woods institutions are now being rebuilt and given responsibility for economic coordination.

Global experience shows that a successful transformation process is driven primarily by a strong and focused national vision underpinned by a time-bound measurable development plan and a sound strategic industrial policy led by a State with sufficient capacity and power to achieve its development goals (Chang, 2012). In the African

4 Available at http://www.unido.org/data1/Statistics/Research/cip.html.

context, there is increasing recognition that the development and democratization processes are inseparable (Mkandawire, 2001; Kieh, 2015). The developmental State therefore requires national development goals should to be based on democratic public discussion. In the process, a developmental State has to forge comprehensive relationships that involve all stakeholders, public (national and regional), private and civil society. In broad terms and in the context of this approach, stakeholders have key functions, including effective participation, identification of priorities, design and implementation of plans and strategies, and monitoring and evaluating outcomes.

In recognition of these elements, many African countries have enshrined their transformation vision into national development plans, particularly as a prelude to industrial policy efforts. Development plans focus on industrial policies that aim to leverage domestic capabilities, technological advance and natural resource management in the context of a highly complex globalized market context in order to fashion a pathway appropriate to their economy, usually by establishing strong linkages to the wider economy and supporting access to regional or global value chains (ECA and African Union Commission, 2014.) Such ambitions have been reflected in the African Union's first 10-year implementation plan for Agenda 2063, the recently adopted regional development framework for inclusive growth and sustainable development.

The countries examined in this study have a mixed record of development planning, shaped primarily by their specific characteristics and historical trajectories. One common approach has been a concerted effort to develop and implement a strategic national planning framework supported by an industrial policy encompassing the elements outlined above and, most importantly, auxiliary policies shaping domestic resource mobilization, FDI, infrastructure financing and other sources of finance (a more detailed discussion of Government strategies in the three countries is provided in chapter VI).

1. Ethiopia

Ethiopia's Growth and Transformation Plan 2010-2015 is a medium-term development framework that carries on from the Plan for Accelerated and Sustained Development to End Poverty 2005-2010. This earlier plan was developed to guide Ethiopia towards achieving the long-term goal of becoming a middle-income country and ending poverty. Ethiopia's current strategy is based on State-led development that would sustain the rapid and broad-based growth path achieved in 2005-2010 based on sustaining faster, equitable economic growth, agricultural and industrial development supported by enhanced infrastructure services.

The Plan is driven by the Government's view that development should focus on value creation and addressing the issue of rent-seeking, particularly by the private sector. This is why Ethiopia has maintained state control of the financial sector and refused to privatize telecoms and Ethiopian Airlines. As the late Prime Minister Meles Zinewai put it, "If the State guides the private sector, there is a possibility of shifting to value creation – it needs state action to lead the private sector from its preference (rent-seeking) to its long-term interest (value creation). So the State needs autonomy" (De Waal, 2012 , p. 6)

The Ethiopian Government has therefore outlined a strategic focus for the Growth and Transformation Plan in the two complementary areas of agricultural and rural development, and industrialization. The agricultural and rural development policy is set out in the agricultural development–led industrialization strategy, which focuses on scaling up the productivity of labour and land, including the encouragement and tooling of small-holder farmers and pastoralists to increase the use and efficiency of modern agricultural technology, and focus on specific agricultural produce, such as sugar. In addition, the private sector is encouraged to increase its share of investment in agriculture. Together with other elements of the strategy, the aim is to increase food production to meet domestic demand and to produce high value crops for export.

The second priority focuses on accelerating and enhancing the development of the industrial sector as a key driver of economic growth. Accordingly, concerted efforts have been made to intensify the development of the micro and small enterprise sector, the most important subsectors for employment generation (Ministry of Finance and Economic Development, 2010). Due attention has also been given to the development of medium and large industries. Complementary to these areas is the strong emphasis on increased infrastructure investment to ensure the provision of transport, communication and energy services to facilitate the expansion and diversification of the industrial sector.

These measures have resulted in the expansion of the industrial sector, especially light manufacturing, focusing on sectors prioritized by the Government, such as leather and textiles. In its effort to become a manufacturing powerhouse, Ethiopia is implementing an ambitious industrial park programme that hinges on attracting FDI in the export-led and labour-intensive manufacturing sector that builds on the country's agricultural base. The focus of the first phase of the Growth and Transformation Plan (2010/11-2014/15) was on infrastructure and capacity development while phase two (2015-2020) is expected to focus far more on the mechanisms adopted to increase manufacturing and agricultural exports. The overarching focus of the plan will shift slightly to improving the quantity and quality of social services and infrastructure, ensuring macroeconomic stability and enhancing productivity in agriculture and manufacturing.

2. Morocco

Since the early 2000s, the Moroccan Government has played a more active role in the transformation of the economy by intervening to develop promising sectors. Morocco is an example of a developmental State different from Ethiopia. The political economy of relationships between State and business indicate a more prominent role for the private sector.

The revival of the planning system in Morocco was essentially a response to the failure of two development models, one in the post-independence era which was characterized by nationalization and import substitution policies, the second by structural adjustment programmes supported by the World Bank and the International Monetary Fund (IMF) in the 1980s and 1990s (White, 2001). The former policy regime led to a debt crisis, while the latter failed to bring about meaningful growth and transformation. In response to these failures, the Moroccan State attempted in the early 2000s to act as an entrepreneur seeking to encourage trade and attract foreign investment within the domestic economy (White, 2001).

In 2005, the Government of Morocco adopted the Emergency Plan, aiming to increase growth by 1.6 per cent per year over ten years and to create an additional 440,000 new direct and indirect jobs (Morocco, Royal Institute of Strategic Studies, 2014). The National Pact for Industrial Emergence (2009-2015) had three main objectives: recovery of the industrial sectors in which Morocco has clear competitive advantages; strengthening the competitiveness of small and medium enterprises, improving the business climate and developing industrial parks; and establishing an institutional approach to ensure the implementation of effective and efficient programmes (National Pact for Industrial Emergence, accessed November 2014). In order to achieve these objectives, the Government identified key actions to stimulate industrialization through the creation and promotion of tech parks, a new generation of industrial zones, trade facilitation measures and provision of training and skilled labour (Moroccan Investment Development Agency, 2014).

Industry has undergone some structural change in recent years, with an increasing focus on value-added export industries in manufacturing. Transformation has been evident in less attention being given to traditional sectors such as textile, leather and agro-industry and more to high value-added sectors such as the automotive and aeronautics industries. Despite this transformation, recent figures published by the High Commission for Planning show that, although the industrial sector added 5,000 jobs in 2012, it displayed weak

growth, especially in manufacturing, a sector in constant decline for nearly two decades

In 2014, the Pact was replaced by the Industrial Acceleration Plan 2014-2020, the main focus of which is to renovate the domestic industrial base, attract more FDI and improve Morocco's competitiveness on international markets.

3. Nigeria

Resource-rich Nigeria is a major beneficiary of the high commodity prices and non-inflationary high growth that characterized the global economy from the 1990s until mid-2008. In 2009, Nigeria adopted Vision 20:2020 to launch Nigeria onto a path of sustained social and economic progress and accelerate the emergence of a truly prosperous and united Nigeria. Specifically, the transformation strategy of the Vision is to develop the fabric of the envisioned economy by aggressively pursuing structural transformation from a mono-product, oil-dependent economy to a diversified, industrialized economy; investing to transform the Nigerian people into catalysts for growth and national renewal and a lasting source of comparative advantage; and investing to create an environment that enables the coexistence of growth and development on an enduring and sustainable basis. The fundamental objectives are twofold: to transform the structure of exports from primary commodities to processed and manufactured goods; and to attain high levels of efficiency and productivity in order to be globally competitive.

As in Ethiopia and Morocco, the national development strategy is supported by an industrial policy, in this case the 2014 Nigeria Industrial Revolution Plan launched as a five-year plan to rapidly build up industrial capacity and improve competitiveness. It identifies industrial groups in which the country has a comparative advantage: agro-allied and agro-processing; metal and solid mineral processing; oil and gas-related industries; and construction, light manufacturing, and services.

4. Conclusion

The manufacturing sector is the foundation of any modern economy. It is the engine of growth, the fundamental base for economic health and security, and a key tool of modernization. If Africa is to join the league of developed nations, emphasis must be placed on the manufacturing sector harnessing the sizeable domestic market and abundant resources to ensure a steady supply of the intermediate products that are vital to the continent. However, the productive base of most African economies remains weak, narrow and externally-oriented with primary production activities accounting for a good percentage of exports.

Fundamental to the success of the plans African countries have developed is the ability to mobilize resources and allocate them to productive sectors that will support the growth and diversification of the economy and thus be drivers of sustainable, inclusive development. While appropriate infrastructure and institutional arrangements are required, effective industrial policy with adequate financial support is also needed. This means that the trajectory of the desired economic transformation must be accompanied by sufficient mobilization of domestic and external resources. The next chapter therefore examines the features of domestic resource mobilization instruments in Africa with a focus on the experiences of Morocco, Ethiopia and Nigeria.

III. Features of domestic resource mobilization instruments in Africa

A. Introduction

Africa's view of financing for development is informed by pillar one of the Common African Position on the post-2015 Development Agenda, adopted by the Heads of State and Government in January 2014, which states that the overarching aim of Africa's development over the next 15 years is to achieve structural transformation and sustainable development. Financing for development was identified as the main instrument for implementing the Position, while pillar six commits to improving domestic resource mobilization, maximizing innovative financing, implementing existing commitments, and promoting the quality and predictability of external financing.

In the context of this consensus, Africa has stepped up its policy initiatives aimed at addressing the financing gap by relying more on public and private domestic resources to achieve the objective of structural transformation.

Domestic resource mobilization is critically important because: reliance on domestic resources reinforces a country's ownership of public policy and strengthens accountability; domestic resources can spur a more effective use of development financing; external resources are not only unpredictable and erratic, but would not be sufficient to meet Africa's development financing needs; most donor countries have failed to live up to their long-standing commitments (ECA and African Union Commission, 2015).

Increasing the share of domestic resources in the fiscal resource envelope of Africa has proved challenging. Table III.1 shows that, while Africa has been growing, its savings rate has hovered around 12 per cent while the investment rate has been increasing, albeit slowly. The result is a widening investment-savings gap, highlighting the critical need for Africa to reduce its dependence on external sources of finance, secure a policy space and control its development agenda.

Table III.1
Investment-savings gap in Africa

	Gross capital formation (percentage of GDP)	Gross domestic savings (percentage of GDP)	Investment-savings gap
2000	20.0	12.5	7.5
2001	21.5	12.2	9.4
2002	19.4	11.1	8.3
2003	21.9	13.5	8.3
2004	21.3	12.6	8.6
2005	22.1	13.5	8.6
2006	21.4	13.1	8.3
2007	23.1	14.1	9.0
2008	23.3	12.6	10.7
2009	24.1	9.8	14.3
2010	25.8	13.8	12.0
2011	26.5	15.1	11.4
2012	27.4	12.1	15.3
2013	28.6	16.4	12.2

Source: *World Bank (2014b).*

It is therefore pertinent briefly to review the features of the various instruments for domestic resource mobilization in order to provide a basis for outlining effective strategies for achieving the potential for domestic resource mobilization for investment and economic transformation in the short, medium and long terms. Accordingly, in this chapter, we briefly summarize key features of each of these instruments. Detailed discussions of these instruments are also available in of ECA and NEPAD (2014), chapter VI.

B. Enhancing public domestic resources by boosting tax revenue generation

Public domestic resources are the largest source of development finance in Africa. In 2014, domestic taxes accounted for $530 billion, significantly outpacing total external financial inflows, which amounted to $200 billion. (African Economic Outlook, 2014).

Domestic resources are significant for Africa's agenda of structural transformation and equitable development because they give African Governments the freedom to gear these resources towards priority sectors and development projects thus enhancing national ownership of public policy. Furthermore, reliance on domestic development finance, particularly taxation, makes governments accountable to citizens. It also reduces the dependence and unpredictability associated with most forms of external sources of finance, especially at a time when most donor countries have failed to live up to their long-standing commitments.

Recent figures show that tax revenue in Africa increased from 26.6 per cent of GDP in 2009 to 27 per cent of GDP in 2011 (ECA, AfDB and African Union Commission, 2012). Total collected tax revenue grew substantially, from $137.5 billion in 2000 to a $527.3 billion in 2012. Most of this increase was accounted for by natural-resource-related revenues, however, such revenues amounting to roughly $242 billion in 2012 (African Economic Outlook, 2014). With respect to non-resource revenues, there are some recent signs of improvement, especially in low-income African countries that have long struggled with low levels of domestic resource mobilization. Some see this as driven, among other factors, by wide-ranging tax reforms centring on indirect taxation such as value added tax (African Economic Outlook, 2014).

Indeed, in the context of a general reduction in trade-related taxes under World Trade Organization (WTO) guidelines, the expansion of value added tax has served to fill a significant part of this revenue generation gap and has been easier to implement and administer than direct income or profit taxes. However, the welfare implications of indirect taxes such as value added and customs duties have to be tackled because they tend to be borne disproportionately by the poor. In this context, tax compliance could be enhanced through the provision of an affordable State pension and other welfare packages, and improved public service delivery at national, subnational and local levels since citizens are more likely to pay taxes if they see that they lead to improved livelihoods. This would be a particular incentive for the large informal sector if those working in it could see tangible benefits in such new forms of citizen-based social contracts.

The international community has been active in scaling up support for domestic resource mobilization efforts in Africa, as is clear from the support for the establishment of the African Tax Administration Forum. However, revenue forgone as a result of tax evasion, avoidance and exemptions and all sorts of waivers is a significant drain on domestic resource mobilization for many countries in the region. This is often the result of lack of coordination between investment promotion objectives and resource mobilization needs. The African region has been the most generous among developing regions in terms of granting tax exemptions, particularly in the natural resources sector and greenfield FDI, with uncertain impacts (ECA and African Union Commission, 2015). Forgone revenues, in addition to large estimates of capital flight and illicit financial flows from the region, suggest greater resource mobilization potential than is currently achieved, even in some of the poorest countries (ECA and African Union Commission, 2015; Boyce

and Ndikumana, 2012; North–South Institute, 2010; Bhushan et al., 2013).

C. Enhancing the development impact of domestic savings

Savings instruments for households in Africa include non-financial savings, informal financial savings, formal financial savings and semi-formal financial savings. Thus, the composition of the household savings portfolio determines the availability of funds for investment, and is therefore critical to a country's development. Household savings consist mainly of physical assets and some financial savings held in the informal financial sector, with only a small part available for productive investment. It is important to understand why and how households, especially poorer households, save in order to identify the policies that can increase the amount of resources available for development. Households in Africa, especially in rural areas, rely on volatile income sources.

Domestic private savings are an important instrument for the mobilization of domestic resources in Africa. In the absence of accessible credit and insurance services, drawing on saved assets is a necessary strategy for households to smooth their consumption patterns (Matovu, 2010). Saving as a precaution implies that even at low disposable income levels and in the absence of attractive savings instruments, poor households need to save a substantial part of their income. Nonetheless, willingness to save is dependent on the ease of access to savings instruments, the attractiveness of such instruments and prevailing economic conditions (Wright, 1999; Essers, 2013). This is particularly important in Africa as household savings consist mainly of physical assets and some financial savings held in the informal financial sector, with only a small part available for productive investment.

Since 2002, all African countries have experienced increasing domestic credit relative to GDP (World Bank (2015b). Domestic credit tends to increase with per capita income, reflecting financial deepening as economies grow. However, there is little evidence that the rising levels of domestic credit have had a significant impact on domestic resource mobilization and investment in Africa. Financial inclusion quadrupled between 2004 and 2011, but 60 per cent of Africans remain unbanked and there is still widespread use of informal financial services, with limited opportunities available for productive investment (IMF, 2013b).

Following the advice of the Bretton Woods institutions, reforms in the last three decades favoured a stable macroeconomic environment and greater financial liberalization. Central to the neoliberal reforms was the dismantling of development banks, which had played a critical role in providing credit for sectors important to structural transformation, including agriculture and manufacturing, in the 1960s and 1970s. However, these financial sector reforms have provided little incentive for the private sector to stay away from short-term projects with little development impact. The dominance of financialization has meant that much of the expansion of credit by commercial banks in Africa has been directed to consumer finance and short-term business activities (Mckinley and Tyson 2014).

African Governments therefore have the important task of creating incentives such as risk-sharing in order to encourage banks to provide loans with substantial economic and social benefits. In this context, development banks will play an important role in channelling financial flows towards productive sectors and supporting the role of domestic entrepreneurs in these sectors. Financial sector information infrastructure, such as credit bureaux and land registries, which remain highly underdeveloped in most countries, could play a critical role in developing long-term credit markets (North–South Institute, 2010). Mobile phone and electronic banking are providing opportunities for countries in Africa to increase affordable and cost-effective means of reaching the large proportion of the population that has been excluded from formal financial services (Ondiege, 2010). Governments also need to introduce programmes to strengthen financial literacy among the general population and build capacity for banking regulation.

The mandates of central banks across the world typically have three key components: price stability, financial stability and supporting government economic development objectives, i.e., supporting economic growth, employment and structural transformation. The pursuit of the third component, especially at early stages of development, is justified because it creates an enabling environment for the effective pursuit of the first two. This explains why, at the early stages of development in Europe, North America and Asia, their central banks directed their overall monetary policy towards promoting the development of priority sectors (Epstein, 2007).

Meanwhile, prior to the ascendancy of the neoliberal economic policy paradigm, central banks typically emphasized economic development when they relied on direct controls. The neoliberal economic policy paradigm adopted by virtually all African economies, regardless of their levels of development, encouraged a shift in emphasis by central banks to price stability (one extreme of which was inflation targeting) to the total neglect of the other two components. The global financial crisis of 2008-2009 inspired another shift in emphasis to the neglected mandate of supporting economic development in the form of employment generation. Accordingly, they have embarked on accommodative monetary policy (quantitative easing). In the context of Agenda 2063 and the Common African Position on the Post-2015 Sustainable Development Agenda, African central banks have the opportunity to complement the government development agendas by providing support to industrialization programmes, including through enhancing the capitalization of development banks and/or providing intervention funds for particular sectors based on the priorities set out in development plans.

D. Enhancing the role of capital markets

In addition to mobilizing resources from taxation, other sources from which domestic resources can be mobilized are national and regional stock exchanges. Deep, transparent, and accessible capital markets are vital elements of the financial sector. As a vehicle for long-term investment finance and diversification of funding sources, capital markets strengthen the overall economy and render it more resilient to economic shocks. African capital markets are slowly developing and beginning to play an increasingly important role. In addition, domestic institutional investors (such as banks, insurance companies and pension funds) and local private investors dominate the investor base in African capital markets. Boosted by social security reforms, pension fund administrators and insurance companies are looking to channel increasing amounts of long-term savings into the markets (ECA, 2013).

African bond markets are also in their infancy. African debt markets are dominated by government securities, mostly of short duration, with activity focused on the domestic primary market and limited activity in the secondary market. Corporate debt markets are largely non-existent, with the exception of South Africa and, to a limited extent, some North African countries. Benchmark yield curves either do not exist or, where they do, seldom extend further than five years. In addition, portfolio equity investment in Africa is focused on the most active and liquid stock markets: South Africa, Nigeria, Kenya, Mauritius and Zimbabwe. The Johannesburg Stock Exchange continues to dominate the region, representing 38 per cent of all listed companies and 83 per cent of total market capitalization in Africa in 2012. Sixty-eight of Africa's 100 largest companies in terms of market capitalization are listed on the Johannesburg Stock Exchange, including the five largest companies in Africa. Apart from being the most advanced stock exchange in Africa, Johannesburg's is also among the top 20 global exchanges in terms of market capitalization and turnover (Masseti and Mihr, 2013).

One main challenge of capital markets in Africa, as in other regions, is the preponderance of speculative activities that create artificial bubbles in asset prices, with deleterious impacts on the efficacy of the market as a source of long-term stable funding for investment and economic diversification (Arestis, 2002). Another challenge,

especially in the wake of pervasive capital account liberalization, is the preponderance of portfolio investors, which often threatens the stability of the financial system to the detriment of the capital market. In addition, poor governance, capture and unethical practices by operators in the capital markets, especially those related to insider dealing and exploitation of privileged information about company performance, and the practice of the so-called margin loans, all threaten confidence in capital markets as sources of long-term funds. Strong legal frameworks, effective regulation and oversight of the activities of capital market operators are, therefore, critical.

E. The role of international finance in leveraging domestic resources for structural transformation

If African countries are to make better use of international finance, greater focus is needed on how both its public and private sectors can be used to unlock and leverage domestic resources to address the critical challenges hindering equitable economic transformation.

FDI is a major flow to developing countries, thought to provide a stable and long-term source of investment funds (Griffith-Jones, 2000). Globally, the 2008 financial crisis had comparatively little effect on it and by 2012 FDI inflows to developing countries exceeded inflows to developed countries for the first time (UNCTAD, 2013). In Africa, however, overall growth in FDI has been moderate since the Monterrey Consensus, increasing by 1.5 per cent of GDP between 2002 and 2013 (UNCTAD, 2014c).

Successful FDI has important implications for growth and economic diversification, thereby enhancing the capacity of the domestic economy to mobilize resources for investment and further diversification. For example, there is a significant shift away from extractive industries towards consumer-related sectors. The top three sectors – technology, media and telecoms with 150 projects, retail and consumer products with 131 projects, and financial services with 112 projects – accounted for more than 50 per cent of all projects in 2013. During that year, retail and consumer products overtook financial services to become the second most attractive sector in Africa. FDI projects in the real estate, hospitality and construction sector increased by 63 per cent, making the sector the fifth most attractive, up three positions from 2012. On the other hand, in 2013, for the first time ever, mining and metals left the top ten sectors as measured by FDI project numbers (Ernst and Young, 2014).

This shows that FDI is no longer directed exclusively towards extractive industries, but increasingly targets the rising African consumer market. However, further efforts are needed to ensure effective policies to leverage such flows to strategic sectors. A major challenge with this instrument for domestic resource mobilization is the overly generous concessions, exemptions and waivers granted to such projects. In some cases, this has resulted in some multinational companies declaring loses, while continuing to operate for a number of years (ECA and African Union Commission, 2015). The resulting loss of revenue, illicit capital flows and capital flight constitute serious leakages to the domestic resource mobilization potential of FDI.

Remittances are an important inflow of resources to many African countries, yet their development potential remains largely untapped. For many African households, remittances are a tremendously important source of finance and foreign exchange, helping to stabilize irregular incomes and to build human and social capital. Remittance receivers are typically better off than their peers who lack this source of income. At the national level, remittances have a substantial effect on the balance of payments and on foreign exchange reserves (World Bank, 2005).

The inflow of remittances to Africa has been growing fast and is projected to reach $64.6 billion in 2015, up from only $33.3 billion in 2005 (AfDB, OECD and UNDP, 2015). North African countries, particularly, Morocco, Algeria and Egypt, are the major recipients. East African countries depend heavily on them, with Somalia standing out as particularly remittance-dependent. For the entire region, annual average remittances per

migrant are almost $1,200 and on a country-by-country average represent 5 per cent of GDP and 27 per cent of exports. Remittances to rural areas are significant and predominantly related to intraregional migration, particularly in western and southern Africa. Two thirds of West African migrants in Ghana remit to rural areas in their countries of origin (IFAD, 2014). However, channelling remittances for sustainable development activities remains a challenge. In this context, development partners also have an important role to play by cutting the costs of remitting money to the region, as they are currently the highest in the world (World Bank, 2013 b);

Improvements required for aid effectiveness were recognized in the Monterrey Consensus. Although formulated as voluntary commitments, the Addis Ababa Action Agenda reaffirms the commitment made by many developed countries to achieving the target of 0.7 per cent of gross national income going to ODA (the 0.7 per cent ODA/GNI target), and welcomes the unilateral decision by the European Union to do so within the time frame of the post-2015 development agenda. However, ODA targets to least developed countries remain below the current share of approximately one third of total development assistance allocated to those countries.[5]

Aid to Africa and other developing regions fell following the global financial crisis and the turmoil in the Euro zone, however. The recent Survey on Donors' Forward Spending Plans forecast that country programmable aid to Africa (those elements of aid that are available for spending within recipient countries) will fall from $47 billion in 2013 and 2014 to $46 billion in 2015 and $45 billion in 2016 (OECD, 2014).

Management of ODA remains a major issue hindering the transformative agenda in Africa, which at the national level is often unpredictable, fragmented and misaligned with national development priorities. Development assistance is often used to support the delivery of public services, which in turn exacerbates aid dependency and reinforces the culture of poor public finance management. More needs to be done to ensure that donors support national planning processes, use country systems for resource allocation and implementation, improve the predictability of resource provision and improve systems to be more results-focused, transparent, and accountable.

5 The Addis Ababa Action Agenda calls for 0.15 to 0.20 per cent of ODA/GNI to be channeled to least developed countries.

F. Innovative sources of finance

A number of instruments, such as diaspora bond, sovereign wealth funds and infrastructure bonds have been used by African countries to enhance their domestic resource mobilization efforts.

1. Diaspora Bonds

The basic rationale behind this mechanism is that people in the diaspora purchase bonds issued by their country of origin with a patriotic discount, meaning that they do not seek as high a risk premium as pure market logic would suggest. Diaspora bonds thus involve an element of philanthropy since the motivation to purchase them is not linked solely to financial gain. At the same time, they go beyond simple "patriotic charity" since they enable the leveraging of this philanthropy into a long-term financing instrument that has the potential to raise large amounts of capital for needed investment (Stenberg et al., 2010). Africa alone holds an estimated $52 billion in potential development finance. It makes economic sense to think about channelling some of these savings into development efforts in poor countries. If one in every ten diaspora members, rich or poor, could be persuaded to invest $1,000 in their own country, developing countries could potentially raise $20 billion a year for development financing (North–South Institute, 2010).

2. Sovereign wealth funds

Sovereign wealth funds are defined by the United States Treasury is "government vehicles funded by foreign exchange earnings but managed separately from foreign reserves" (Lowery, 2007). A sovereign wealth fund serves as a long-term approach to achieving a country's long-term strategies and financial goals through the acquisition of international equities, commodities

and private fixed income securities. According to Balin (2008), sovereign wealth funds are essentially funded through three major sources: revenue from the export of natural resources; transfer of assets from foreign exchange reserves; and disbursement of sovereign debt on the international market. The main purpose of a sovereign wealth fund is to ensure that resources are preserved for future generations, but it also stabilizes government fiscal and/or foreign exchange revenues and macroeconomic aggregates by smoothing out fluctuations in prices of export commodities. By creating such funds, policymakers try to smooth the volatility of resource-driven revenues by lowering the effect of the boom and bust cycles resulting from volatile commodity prices. In this way, they could be used to absorb large foreign exchange surpluses. Moreover, African sovereign wealth funds can enhance productivity and spur intra-African investment by allocating part of their assets to growing sectors in Africa. In addition, African countries can use their own assets to invest in domestic companies to boost growth and to create jobs.

Currently, Africa has 14 sovereign wealth funds totalling $114 billion in 2009, representing 3 per cent of global sovereign wealth funds.[6] The largest funds are the Libyan Investment Authority and Algeria's Revenue Regulation Fund, with $65 billion and $56.7 billion of total assets, respectively. This is far less than the Norwegian Government Pension Fund's $656 billion and the $875 billion managed by the Abu Dhabi Investment Authority, the world's two largest sovereign wealth funds. Africa's contribution could increase in future with the establishment of new funds and the expansion of existing ones. Already, as at 2012, three funds have been launched, in Angola, Ghana, and Nigeria, while the Tanzanian Government has announced plans to create a sovereign fund to manage the country's revenues from new gas and oil discoveries (AfDB, 2013). All other resource-rich countries – old and new – should follow suit. The overall strategy should be to convert transitory resource rents into permanent income by efficient and effective mobilization of resources and investing them in activities that will expand and diversify the economic base, thereby guaranteeing a sustained flow of tax revenue in perpetuity.

3. Pension Funds

African pension funds offer enormous potential as a continental source of investment capital. Pension funds in ten African countries already have $379 billion in assets under management – 85 per cent or $322 billion of it based in South Africa (Ashiagbor et al., 2014). These domestic resources can fuel investment in local businesses, infrastructure projects and services desperately needed for Africa's continued transformation and growth .

Africa's nascent pension fund industry is growing rapidly in size and ambition, a product of the region's robust economic growth and reforms in a number of countries. For example, Ghana's pension fund industry reached $2.6 billion by December 2013, after growing 400 per cent from 2008 to 2014. Nigeria's industry tripled in five years to some $25 billion in assets by December 2013, and assets under management are growing at 30 per cent a year. Pension assets now equal some 80 per cent of GDP in Namibia and 40 per cent in Botswana (Ashiagbor et al., 2014). These pension funds promise to provide a much-needed source of indigenous capital for development in a region that has long relied on official aid and direct investment from resources companies. The funds are attracting interest from international investment firms, which can provide expertise in exchange for access to deals and co-investment opportunities. Nigeria offers a hint of the potential of the region's growing pension industry. The country's retirement funds have experienced phenomenal growth since 2006, when the Government began to introduce reforms that transformed a largely unfunded defined benefit scheme into a defined contribution system that made participation by all employees covered by pension plans compulsory. The industry has nearly tripled in size in five years, to some $25 billion in assets, even though less than 10 per cent of Nigeria's workforce is enrolled in a pension plan (Miller, 2014).

6 http://www.afdb.org/en/blogs/afdb-championing-inclusive-growth-across-africa/post/the-boom-in-african-sovereign-wealth-funds-10198/

4. The (Pan) African Infrastructure Development Fund

The fund is designed to serve the need of countries that may not be able to finance their own infrastructure development. This is especially needed since market perception of the high risk of long-term infrastructure projects means that domestic and international financiers are not unconstrained. The African Development Bank (AfDB), regional banks and other multilateral banks are also constrained in their lending capacity. The creation of an African Infrastructure Development Fund can therefore be used to supplement investment in national and regional infrastructure projects. The Fund will be implemented by means of an institutional framework, which provides for common (pooled) technical and operational support in the development and implementation of infrastructure projects. This will reduce operational costs by reducing staffing and overheads. The Fund will lend to African countries and regional economic communities for infrastructure projects.[7]

5. Infrastructure Bonds

The issuance of long-term debt instruments by African countries, specifically infrastructure bonds, to raise finance for infrastructure development is relatively new and only a few countries have issued them, with varying degree of success. Ethiopia, Kenya, Nigeria and South Africa are among countries that have successfully issued infrastructure bonds. The short-term maturity of loans offered by the banking sector means that they are not suitable for financing long-term investment in infrastructure development. Hence developing a viable and vibrant bond market is critical for development (ECA and NEPAD, 2014).

6. Tracking, stopping and retrieving illicit financial outflows

In order to significantly improve its domestic resource mobilization efforts, Africa must tackle the critical challenge of illicit financial flows as a matter of urgency. These illicit flows derive from the proceeds of tax evasion and laundered commercial transactions, criminal activities and theft of public resources, bribery and other forms of corruption (Baker, 2008). They are a huge drain on Africa's resources, including tax revenues, and hinder the level of savings required to address key development issues.

The High Level Panel on Illicit Financial Flows from Africa established by ECA and the African Union Commission highlighted the fact that Africa is estimated to be losing more than $50 billion annually in such flows. This figure may well be an underestimate since accurate data are not available for all African countries, and estimates often exclude some forms of illicit flows which, by their nature, are secretive and cannot be estimated accurately, such as the proceeds of bribery and trafficking in drugs, people, and firearms (ECA and African Union Commission, 2015).

Multinational companies are the most significant perpetrators and have a variety of techniques at their disposal to protect their profits from taxation by employing complex, country-specific strategies (Cobham, Jansky and Prats, 2013). The most popular of these are transfer pricing and trade misinvoicing, which aim to shift money beyond the reach and appropriate use of domestic authorities. As much as 60 per cent of global illicit financial flows originate from commercial transactions through multinational companies (Baker, 2008; ECA and African Union Commission, 2015).

The prevalence of illicit financial flows in Africa and the inability to check the growing trend, especially in the extractive sector, is in large part the result of capacity constraints (Gillies, 2010; ECA and NEPAD, 2014). The lack of capacity often cuts across sectors and even causes tension between different departments of State. Effective solutions to illicit financial flows require more attention to be paid to institutional deficiencies and gaps and issues of effective implementation to tackle the deficiencies since most African countries lack the means to verify quantities of natural resources extracted, relying instead on exporter declarations (ECA and African Union Commission, 2015). Self-

7 "AfDB Approves US$ 25 Million Pan-African Infrastructure Development Fund 2", available from http://www.afdb.org/en/news-and-events/article/afdb-approves-us-25-million-pan-african-infrastructure-development-fund-2-12706/.

regulation is the rule and African countries often resort to a variety of incentives to encourage accurate reporting.

Both the Sustainable Development Goals and the Addis Ababa Action Agenda of the Third International Conference on Financing for Development confirm that illicit financial flows are not only an African problem but a matter of global governance, which implies that a wide range of actions are required, including at the level of global financial architecture.[8] A number of initiatives are emerging at the global level, particularly in the Organization for Economic Cooperation and Development (OECD), the G8 and the G20, but gaps remain in global governance relating to such flows because the measures taken or that are contemplated do not have Africa or, indeed, other developing country regions in mind. Efforts must be made to ensure that Africa benefits from such initiatives without having to bear undue compliance costs.

G. Conclusion

There is sufficient evidence that there are ample opportunities for the continent to raise substantially more domestic financial resources by using the instruments identified to implement development programmes and projects. Although Africa has made some progress in mobilizing domestic revenue over the past decade, there are still significant gaps between it and investment requirements, indicating that more needs to be done to boost domestic resource mobilization, tackle illicit financial flows and exploit emerging sources of financing. As countries exhibit wide variation in their economies, the country-specific experiences of Morocco, Ethiopia and Nigeria in the mobilization of domestic resources are analysed in the next two chapters.

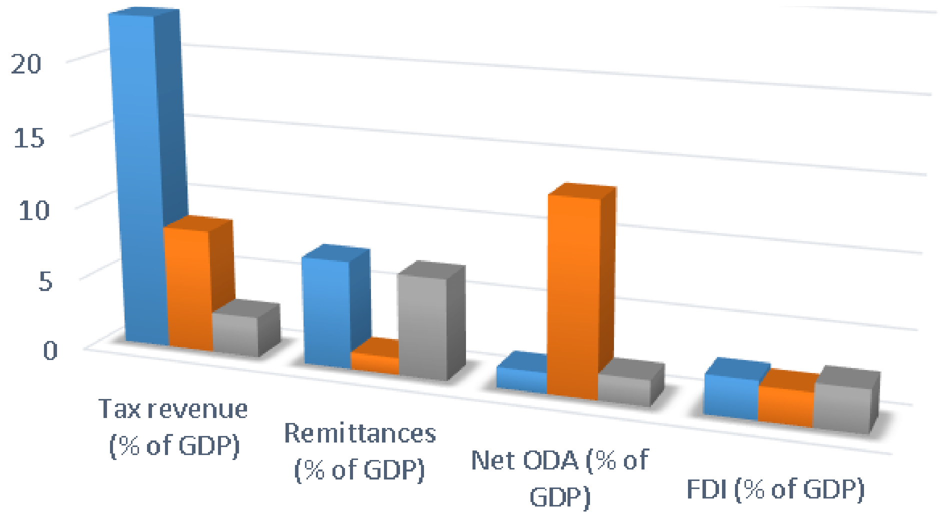
8 Sustainable Development Goal 16.4 and paragraphs 23 and 24 of the Addis Ababa Action Agenda call for a substantial reduction in illicit financial flows by 2030.

IV. Country experiences of resource mobilization

A. Introduction

The ability to mobilize resources and allocate them to productive sectors that will support the growth and diversification of the economy and thus be the driver for sustainable inclusive development is fundamental to the success of the plans of African countries.

Figure IV.1
Tax revenues compared to other sources of finance (percentage of GDP), 2002-2013



Source: *World Bank (2015b).*

All three countries examined in this study have undertaken extensive reforms of their tax systems. This chapter investigates the challenges facing the Governments of Ethiopia, Morocco and Nigeria in reforming their tax system and the main lessons learned.

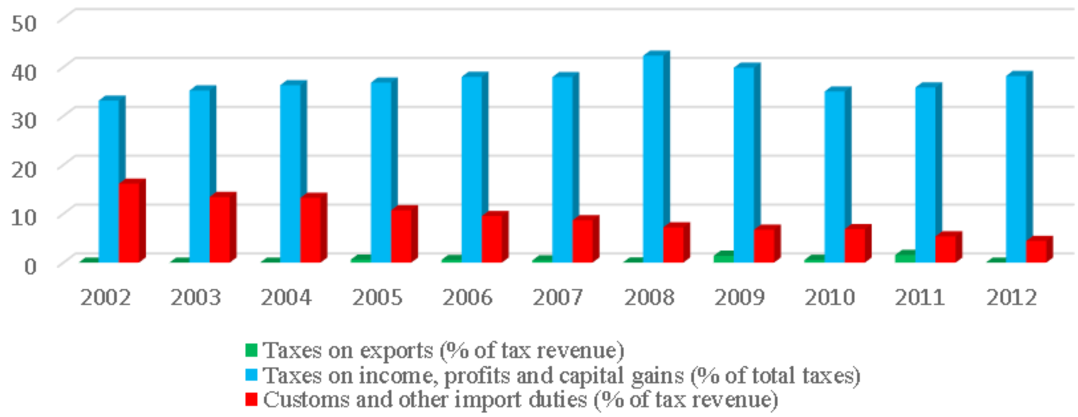
B. Morocco

Tax remains the main source of Government revenue to finance public sector investment in Morocco. The tax-to-GDP ratio is reasonably high compared to most African countries, and has shown sustained growth over the last three decades, growth that was maintained even during the recent financial crisis. Tax revenues have increased remarkably since 2002. As figure IV.1 shows, tax revenue as a share of GDP in Morocco has exceeded remittances and other external financial inflows such as ODA.

Tax revenue is composed of taxes on income, profits and capital gains, exports, and customs and other import duties, with taxes on exports contributing the smallest share. Figure IV.2 shows that the share of customs and other import duties has been falling for the last couple of years, while taxes on income, profit and capital gains account for the largest share of total tax revenue. The share of taxes on exports remained low and rather insignificant during the 2002-2012 period.

Interviews conducted with stakeholders in the Moroccan public sector indicate that the reforms have thus far been broad and comprehensive. For example, a number of taxes, such as those on real estate profits, stock products and fixed-income investment products, have been merged into general income tax or corporation tax. The Government has also reformed the value added tax system, focusing on simplifying the rate structure, improving management of the

Figure IV.2
Components of tax revenue (percentage of tax revenue)



Source: *High Commission for Planning.*

tax by businesses and limiting the number of exemptions, which concerned a range of goods and services, thus widening the tax base (Morocco, Ministry of Economy and Finance, 2015a; Jewell et al., 2015). In this context, the authorities recognize the regressive tendency of indirect taxes, which are paid on consumption by both the poor and the rich and are generally imposed on the majority of goods consumed by the poor. Special brackets have therefore been allocated for basic commodities in order to protect poor and limited-income families from paying high taxes when consuming food and other basic products.

A new tax law was introduced in 2014 with a major focus on tackling fiscal imbalances to maintain socioeconomic stability and improve the effectiveness of the country's fiscal administration by strengthening social cohesion and consolidating relations between taxpayers and the tax administration (Morocco, Ministry of Economy and Finance, 2015a). The Government has identified additional resources to support programmes targeting the destitute, fighting poverty and supporting the middle class. Support to private sector competitiveness is another central component of the tax reforms. Small and medium enterprises continue to enjoy special attention from the Government. In addition to lowering the tax rate imposed on them to 10 per cent for those with revenues of up to DH300, 000 , smaller companies also benefit from an extension of reduced corporate tax in relation to increases in equity (interview with Bank of Morocco, October 2014).

Despite the encouraging performance compared to other African countries, tax revenues in Morocco have been constrained by a number of challenges. The Government has been under increasing pressure to broaden the tax base. A study by Morocco's Economic and Social Council in November 2012 revealed that only 2 per cent of registered companies are responsible for 80 per cent of corporate tax receipts (Morocco, Development and Investment Agency, 2014).

Addressing the various types of tax evasion and avoidance in Morocco remains challenging. Tax evasion leading to the loss of huge revenues has been estimated at 30 per cent of professional trade and industry profits (Jaber and Al Riyahi, 2014). This includes evasion by accounting, where companies accelerate depreciation to avoid fiscal regulations. Tax avoidance techniques include the exploitation of weak administrative capacity, especially in relation to monitoring and investigations in order to underestimate profits and real revenues. Another area of tax avoidance occurs in the fisheries sector. The low capacity to monitor high seas fishing licences results in undeclared volumes. Furthermore, a group of large contractors has transformed the real estate sector into a haven for capital wishing to evade or reduce taxes (Bin Dahman, 2013).

Table IV.1
Morocco's performance on the Resource Governance Index

Rank (out of 58)	Components	Score (out of 100)	Status
25	Composite score	53	partial
45	Institutional and legal setting	48	weak
19	Reporting practices	60	partial
28	Safeguard and quality control	56	partial
23	Enabling environment	42	weak

Source: *Resource Governance Index, 2013.*

Management of Natural Resources

Morocco is the world's largest phosphate exporter and holds three-quarters of global phosphate reserves. Other natural resources include copper and silver. Figures provided by Morocco's Office Cherifien de Phosphate, the world's leading phosphate exporter, show that prices of phosphate rock, an essential ingredient of fertiliser, fell to $145 per tonne in 2013 from around $185 per tonne in 2012. Sales declined from DH28.24 billion to DH24.5 billion in the first half of 2012, although the company continued to boost output, aiming to reach 47 million tonnes of crude phosphate rock by 2017 from the current 34 million tonnes.

The Office attributed the decline in revenues to the fall in the global price, but an assessment of Morocco's performance by the Resource Governance Index (2013) highlights a number of gaps in the management of phosphates. Morocco received a partial score of 53 and was ranked 25 of 58 countries.

The Tax Authority also strengthened its decentralized network by setting up regional offices with decision-making powers on tax collection, operating budget and human resources management. The Tax Authority is responsible for monitoring, control and accountability of decentralized services, however (Morocco, Ministry of the Economy and Finance, 2014b).

The efforts to improve tax legislation and tax administration have resulted in a substantial and progressive increase in overall tax revenues. Direct taxes represented 52 per cent of overall tax revenue in 2006, 53 per cent in 2007 and 61 per cent in 2008. Improving tax revenue enabled better control of budget deficits. Between 2004 and 2006, the budget deficit was on average around 2.8 per cent of GDP but turned into a small surplus of 0.7 per cent of GDP in 2007 and 0.4 per cent in 2008 (Morocco, Ministry of Economy and Finance, 2008).

The success achieved in improving tax revenue is largely attributable to a progressive fiscal reform based on past lessons. Morocco has gone from a tax system characterized by a multiplicity of inconsistent taxes with high rates and excessive tax alleviations aimed at encouraging investment, to a more consistent, simplified and efficient tax system (Morocco, Economic and Social Council, 2012). One of the key components of Morocco's success story is the 1999 National Conference on Taxation (les Assises Nationales sur la Fiscalité), where stakeholders from the public sector, private sector, civil society, universities and think-tanks convened to review an assessment of the Moroccan tax system and draft a roadmap for improvement.

C. Ethiopia

Annual tax revenues in Ethiopia are generally below 15 per cent of GDP, which is considered the threshold below which contemporary governments find it hard to finance their basic functioning and services (Adam and Bevan, 2004; IMF, 2005), demonstrating the disappointing performance of tax mobilization efforts in Ethiopia. The two broad categories of taxes in the country are direct and indirect taxes. Direct taxes are personal income tax (rates progressively

Table IV.2
Government revenue (percentage of GDP), 2006-2014

	2006/7	2007/8	2008/9	2009/10	2010/11	2011/12	2012/13	2013/14
Total revenue and grants	17.3	16.2	16.5	17.5	16.9	15.7	16.1	15.1
Revenue	12.8	12.1	12.1	14.2	13.7	13.9	14.6	14.0
Tax revenue	10.2	9.7	8.7	11.4	11.7	11.6	12.5	12.7
Direct taxes	3.0	2.9	3.0	3.9	3.9	3.9	4.3	4.5
Indirect taxes	7.2	6.8	5.8	7.5	7.8	7.7	8.3	8.2
Domestic indirect taxes	2.3	2.1	2.2	2.8	3.1	3.2	3.8	3.9
Import duties and taxes	4.8	4.8	3.6	4.7	4.7	4.5	4.5	4.4
Export taxes	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Non-tax revenue	2.6	2.4	3.4	2.8	2.0	2.3	2.0	1.2
Grants	4.5	4.0	4.4	3.3	3.3	1.7	1.5	1.1
Grants in-kind/earmarked	2.1	1.8	1.5	1.5	1.4	1.1	1.1	0.9
CPF/ DBS grant	2.4	2.2	2.9	1.8	1.9	0.6	0.4	0.2
	100	100	100	100	100	100	100	100

Source: *Ministry of Finance and Economic Development, 2013/14.*

increasing from zero to 35 per cent), rental income tax (30 per cent), business profit tax (5 per cent) and other income taxes at the federal level such as agricultural income tax, and the rural and urban land use fee in regional and chartered cities. Indirect taxes consist of domestic taxes and foreign trade taxes, including customs duties, excise tax, value added tax, surtax, and withholding tax.

Value added tax on all commodities except some food items is levied at a flat rate of 15 per cent of the sum of cost, insurance, freight, customs duty and excise tax. Value added tax was introduced in 2003 to enable the taxation of services as well as production, to grant zero-rating to exports, and provide exemptions to fewer basic products than was the case under the sales tax system it replaced. Surtax is levied on all goods imported into the country, constituting 10 per cent of the sum of cost, insurance, freight, customs duty and excise tax plus value added tax. Withholding tax stands at 3 per cent on imported items and 2 per cent on payments made in return for the purchase of goods and services.

Despite the attention given to effective domestic resource mobilization in recent years, tax evasion and avoidance have been cited as the leading factors undermining domestic resource mobilization efforts in Ethiopia (Daba, 2014). Low voluntary compliance and a weak tax administration have been obstacles to enforcing a broadening of the narrow taxpayer base. Interestingly, increased tax efforts have had poor results, although the last decade has been characterized by high economic growth, a situation in which taxes are expected to pick up considerably. This is especially true for direct taxation, which has stagnated and not responded even to the double-digit economic growth rate since 2004 (Daba, 2014). This trend is particularly worrying in view of the fact that private credit increased to about 13 per cent between 1992 and 2009, in turn fuelling a rise in investment to more than 21 per cent between 1992 and 2008 (Daba, 2014). Such increases in investment normally increase the tax base in the economy, thereby leading to at least higher direct taxes. Abay (2010) also noted that, even after a lag of five years, direct taxes and profit taxes had not increased.

A typical phenomenon worth mentioning here is that the increase in the number of firms from about 400 in the early 1980s to more than 2300 in 2007 did not result in any substantial increase in direct taxes or profit taxes (Abay, 2010), suggesting that tax evasion and avoidance were a significant hindrance to domestic revenue mobilization in Ethiopia. Tax exemptions have also been responsible for low tax revenues. Abay (2010) indicates that total tax forgone as a result of tax exemptions in 2005, 2006 and 2007 was

3.7 percent, 3.5 per cent and 4.5 per cent of GDP, respectively, an average of $0.8 billion per annum. In the 2008 fiscal year, total exemptions amounted to 4.2 percent of GDP. The private sector has been the largest beneficiary of such tax exemptions as the Government seeks to use this policy to promote investment in the country.

The low tax compliance in Ethiopia is primarily a result of a weak tax administrations unable to effectively assess and enforce tax requirements. Tax assessment is poor, because a large number of taxpayers do not even have accurate accounting records of their transactions, so it becomes difficult to impose taxes as the taxable income often cannot be determined. In addition, assessing private sector enterprises for tax purposes is particularly sensitive because underestimating the taxable income could lead to revenue losses, while overestimating it may lead to business failure. Limited liability companies in Ethiopia are said to fabricate accounts to understate their taxable income, while some even go so far as to report losses, despite the legal implications of liquidation (Abay, 2010). Abay also pointed out that, in addition to the weaknesses in tax administration, tax administration staff are poorly paid and this engenders corruption.

Box IV.1
Tax reforms

- Rate schedules rationalized and a significant reduction in rate
- classifications.
- Value added tax introduced to replace conventional sales tax in 2003.
- Maximum foreign trade tariffs reduced from 230 per cent to 35 per cent.
- In 2001, the Ministry of Revenues replaced the Revenues Board to lead the tax system reform.
- A Tax Reform Taskforce was established to deepen tax policy and administrative reforms.
- Interministerial steering committee established to lead the national reform programme to refine and support the tax system reform programme.
- In 2009, the Ethiopian Revenues and Customs Authority was established as a centralized tax unit through the merger of the Federal Inland Tax Authority, the Ethiopian Customs Authority and the Ministry of Revenues, which dealt with regulatory affairs.

Source: *Daba, 2014.*

Pinpointing why tax reform processes have been largely unsuccessful in mobilizing resources is difficult as the Government of Ethiopia has attempted to rationalize the tax structure, broaden the tax base, and improve equity, fairness and consistency in the administration and the tax laws (Daba, 2014) by introducing various tax policy reforms (see box IV.1).

Despite the introduction of tax policy and administrative reforms over the last two decades (more intensively in the last decade), the tax to GDP ratio is still below 15 per cent. This disappointing performance has been attributed to a number of factors, including structural problems in the economy such as the dominance of subsistence agriculture, historically low economic growth, poverty and low incomes, the mono-commodity nature of exports, the low level of monetization of the economy, the huge size of the informal sector, tax evasion and avoidance, tax exemptions, and weak tax administration.

Ethiopia's five-year Growth and Transformation Plan is driving the economy's demand for and openness to foreign investment. Given the scale of public investment required to support the plan targets, coupled with the current low domestic savings rate, Ethiopia also requires significant inflows of foreign financial resources. This effort has led to the formation of Investment Proclamation and Investment Code policy documents. These policies have gradually removed most of the restrictions on investment in Ethiopia. Customs import duty is another policy used to promote investment. A 100 per cent exemption from customs duties and other taxes levied on imports is in place. Several exemptions from profit tax are also available.

The 2003 amendment of the Investment Proclamation goes further by introducing incentives for investors in strategic growth areas. New investors engaged in manufacturing, agro-processing activities, or the production of certain agricultural products who export at least 50 per cent of production or supply at least 75 per cent of production to an exporter as production inputs, are exempt from income tax for five years. An investor who exports less than 50 per cent of production or supplies products only to the domestic market is exempt from income tax for two years. Investors who expand or upgrade existing enterprises and export at least 50 per cent of output or increase production by 25 per cent are eligible for income tax exemption for two years. An investor who invests in the developing regions of Ethiopia, such as Gambella, Benishangul Gumuz, South Omo, Afar or Somali Region are eligible for an additional one-year income tax exemption.

Tax incentives for investment in the high priority sectors of heavy and light manufacturing underscore the Government's concentration on transformative growth, using FDI. The 2012 amendment to Ethiopia's investment proclamation introduced provisions for the establishment of industrial development zones, both public and private, with favourable investment, tax, and infrastructure incentives. Under the Growth and Transformation Plan, investments in key priority industries like the textile and garment industry, leather and leather products, sugar and sugar-related products, cement, metal and engineering, chemicals, pharmaceuticals and agro-processing are accompanied by additional tax incentives.

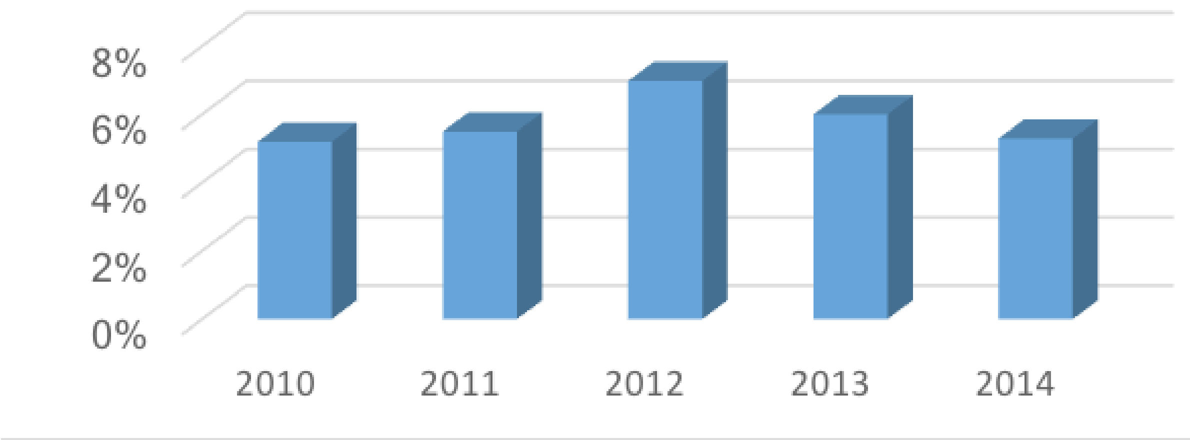
Manufacturing companies are taking advantage of the special industrial zones, skilled labour and tax incentives for initial start-up imports and export-related expenditure. Investors are able to import the capital goods and construction materials necessary for the establishment of a new enterprise or for the expansion of an existing enterprise free of customs duty. In addition, spare parts of up to 15 per cent of the value of capital goods can be imported duty-free. This privilege may not be granted if comparable high quality capital goods or construction materials can be produced locally at competitive prices in sufficient quantity.

Despite the incentives, challenges to attracting foreign investment remain. Competitive labour and energy costs and the potential consumer markets are key pulls for the development of light manufacturing and industrial zones. The development of the manufacturing sector in Ethiopia is, however, constrained by a number of factors that need to be resolved speedily if it is to remain competitive. These include: foreign exchange shortages; limited access to capital and land; delays in receiving inputs and processing exports due to the current logistic infrastructure and bureaucratic delays; an unreliable electricity supply; complex tax requirements and trade-related regulations; and low institutional and skills capacity. All of these are obstacles to the expansion of the manufacturing sector. These bottlenecks are often combined with restrictions on foreign investment in certain sectors, notably banking, retail, telecommunications and transportation. It could be argued that these restrictions have been instituted to reduce the risks associated with markets that have been liberalized too quickly and to avoid the risk of foreign monopolistic practices. These practices could lead to a distortion of market prices. However, it should be recalled that such restrictive measures could exacerbate the inefficiencies of service providers.

D. Nigeria

Nigeria has a diverse source of domestic resources that can be mobilized for structural transformation of the economy. The Government's Vision 20:2020 is underpinned by the need effectively and efficiently to mobilize the nation's resources to serve and improve the lives of its citizens, and to respond appropriately to the growing challenges of an increasingly smaller, mutually dependent, and interconnected world. Similarly, it is critical that resources be mobilized effectively to finance the Nigeria Industrial Revolution Plan if an industrial sector is to emerge in the country. Resource mobilization is therefore critical to the successful implementation of the vision plans.

Figure IV.3
Tax GDP ratio in Nigeria, 2010-2014



Source: *Calculations based on data from the Federal Inland Revenue Services (Quarterly Issues).*

Tax revenue in Nigeria comes from the oil tax and non-oil taxes. Oil tax is made up of the petroleum profits tax while non-oil taxes include company income tax, gas income tax, capital gains tax, stamp duty, value added tax, educational development tax, the National Information Technology Development Fund and the consolidated revenue fund. The largest component of non-oil taxes is company income tax, followed by value added tax and the education tax (see Federal Inland Revenue Service Tax Statistics, various Quarterly Issues). The smallest contributions are from capital gains tax and stamp duty. [Revenue from non-oil taxes other than company income tax and value added tax has fluctuated.

Tax revenue as a percentage of GDP increased from 5.2 per cent in 2010 to 6.98 per cent in 2012, after which it fell to 6 per cent and 5.29 per cent in 2013 and 2014 respectively (figure IV.3). The low share of tax revenue in GDP clearly reveals the weak capacity of the Nigerian economy to mobilize tax resources. Clearly, Nigeria needs to broaden its tax base and build tax administration capacity to enable it to finance the much desired structural transformation of the economy, given declining crude oil prices and dwindling ODA. Revenue from oil tax has consistently been higher than non-oil tax, which demonstrates the economy's dependence on crude oil revenue (see Federal Inland Revenue Services, Quarterly Issues).

The tax to GDP ratio is weak because a good number of registered firms are not in the tax system, while the bulk of registered taxpayers do not file their tax returns regularly. The Federal

Table IV.3
Informal sector and resource mobilization in Nigeria

	Agriculture(₦ billion)	Wholesale and retail trade(₦ billion)	Agric. and wholesale and retail trade(₦ Billion)	GDP(₦ billion)	Share of informal sector (percentage of GDP)
2010	13 048.9	8 992.7	2 2041.5	54 612.3	40.4
2011	14 037.8	10 325.6	24 363.4	62 980.4	38.7
2012	15 816.0	11 843.5	27 659.5	71 713.9	38.6
2013	16 816.6	13 702.8	30 519.4	80 092.6	38.1
2014	18 018.6	15 704.1	33 722.7	89 043.6	37.9

Source: *Calculations based on data from the Central Bank of Nigeria Statistical Bulletin, 2015.*

Inland Revenue Service and the Federal Ministry of Finance are actively implementing reforms aimed at plugging the leakages. The initiatives include the introduction of a tax identification number system, approval of generous incentives for Revenue Service staff, sustained capacity-building and using information technology in tax administration.

The tax base is small because of the huge informal sector. Nigerian tax revenue has come mainly from taxes and other revenues collected from the natural resources sector, as is highlighted by the dominance of the petroleum profit tax. The size of the informal sector as a percentage of GDP, although declining, it is still sizeable (table IV.3). The formalization of such a large component of GDP would have huge positive implications for domestic resource mobilization in Nigeria.

Tax evasion and avoidance are among the challenges plaguing the tax administration in Nigeria. Apart from paid employees, most citizens pay inadequate taxes or no taxes at all and this has led to a substantial loss of government revenue. This is the result of several factors, including the inadequacy and complexity of tax legislation coupled with taxpayers taking advantage of loopholes in tax law, lack of tax enforcement, inequitable distribution of social amenities, high rates of taxation and lack of a sense of civic responsibility among taxpayers.

However, while tax evasion is assumed to be very high in Nigeria, there is no precise data. For example, the country has lost a whopping N90 billion in revenue from tax evasion to grey market operators in the automobile industry over the last four years (Rewane, 2013). According to Rewane, the loss could fund the construction of one petroleum refinery or a modern power station with a capacity of 1,000 megawatts. In addition, there is a great deal of informal trade and smuggling around Nigerian borders that should be a good source of domestic resources for investment and economic diversification.

The public sector stakeholders interviewed for this study noted that past, ongoing and planned strategies to increase government revenues have been part of economic development plans and reforms but that the strategies have been hopelessly ineffective as a result of corruption, a weak institutional framework and weak monitoring and evaluation mechanisms. Administrative inefficiency and political interference further compromise the ability to reach tax revenue targets.

Interviews conducted with stakeholders in the Nigerian public sector on how to bring the informal sector into the tax net identified strategies such as the introduction of a tax identification number, a review of tax rates, corporate tax reforms, engendering trade facilitation and customs procedures, streamlining business registration, registration of micro, small and medium enterprises, widening tax handles, reforming tax institutions and expanding tax jurisdiction. Given the significant contribution of the informal sector to the national economy in terms of output and employment, efforts should be made to capture it in the tax net for effective revenue mobilization.

The federal and various state governments have introduced several measures aimed at curtailing or minimizing tax evasion. Most are contained in legislation empowering the government department, ministries, agencies or any commercial bank with whom a company has any business dealings to demand a tax clearance certificate for the three years immediately preceding the current year of assessment and to deduct withholding tax. Similarly, the Government's introduction of provisional tax within 30 days by corporate entities or the declaration of interim dividends as part of the anti-evasion effort, especially on account of delayed or non-remittance of the withholding and other taxes to the Treasury.

Regarding efforts to increase the tax/GDP ratio, stakeholders noted that, between 2003 and 2010, the Government set up the Fiscal Responsibility Commission and enacted the Fiscal Responsibility Act of 2007. This raised the tax handles and jurisdiction. The Commission has been ineffective, however, since several informal activities are not captured in the tax net. Some of the identified

past, ongoing and future strategies for using fiscal policy to promote industrial development include tax concessions, tax holidays, infrastructure development, energy sector reform, trade and commercial policy, land policy reform, the expatriate quota, etc. However, the policies are ineffective because the investment environment is not conducive to competitive business. Security challenges and exchange rate instability were cited as the major challenges in this regard. Meanwhile, the concessions have contributed to the low tax effort.

In response to the issues arising from using tax concessions to promote industrialization and resource mobilization, the Government decided to streamline the activities of the institutions managing industrial promotion and resource mobilization. The Ministry of Trade, Industry and Investment focuses on industrial promotion, while resource mobilization is the responsibility of the Ministry of Finance and its parastatals. Both are involved in the investment and domestic resource mobilization drive. Fiscal incentives have also been used to encourage industrialization, especially in cement manufacturing, textiles, fruit juice, agro-processing, sugar, indigenous oil companies and automobiles. The backward integration policy in some of these (e.g. cement) has yielded some positive results. In future, the success of the automobile policy and the passage of the Petroleum Industry Bill should advance industrialization

The stakeholders noted that the trade-offs will be difficult to manage since giving tax concession to newly established or already established industrial firms will lead to loss of government revenue. However, the granting of tax concessions to industrial firms will aid the performance of the firms and that should have a multiplier effect by expanding their operation, enabling them to employ more people and reducing production costs. At the end of the tax concession, the Government is expected to have an enhanced revenue base that can generate more revenue.

The major issue raised by the stakeholders is that tax concessions, tax holidays and tax waivers should only be given for a specific time period. The provision of the incentives in perpetuity will not only discourage industrial growth but also affect the Government's domestic resource mobilization effort. In addition, some incentives can reduce competition, encourage rent-seeking attitudes and violate international trade agreements. The stakeholders interviewed also thought it very important to block the leakages in the country's tax system.

E. Key findings, issues and priorities

What emerges from all this is that tax is a major source of domestic resource mobilization for African countries, though the composition of tax revenues may vary from country to country. The incidence of tax evasion, tax avoidance, narrow tax bases, a huge informal sector, tax exemptions, mono-commodity exports and weak tax administration, among others, have limited domestic revenue mobilization efforts, despite the introduction of various reform measures. Efforts must be focused on expanding the tax base, bringing the informal sector into the tax net and building the tax administration capacity of the system.

As tax incentives to encourage domestic and foreign investments have resulted in loss of revenues, accurate assessment of the efficiency of tax exemptions or tax alleviations through a regular analytical report may minimize unnecessary loss of government revenues. The three countries' experience of domestic resource mobilization is evaluated in detail in the context of other sources of finance that can be employed for economic transformation in the next chapter. This is imperative given the growing importance of such innovative sources of finance.

V. Country experiences of mobilizing other sources of domestic finance

A. Introduction

In addition to the public revenues discussed in the last chapter, there are other domestic sources of finance that play an important role in African economies as a result of their growing predictability, volume and provision of foreign exchange.

Nonetheless, many countries still have increasing savings-investment gaps, suggesting that renewed innovative strategies are needed to boost and retain savings, reduce inefficient subsidies, and better leverage idle capital to meet public investment needs. The countries examined in this study have been proactive in this regard: Morocco is seeing an increase in private equity facilitated by regulatory reforms and Nigeria is committed to tackling the difficult issue of fuel subsidies which, if successful, could help to reduce subsidy spending by a significant margin. Ethiopia has drawn on innovative sources of finance, particularly the diaspora.

B. Ethiopia

1. Bank-based financial system supported by innovative strategies to raise domestic finance

Over the last decade, considerable progress has been made in developing the financial system in Ethiopia. Bank concentration has been falling steadily over the years, accompanied by increasing access (see table V.1). Despite the progress, the country is still under-banked, with limited outreach and a reliance on traditional banking instruments. Improving the financial sector is also one of the objectives of the Growth and Transformation Plan, which includes modernization of the national payment system. Ethiopia's Maya Declaration states the goal of strengthening the financial sector in order to establish an accessible, effective and competitive financial system across the country. Currently, financial services coverage is low, less than 10 per cent of households having access to formal credit. Services are concentrated in a small number of towns, Addis Ababa alone accounting for nearly 40 per cent of total branches of commercial banks (National Bank of Ethiopia, 2014).

A capital market has the potential to make a substantial contribution to attracting savings and efficient allocation of investment, but there is none in Ethiopia (Abay, 2010). Abay notes that little effort has been made to mobilize savings because of excess reserves and liquidity in industry. Excess reserves and liquidity and a persistent substantial macro-level shortfall of savings implies that savings are being held idle, in other words that capital is unproductive as it is not channelled to demand areas. This view is further reinforced by the gradual decline in lending to the private sector. It is not clear whether this is a deliberate development strategy to ensure liquidity to purchase foreign currency for development projects, an intermediation problem stemming from a lack of risk management instruments in the country, or a dominance of lending to public enterprise which is not being captured in the data.

Table V.1
Selected financial development indicators, capital and branch network of the banking system in Ethiopia, as of 30 June 2014 (number of branches; capital in millions of birr)

Banks	Branch network								Capital			
	2012/13				2013/14				2012/13		2013/14	
	Regions	Addis Ababa	Total	& share	Regions	Addis Ababa	Total	% share	Total capital	% share	Total capital	% share
1. Public banks												
Commercial Bank of Ethiopia	595	137	732	42.4	700	156	856	38.8	9,027	38.7	9 045.00	34.2
Construction & Business Bank	63	42	105	6.1	68	47	115	5.2	465	2.0	642.1	2.4
Development Bank of Ethiopia	31	1	32	1.9	31	1	32	1.4	2,554	10.9	2 134.80	8.1
Total public banks	689	180	869	50.3	799	204	1003	45.4	12,046	51.6	11 821.90	44.7
2. Private banks												
Awash International Bank	47	67	114	6.6	62	90	152	6.9	1,628	7.0	1 979.30	7.5
Dashen Bank	59	53	112	6.5	69	73	142	6.4	1,493	6.4	1 994.10	7.5
Abyssinia Bank	41	45	86	5.0	55	54	109	4.9	909	3.9	1 326.00	5.0
Wegagen Bank	38	41	79	4.6	51	49	100	4.5	1,570	6.7	1 825.80	6.9
United Bank	30	45	75	4.3	44	55	99	4.5	951	4.1	1 334.40	5.0
Nib International Bank	30	42	72	4.2	39	55	94	4.3	1,453	6.2	1 731.30	6.5
Cooperative Bank of Oromiya	62	12	74	4.3	84	21	105	4.8	549	2.4	739.9	2.8
Lion International Bank	23	22	45	2.6	35	27	62	2.8	415	1.8	514.3	1.9
Oromia International Bank	44	21	65	3.8	80	29	109	4.9	490	2.1	594.3	2.2
Zemen Bank	3	5	8	0.5	3	6	9	0.4	400	1.7	529.1	2.0
Buna International Bank	20	13	33	1.9	41	22	63	2.9	321	1.4	446.6	1.7
Berhan International Bank	11	11	22	1.3	22	26	48	2.2	340	1.5	488.7	1.8
Abay Bank	37	10	47	2.7	54	16	70	3.2	300	1.3	395	1.5
Addis International Bank	2	9	11	0.6	5	16	21	1.0	205	0.9	277.9	1.1
Debub Global Bank	10	4	14	0.8	12	7	19	0.9	114	0.5	177.3	0.7
Enat Bank	0	2	2	0.1	0	3	3	0.1	162	0.7	261.6	1.0
Total Private Banks	457	402	859	49.7	656	549	1,205	54.6	11,300	48.4	14 615.40	55.3
3. All banks	867	582	1728	100	1455	753	2208	100	23,346.0	100	26 437.3	100

Source: *National Bank of Ethiopia, 2015.*

2. Enhancing the role of the banking sector

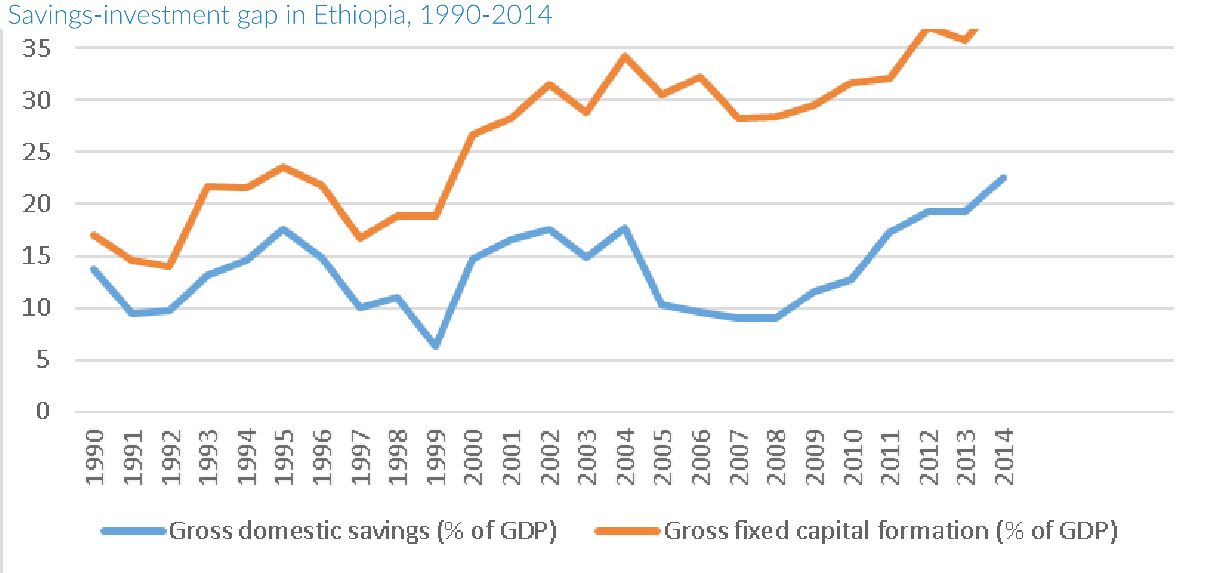
Banks, insurance companies and microfinance institutions are the major financial institutions operating in Ethiopia. In 2012/13, the number of banks operating in the country reached 19, of which 16 were private indigenous commercial banks and the remaining three state-owned. As a result of sizeable capital injection by private banks, the total capital of the banking industry reached Br23 billion (about $1.3 billion) at the end of June 2013. Total resources mobilized by the banking system in the form of deposits, loan collection and borrowing reached Br98 billion at the end of 2013. Moreover, 31 microfinance institutions were operating in the country at the end of 2013 with total capital and total assets of Br4.5 billion and Br17.7 billion, respectively. The share of private banks was only 47.8 per cent of total capital (National Bank of Ethiopia, 2014).

In its attempt to prioritize value creation and lead the private sector away from rent-seeking, the Government of Ethiopia has taken a cautious approach to liberalizing the financial sector. According to the incumbent Prime Minister, Hailemariam Desalegn: "liberalizing the banking sector would make credit expensive for business and slow down growth momentum, and that is why we have our own Development Bank of Ethiopia to create a balance".[9] The involvement of the Development Bank in particular targets the issue of the growth in liquidity. Although liquidity in Ethiopia is high, the growth of liquidity, considering limited lending to the private sector, is low due to low domestic savings of approximately 5 per cent of GDP (World Development Indicators, 2014). This is the result of several factors, including low incomes and constrained access to financial services.

3. Closing the savings-investment gap

The level of gross domestic savings as a percentage of GDP was volatile from 1990 onwards, fluctuating between 9 and 17 per cent. But since 2009 the trend in gross domestic savings has been positive, rising from 11.54 per cent to 22.5 per cent in 2014. Currently, the main savings instruments in Ethiopia are deposits in banks or microfinance institutions, pension or provident funds, insurance, Treasury bills, government bonds, and corporate bonds (IMF, 2013a). Despite this, domestic savings are insufficient to cover investement needs. In fact, since 2009, the financing or resource gap has remained around 18 per cent of GDP (figure V.1). Overall, for the

Figure V.1
Savings-investment gap in Ethiopia, 1990-2014



Source: *World Bank (2015b).*

9 Speech by the Prime Minister at a breakfast hosted by Equity Bank at the Intercontinental hotel in Nairobi, 22 November 2012, available from http://nazret.com/blog/index.php/2012/11/23/ethiopia-not-ready-for-foreign-banks-pm.

past 15 years Ethiopia has had a severe resource gap, despite the impressive growth recorded over the same period.

The low level of savings in Ethiopia is partly due to the negative real interest rate and demonetization. The nominal deposit rate has remained well below the inflation rate since 2003, which means that the banking sector has, in effect, been instrumental in discouraging savings (Taye et al., 2015).[10]

This situation is the result of several factors, including: low and unpredictable incomes that raise the opportunity cost of saving and require savings to be leveraged as insurance funds; and minimal access to financial services, such as savings instruments, for a predominantly low-income, subsistence population, because of cost and geographical access. Only 27 per cent of Ethiopians over the age of 15 years has an account with a formal financial institution such as a bank, microfinance institution or savings and credit cooperative (Agricultural Transformation Agency of Ethiopia, website).

A vibrant and self-sustaining rural financial sector is needed to tackle structural and service quality issues in rural areas. Strong financial institutions could offer access to rural sector-adapted credit and other financial services, while farmers need incentives to raise aggregate savings. Savings and credit cooperatives could mature into professional financial service providers with competitive depth of products and services.

For formal financial institutions, economies of scale and risk management are serious impediments to extending the reach of services to rural and low-income customers, however. Savings and credit cooperatives can provide services to certain groups, often through innovative business models and cross-subsidization to ensure access across income levels. Depending on the mechanisms for managing liquidity in cooperatives, these institutions can be instrumental in facilitating the mobilization of untapped savings from the informal and semi-informal sectors to the formal financial sector.

4. Capitalizing on institutional and contractual savings

The institutional and contractual savings sector in Ethiopia provides a promising opportunity to finance long-term development projects. A minimum level of saving for retirement is compulsory but much remains to be done to ensure the compulsory pension system includes the private sector and those in the informal labour market. The International Monetary Fund (2013) estimates that there are about 85,500 permanent workers in the large and medium scale manufacturing industries in Ethiopia, 55,000 in small scale manufacturing industries, and 1,231,000 owners of cottage or handicraft manufacturing industries. Only some 500,000 workers (including civil servants) have pension or provident fund coverage, however, suggesting huge potential for expanding coverage. In this regard, the establishment in July 2011 of the Private Organizations' Employee Social Security Agency is a step in the right direction. In first year of operation, the Agency collected more than Br800 million, further illustrating the industry's huge potential to grow and generate savings.

Despite the narrow customer base in Ethiopia, the insurance sector has made impressive strides over the last five years with total capital of Br1.5 billion (about $82.4 million) in 2013. Fifteen private insurance companies accounted for 74.7 per cent of total capital, while one public insurance company alone accounted for 25.3 per cent. The main obstacle to mobilizing capital through pension or provident funds and insurance companies is low coverage (IMF, 2013a). Yet, irrespective of coverage, unless institutional governance ensures the sound administration of pension funds, capital may not be properly channelled to productive sectors, or rather may be exposed to fund mismanagement. The narrow opportunities for the investment of pension funds are due to the lack of a capital market in the country. In Ethiopia, pension funds and insurance companies are permitted to invest a

10 Although access to banking services has increased since 1991, the limited liberalization of the financial sector has limited domestic savings opportunities and access to bank credit by small businesses and, hence, limited financial inclusion.

good proportion of their funds in long-maturing assets and engage in venture capital and lease companies. As a result, pension funds and insurance companies have invested mainly in government bonds, Treasury bills, government-guaranteed loans and time deposits in banks.

5. Engaging the diaspora

Ethiopia has also taken bold and innovative steps to convert its large diaspora community into a resource that not only supports household consumption but also contributes to large-scale development projects. The Ethiopian diaspora, which is estimated to be no less than two million, is recognized as having the potential to play an important role in the development of their home country in a number of ways. In order to capitalize on this potential, the Government of Ethiopia has taken measures aimed at creating a conducive environment in which the diaspora can contribute to Ethiopia's development goals (box V.1).

Box V.1
Ethiopia's diaspora policy

In spite of its large migrant population, estimated to be at least 2 million, the potential of the Ethiopian diaspora to assist in the country's development is far from fully tapped. In recognition of this and the key roles that could be played by Ethiopians living abroad, the Government has taken the bold initiative of creating an environment conducive to their playing a constructive role in the development of their home country.

The Government has devised the Ethiopian diaspora policy, which seeks to ensure improved diaspora participation in the development of the country by encouraging Ethiopians abroad to establish strong links with their home country, protecting their rights and promoting benefits in collaboration with various stakeholders. The policy ensures the diaspora's active participation in the political, economic and social activities of Ethiopia in order to benefit from and contribute to the well-being of the country.

The policy is based on the principles of collaboration, effectiveness, resource utilization in line with national development policies, participation, transparency and partnership. The major goals are to: preserve the rights and interests of the diaspora; improve diaspora engagement in investment, trade and tourism; enhance knowledge and technology transfer; encourage foreign currency inflows and strengthen diaspora participation; promote cultural values and image-building; advance diaspora participation in good governance and democracy; encourage philanthropy and development associations; and broaden diaspora participation in image-building.

The main elements of the strategy are: establishing reliable information collection and delivery systems and a permanent information exchange forum; recognition of diaspora participation; encouraging organized participation; and giving special attention to organized diaspora youth participation. The Government also plans to put in place various mechanisms at the federal and regional levels to ensure implementation of all these policies and to monitor and evaluate their success.

Source: *Government of Ethiopia, Ministry of Foreign Affairs (2013).*

One of the most important channels of diaspora influence is remittances. For example, IMF data suggest that the inflow of remittances and official transfers to Ethiopia represent more than 4 per cent of GDP, with estimates of remittance values ranging from $387 million to $3 billion. In 2011, inflows of workers' remittances and compensation of employees hit a new record of $0.5 billion, equivalent to approximately 1.7 per cent of GDP, up from only $18.3 million (0.2 per cent of GDP) in 2001. There has generally been an upward trend in remittances since 2001, apart from a contraction in 2009 following the global financial and economic crisis.

Ethiopia has been forward-thinking in capturing diaspora remittances without encroaching on the valuable role such transfers play in the socioeconomic welfare of Ethiopians, and the multiplier effect on the economy. The Government has institutionalized diaspora engagement to ensure that, in addition to cash transfers, the diaspora community is able to enhance the economy through skills and knowledge transfer, and formalized long-term investments. Since May 2004 non-resident Ethiopians (whether nationals or foreign citizens) are permitted to open foreign currency accounts in Ethiopia, thus increasing the flow of foreign currency to the country. It is also envisaged that savings deposited in Ethiopia will be spent on future investments in the country,

such as acquiring property or setting up a business (Government of Ethiopia, Ministry of Foreign Affairs, 2013)).

C. Morocco

Morocco's financial system is already large by international standards, particularly due to the high volume of long-term savings from pension funds and insurance. The contribution of finance to economic growth ultimately hinges on the efficiency and effectiveness of allocating and monitoring resources, however. According to Central Bank data (Bank Al-Maghrib, 2014), banking penetration was 60 per cent at the end of 2013, with the objective of reaching 66 per cent by the end of 2014. Moroccan banks have attained a size and sophistication that has enabled them to overtake their foreign competitors in terms of market share and to expand abroad. This is a result of robust regulation that has encouraged consolidation and enhanced healthy capitalization levels. The top three banks, Atti-Jariwafa Bank, Banque Populaire and BMCE Bank, account for 65 per cent of total assets, 66 per cent of total deposits and 64 per cent of total loans.

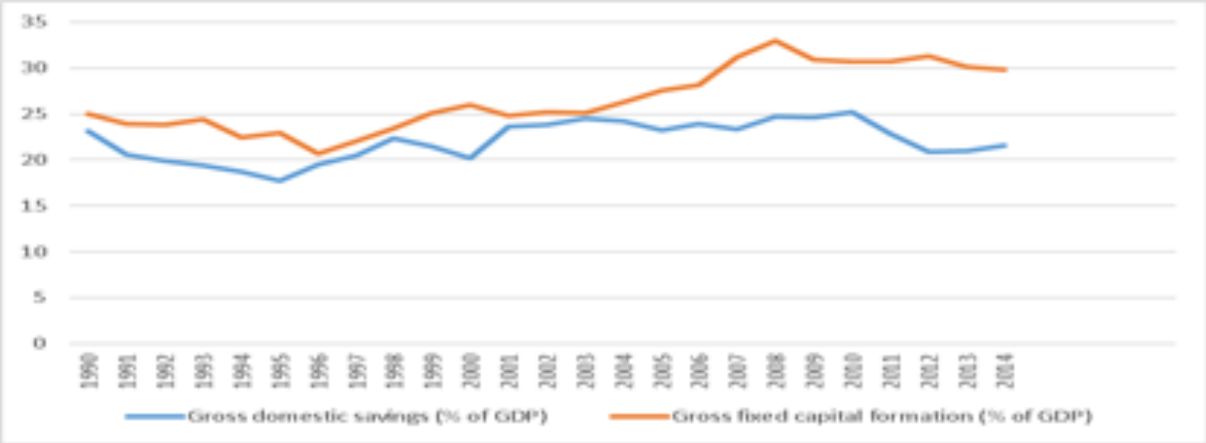
One important issue for the Moroccan banking sector has been the level of liquidity. Although the financial system has relatively sophisticated financial instruments with a wide range of options to generate liquidity, deposits represent nearly 70 per cent of the sector's resources (Morocco Development and Investment Agency, 2013). Liquidity tightened significantly from 2007 for a number of reasons, including: the effects of the financial crisis; the compliance with Basel II and its reserve requirements; the high demand for credit to finance mortgages by the growing middle class; and the requirements of the Pact of Industrial Emergence, such as the financing of strategic industries and infrastructure. In order to inject more liquidity into the economy, in 2012 Bank Al-Maghrib cut its reserve requirements from 6 per cent to 4 per cent, freeing up approximately DH7 billion (€622.3 million). Bank Al-Maghrib also kept its policy rate at 3 per cent in the same year and attempted another type of refinancing in the form of the certificate of deposit as an acceptable type of collateral for advances. These measures have been successful in keeping interest rates low and raising the provision of domestic loans, evidenced by the rapid growth of credit to the domestic private sector from 48.6 per cent in 2006 to 70.17 per cent in 2013, in spite of falling deposit rates (World Bank, 2015 b).

1. Upgrading capital markets

Morocco's stock market, the Casablanca Stock Exchange, is currently the second largest stock market in Africa after Johannesburg (Moroccan Investment Development Agency, 2013). The stock exchange plays a significant role in mobilizing resources for strategic investment for both the private and public sectors. Foreign investment in the stock market is concentrated in the following sectors: electricity, electrical and electronic equipment, telecommunications, food processing and production, community utilities, engineering and industrial equipment, building and construction materials, leisure and hospitality, oil and gas, pharmaceuticals, transport, and banks (CDVM, 2013). The dominance of manufacturing, industry and services sectors in the capitalization spectrum indicates the potential growth in these areas, particularly with regard to infrastructure services such as electricity, telecommunications and tourism. In 2012 and 2013, the share of productive sectors in total foreign investment was approximately 90 per cent (CDVM, 2013).

In an interview with the Capital Market Authority in October 2014, a number of obstacles to the increased role and growth of capital markets in economic development were mentioned, despite the amount mobilized through this channel. These include: thinness of markets (low capitalization) and limited liquidity; asymmetric information, which inhibits accurate price signalling; lack of awareness of capital markets as a source of raising finance; and the dominance of banks as the main intermediary for raising funds, in particular for small and medium enterprises. Other challenges include inefficient market infrastructure and limited ability gradually to attract more foreign investors, which could boost capitalization, lengthen the time-horizon of holdings, and reduce market volatility.

Figure V.2
Savings-investment Gap in Morocco, 1990-2014



Source: *World Bank (2015b).*

2. Increasing the role of private equity

The rapid growth of pension savings has attracted an increasing number of funds, both foreign and domestic, in a sector that was initially dominated by development finance institutions (CVM interviews, October 2014). In particular, the involvement of private equity in the whole life-cycle of business is increasingly viewed as a viable option for tackling the barriers to credit or limited access to capital markets faced by growing firms. Although relatively new, the private equity sector is expanding rapidly reflecting the growing role of this dynamic source of capital in developing small and medium enterprises and establishing and developing modern integrated infrastructure (UNCTAD, 2011).

3. Maintaining strong trends in private savings

At more than 20 per cent of GDP since 1997, domestic savings in Morocco are higher and more sustained than in other African countries. This satisfactory performance can be attributed to a range of reforms designed to consolidate the level of domestic savings and convert liquid savings into medium- and long-term savings by reinforcing the development of institutional savings and capital markets (Morocco, Ministry of the Economy and Finance, 2001). The volume of savings mobilized is insufficient to finance domestic investment needs, however (figure V.2).

4. Closing the savings-investment gap

The financing gap has grown steadily from 0.59 per cent of GDP in 2003 to 8.32 per cent in 2014 for a number of reasons: first, the high levels of investment in the industry and construction sectors, which over the last 20 years account for approximately 90 per cent of gross fixed capital (GFC) formation as illustrated in figure 5.3; second, the strain on public finances caused by the financial crisis in the euro zone, Morocco's main economic partner. The combination of accommodative policies, high oil prices and a weak Eurozone has led to a sharp deterioration in budget and current account deficits; third, the rapid increase in social spending that started in 2011 to help contain protests after uprisings brought down the rulers of Egypt and Tunisia.

The Government has introduced a number of ambitious reforms to tackle the public deficit and improve public financial management. First, expenditure is now directly informed by national development plans, including the strategic framework of the National Pact for Industrial Emergence for the export and industrial sectors, the Green Plan for the agriculture sector, and Plan Azur for tourism. Expenditure is guided by the strategic framework, which aims to boost output and productivity and encourage public spending on productive areas in order to boost employment opportunities and private sector growth. The Government is also working towards shifting the bulk of investment capital supply from national to foreign sources, in other words ODA and FDI.

Figure V.3
Gross fixed capital formation across sectors (percentage of total GFC)

Source: High Commission for Planning, Morocco.

One example of this is the attempt to increase investor confidence through the successful floating of a $1.5 billion dollar-denominated bond issue in December 2012 and securing a $6.2 billion precautionary line of credit from the IMF, further encouraging private investors, particularly FDI.

Export earnings will play a significant role in narrowing the investment gap if measures to increase the flow of capital to productive sectors prove successful. Morocco has taken a number of steps to improve the level of export earnings, including free trade agreements with the United States and the European Union (box V.2).

Subsidies have also been targeted to free up domestic resources. According to Government statistics, subsidy-related expenditure peaked at 6 per cent of GDP in 2012, amounting to DH57 billion (€5.06 billion). In response, the Government introduced the Finance Act 2014 aimed at tackling fiscal imbalances. It abolished subsidies on high-octane petrol and fuel oil (to generate a saving of DH7 billion (€622 million)) but maintained subsidies on wheat, sugar and cooking gas to protect low-income and vulnerable groups from rising prices. This was complemented by the addition of DH4 billion (€355 million) to the Social Cohesion Fund, which targets disadvantaged and under-privileged people.[11]

5. Sustaining remittance flows

Over the last 15 years, international remittances to Morocco have more than tripled. These flows rose by 42 per cent between 2005 and 2012, compared with 7.6 per cent between 1995 and 2010 (World Development Indicators, October 2015). With more than two million Moroccans living and working abroad, the volume increased significantly to reach more than $7.3 billion in 2011 (Migration Policy Centre, 2013). Remittances are becoming the most important and stable source of external finance. As an example, total international remittances to Morocco in 2012 were three times higher than FDI inflows (figure V.4).

Moreover, in 2012, remittances accounted for 6.78 per cent of GDP, 19 per cent of export earnings, 94 per cent of net taxes on products (the sum of product taxes less subsidies), and 35 per cent of general government final consumption expenditure. Given these significant sums, there are increasing concerns that, as new generations begin to make permanent homes in their host countries, these volumes may decrease or remain stagnant, leading the Government to seek options for a new multisectoral policy to strengthen ties with the expatriate community, increase coordination between banks and other related institutions, and improve data collection and impact analysis. It should be recalled that there is a global consensus as to the private nature of

11 "Broadening the base: The 2014 Finance Law is focused on redressing fiscal imbalances", available from http://www.oxfordbusinessgroup.com/analysis/broadening-base-2014-finance-law-focused-redressing-fiscal-imbalances.

Box V.2
Encouraging free trade areas in Morocco

In order to boost exports, Morocco entered into a bilateral free trade agreement with the United States in 2006 and an Advanced Status agreement with the European Union in 2008. Morocco is the largest recipient of European Union funds under this programme targeting the export sector in North Africa and the main beneficiary of African Development Bank funding amounting to €1billion out of the total European Union Budget of €2.7 billion allocated for active project Moroccan Investment Development Agency, 2013)

Morocco's trade agreements have boosted foreign trade and reduced a large trade deficit from -10.1 per cent in 2012, when the country recorded its highest trade deficit for a decade, to -7.2 per cent in 2013 (African Economic Outlook, 2014). However, officials at the Ministry of Foreign Trade raised some concerns about the negative impact of free trade areas on Moroccan private sector growth and domestic employment due to foreign competition, especially the increased imported industrial products replacing locally manufactured goods in both state and private companies (interview with officials from the Ministry of Foreign Trade, October 2014). The proponents of free trade areas downplay these revenue and employment effects based on the free market premise that does not take into account structural rigidities in the economy when predicting that labour adjustment will occur as employees who lose their jobs in less competitive industries move to new jobs created in those that are more competitive and benefit from the new tariff-free access to foreign markets.

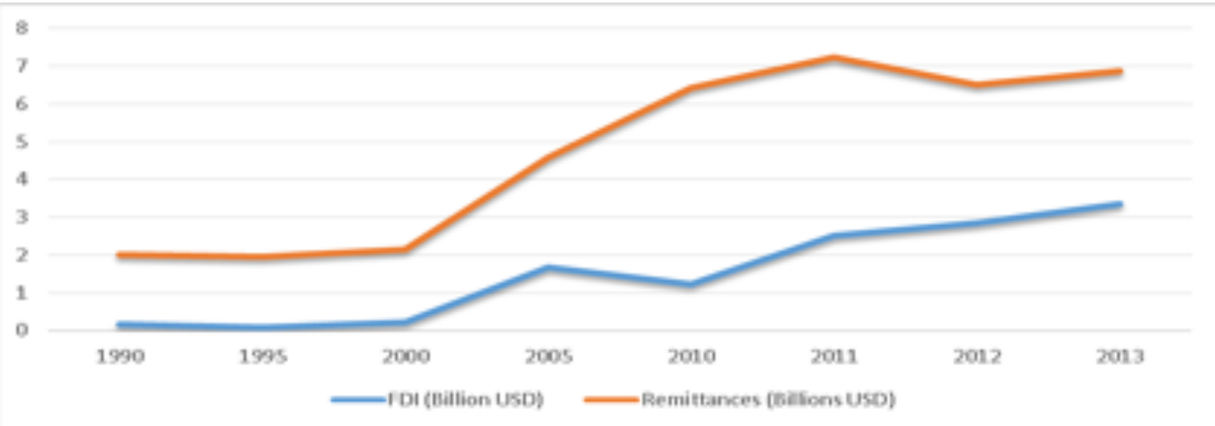
According to the World Trade Organization, in 2012, merchandise exports were over $21.26 billion, while merchandise imports were over $44.26 billion. Commercial services exports were over $14.95 billion, while commercial services imports were over $6.58 billion. Morocco has been importing more agricultural raw materials and fuel than it is exporting, but exporting more manufactured goods, food items and ores and metals than it is importing.

Table V.2
Composition of Morocco's export/import (percentage of merchandise exported/imported)

Category	Trade	2008	2009	2010	2011	2012	2013
Agricultural raw material	Export	0.99	1.56	1.73	1.11	1.10	0.87
	Import	2.11	2.15	2.16	2.08	1.87	1.77
Food	Export	17.44	23.02	19.01	17.35	17.23	18.85
	Import	11.79	11.22	11.45	12.62	12.45	10.77
Fuel	Export	2.15	2.33	1.07	2.61	3.79	5.028
	Import	22.37	20.61	23.07	25.33	27.66	26.95
Manufactured goods	Export	63.90	64.67	66.32	65.70	65.45	66.07
	Import	57.53	62.88	58.77	55.30	53.73	57.03
Ores and metals	Export	15.46	8.39	11.68	13.20	12.11	9.10
	Import	5.89	2.56	3.27	4.47	4.24	3.35

Source: *World Development Indicators, October 2015.*

Figure V.4
Remittances and FDI in Morocco (US$ billions)



Source: *World Bank (2015b).*

these flows and it is therefore expected that policy action will be geared towards reducing the cost of remittances and attracting diaspora-led investment strategies to better tie these types of external flows to development objectives.[12]

D. Nigeria

Although the Nigerian banking industry is highly regulated because of the central position it plays in the financial system and the mobilization of resources through the intermediation process, it has experienced remarkable growth in terms of numbers, assets and liabilities. For example, the total assets of Nigerian banks increased from N1.5 billion in 2000 to N17, 331.6 billion in 2010 (table V.2), suggesting growing shareholdings or higher levels of profits used to acquire more assets needed for operations.

The ability of the banking sector to perform this role has, however, been disrupted periodically as a result of its susceptibility to systemic distress and macroeconomic volatility. This led to sector-wide reform commencing in 2005. Reforms centred on a consolidation of commercial banks to ensure a diversified, strong and reliable banking sector able to guarantee the safety of depositors' money, play an active development role in the economy, and be competent and competitive players in regional and global financial systems.

Despite these reforms, Nigerian banks are dominated by demand and foreign currency deposits, while savings deposits are dwindling (table V.3), which shows that the Nigerian economy remains cash dependent. Foreign currency deposits have also become very important, suggesting an improvement in Nigeria's export of banking services.

Growth in the banking sector has not spilled over into more general economic growth, however. Table V.4 underscores the nature of the problem: sectors such as agriculture and manufacturing are receiving decreasing shares of the credit and advances of commercial banks. The percentage share of agricultural sector loans and advances declined from 8.07 per cent in 2000 to 3.44 per cent in 2013. Similarly, the credit allocation of commercial banks to the manufacturing sector fell from 27.8 per cent in 2000 to 17.8 per cent in 2005 and 11.8 in 2013 (table V.4). It is ironic that these are the productive sectors that the country targeted to achieve its vision of growth and economic development.

In contrast, commercial bank credit to the mining sector, which was low in the 1990s, has increased in recent years, from 1.4 per cent in 1990 to 21.5 per cent in 2013 (the highest of all sectors). Most recent data show that, aside from manufacturing and mining, the sectors that received a significant share of credit allocation were transport and communication, government and imports. These findings are mirrored by the over-dependence on the oil sector for foreign exchange earnings and government revenue, despite its minute backward and forward linkages with the economy. There is no doubt that this dependency will exacerbate the effects of the recent significant fall in commodity prices.

Table V.3
Structure of bank deposits and total assets (₦millions) 2000-2013

	Demand deposits	Time deposits	Savings deposits	Foreign currency deposits	Total assets
2009	3 386 526.5	3 147 266.3	1 171 917.8	1 444 327.1	17 522 858
2010	3 830 282.0	2 858 793.6	1 589 175.4	1 506 291.5	17 331 559
2011	4 920 850.2	704 981.1	1 861 410.9	1 965 520.1	19 396 633
2012	5 069 992.0	3 317 280.9	2 017 845.2	2 726 978.5	21 288 144
2013	5 160 846.5	2 839 355.3	2 365 032.5	3 402 223.6	24 301 213

Source: *Central Bank of Nigeria Statistical Bulletin, 2013.*

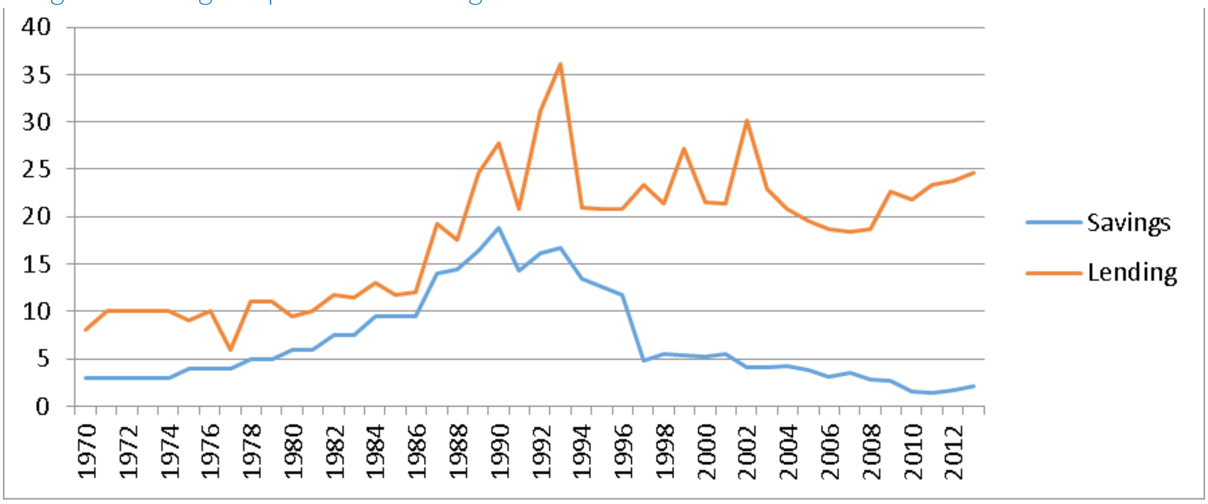
12 See Addis Ababa Action Agenda 2015.

Table V.4
Sectoral distribution of commercial banks' loans and advances, 1970-2012 (percentage)

	Production				General Commerce				Services			Others		
Period	Agriculture, forestry and fisheries	Manufacturing	Mining and quarrying	Real estate and construction	Bills discounted	Domestic trade	Exports	Imports	Public utilities	Transport and communications	Credit to financial institutions	Government	Personal and professional	Miscellaneous
1990	16.2	30.3	1.4	12.3	1.18	10.6	2.87	3.93	0.83	3.6	2.77	4.46	5.12	4.32
2000	8.07	27.8	6.4	-	-	-	4.98	-	-	-	-	-	-	52.8
2005	2.46	17.8	8.7	-	-	-	1.34		-	-	-	-	-	69.7
2006	1.96	17.7	10	-	-	-	2.09	-	-	-	-	-	-	68.3
2007	3.11	10.1	10	-	-	-	1.38	-	-	-	-	-	-	75.2
2008	1.36	12	11	5.99	-	-	0.96	1.86	0.59	16.7	6.91	9.16	-	33.6
2009	1.52	11.1	13	8.73	-	-	0.51	13.5	0.84	8.71	13.8	3.95	-	24
2010	1.67	12.8	15	8.7	-	-	0.58	11.7	0.66	10.7	11.3	4.86	-	21.8
2011	3.49	14.4	18	6.2	-	-	0.49	10.3	0.94	17.3	4.15	6.83	-	18.1
2012	3.88	13.1	21.7	6.6	0	0	0.81	8.5	0.4	11.9	3.1	7.76		22.9
2013	3.44	11.8	21.5	7.3	0	0	0.04	7.6	2.2	13.9	3.2	7.18		21.8

Source: *Computed from Central Bank of Nigeria Statistical Bulletin, 2013.*

Figure V.5
Weighted average deposit and lending rates of commercial banks



Source: *Central Bank of Nigeria Statistical Bulletin, 2013.*

Another overriding feature of the Nigerian banking industry is the high lending rate, which prevents access to credit for investment, despite sector reforms. As highlighted in figure V.5, between 1989 and 2004, the lending rates of commercial banks were well above 20 per cent as a result of the liberalization policy embarked upon during the period. This huge difference could explain why banks often report large profits, while sectors like

Table V.5
Microfinance banks outreach in Nigeria in 2013

Geopolitical zone	Microfinance bank branches	Percentage of total	Population (2013)	Population per branch
North-West	58	7.304786	42 508 251	732 901
North-Central	110	13.8539	22 444 771	204 043
North-East	30	3.778338	22 482 650	749 422
South-West	316	39.79849	32 811 270	103 833
South-South	110	13.8539	24 907 015	226 427
South-East	170	21.41058	19 405 187	114 148
Total	794	100	166 210 000	209 332

Source: *Central Bank of Nigeria Annual Report and Statement of Accounts (Various Issues).*

manufacturing and agriculture are struggling to survive and grow.

Moreover, the bank penetration/outreach indicator, i.e. the number of people per bank branch, further demonstrates problems accessing financial services. Evidence from the Central Bank of Nigeria revealed that there are 3.39 bank branches per 100,000 compared to 13.4 for middle income countries.[13] There is less than one microfinance bank branch per 100,000, although such banks could be an important tool for increasing access and intermediation, all of which illustrates the limited access of households and businesses to financial services (table V.5)

1. Strengthening capital markets

The Nigerian Stock Exchange is gaining depth and stability to better mobilize capital throughout the economy. It currently provides different types of funds to bring accumulated public wealth into the stock market. Large, medium and small enterprises are listed, thus enabling capital to be raised for investment.

In order to encourage foreign investment in Nigeria, the Government abolished legislation preventing the flow of foreign capital through the stock exchange into the country. This has allowed foreign brokers to deal on the exchange, and investors of any nationality are free to invest. Nigerian companies are also allowed multiple crossborder listings on foreign markets.

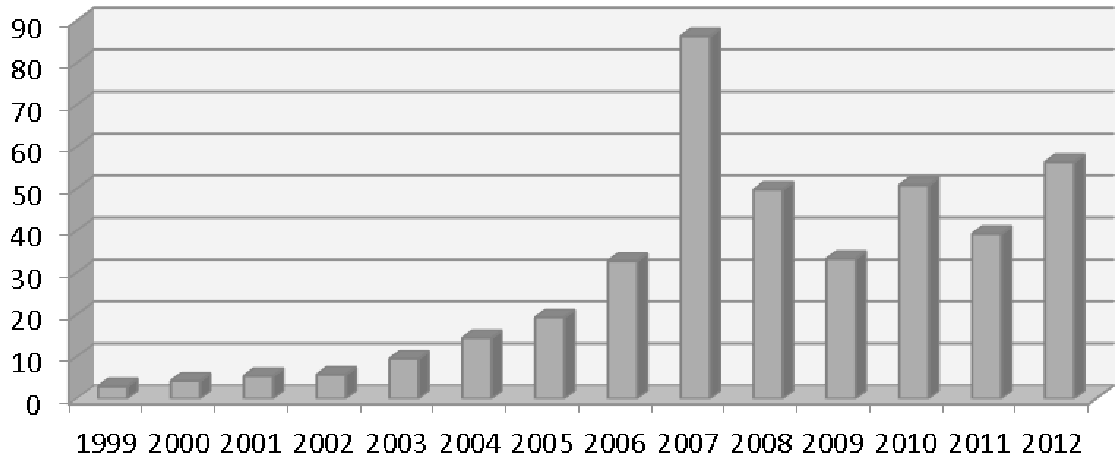
13 World Bank Global Financial Development Indicators, accessed August 2015.

Subregional initiatives are also being pursued to boost activity and capitalization. As of 31 December 2013, the Nigerian Stock Exchange had approximately 200 listed companies with a total market capitalization of about N12.88 trillion ($80.8 billion), up from the $53.3 billion recorded in 2012. The significant effect of the global financial crisis can be seen in the precipitous fall of the market capitalization of the exchange from $86.3 billion in 2007 to $49.8 billion in 2008 (figure V.6).

Despite the huge market capitalization recorded by the Nigerian Stock Exchange, its percentage of GDP is not encouraging and speculation that shareholders are divesting significantly is of concern. Market capitalization should be closer to GDP, and can in certain cases exceed GDP. The highest market capitalization as a percentage of GDP recorded was 51.8 per cent in 2007 but it then fell to 23.9 per cent in 2008. This share further declined to 12.2 per cent in 2012 (figure V.7). The performance of the total value of stocks traded as a percentage of GDP is similarly dismal (figure V.7). Stocks traded refers to the total value of shares traded during the period and this indicator complements the market capitalization ratio by showing whether market size is matched by trading. The highest value – 10 per cent – was reported in 2007 but it declined to 0.9 per cent in 2012 (figure V.7).

In an interview with capital market stakeholders in December 2014, the respondents noted that, if the capital market is to be a good source of resource mobilization for structural

Figure V.6
Market capitalization of listed companies (US$ billions)



Source: *World Development Indicators, July 2015.*

transformation, its operational procedures need to be relaxed. The ideal would be for funds to be raised through the stock exchange for investment in road construction, which could then be subject to toll collection to recoup investment, maintenance and operational costs. Because of constraints, such as time mismatches (a short-term investment culture) and multiple charges (2.5 per cent charges by the Securities and Exchange Commission, multiple issuing houses and their subordinates, 5 per cent advisory charges on capital raised, employment of an accounting firm for due diligence), such projects are seldom embarked upon. The result is that the potential of the stock exchange to address funding issues in developing and executing development projects is seriously underutilized.

2. Increasing the potential of private equity

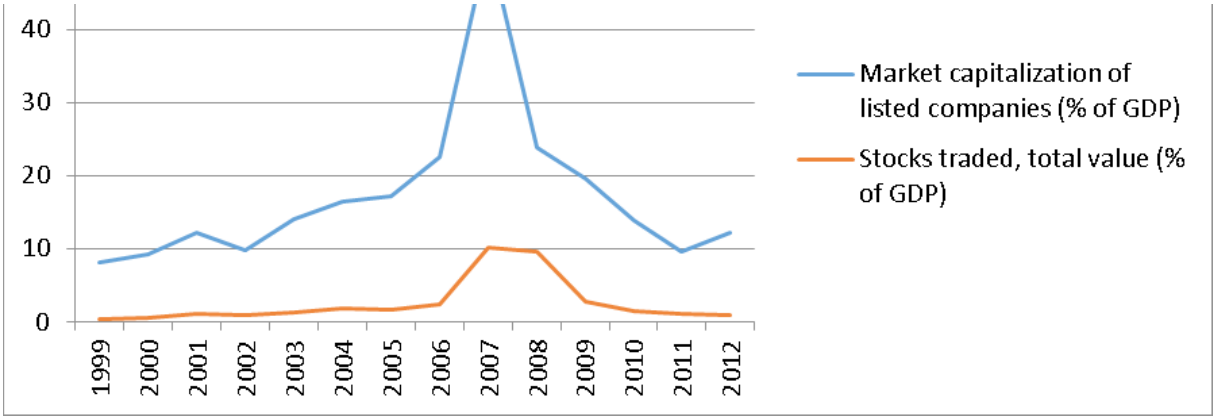
Although still at an early stage of business development compared to public equity and debt, private equity investments in Nigeria have grown considerably. As an innovative source of finance in Africa, it represents an alternative source to traditional finance in Nigeria, particularly for the large informal sector and those in the early growth phase. The prospects for private equity in Nigeria are enormous as every sector – financial services (including insurance and mobile money), e-commerce and information technology, power, oil and gas, services, telecommunications and agriculture – still possesses attractive profit-making opportunities for investors. Combined with a number of risk-mitigating initiatives, such as improvements in corporate governance, accounting, local securities regulations, and the investment infrastructure, such as the Investment and Securities Tribunal, a growing number of foreign companies have tried to tap into these opportunities. For example, a few Nigerian banks have been able to raise fresh funds from foreign institutional investors.

Private equity funds in Africa are still emerging and fragile, so it is essential to strengthen the enabling environment to ensure their growth, sustainability and contribution to economic growth. Private equity funds on the whole should not be relied upon entirely as a long-term financing option but seen as being able to provide much-needed short-term capital for growing or early-stage businesses. They can stimulate a vibrant private sector in ways other financing mechanisms may neglect.

3. Closing the savings-investment gap

Although the savings rate is low in Nigeria, the high natural resource endowment means that low savings often do not translate into a negative savings-investment gap. From 2010 to 2012, the gap was narrow but positive, reaching a high of 12.5 per cent in 2012. This level was probably catalysed by the massive inflow of foreign

Figure V.7
Market capitalization of listed companies (percentage of GDP) and stocks traded, total value (percentage of GDP)



Source: *World Development Indicators, July 2015.*

exchange receipts from exports as a result of the increase in the price of oil, and also reflected challenges of effective absorptive capacity owing to the structural and infrastructural deficits faced by investors in the country.

Nevertheless, the negative value of one per cent reported for 2013 reflects the drastic fall in savings and a slight increase in investment (figure V.8). Gross fixed capital as a ratio of GDP was low, at 14 to 16 per cent, compared to the 25 per cent benchmark achieved by the East Asian countries to transform their economies

Public revenue in Nigeria is generally volatile, and thus unpredictable, because of large shifts in oil prices, the large share of oil revenue in total revenue, and limited economic diversification. The growth in Government fiscal deficits can be traced to the decline in its revenue-generating capacity and the tremendous growth in the public sector. Although income from crude oil represents two thirds of government revenue, total public revenue (including non-oil tax revenue) remains insignificant compared to recurrent expenditure, despite government efforts to broaden the tax base and the scope of revenue sources and improve tax collection efficiency.

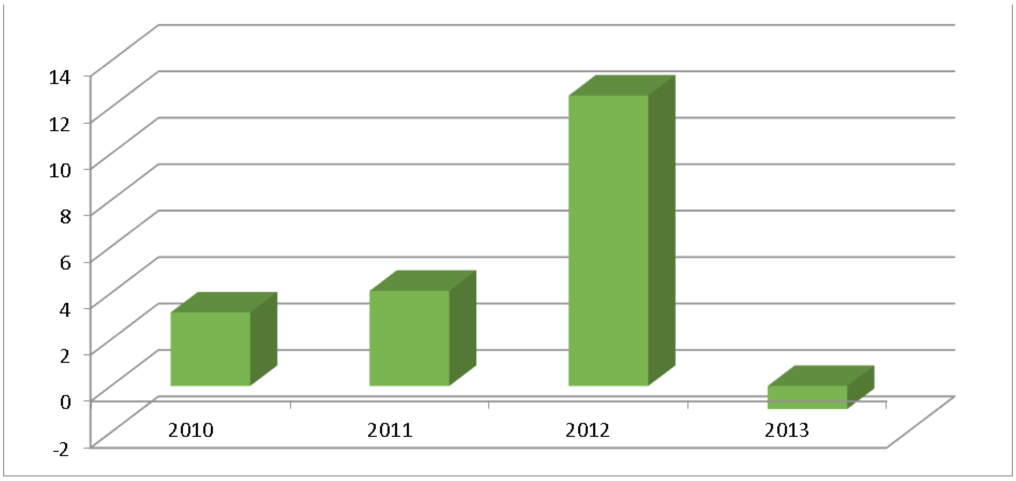
The fiscal balance situation thus reflects the protracted dependence of the revenue structure of the Nigerian economy on primary commodities, particularly oil. Given the attendant rapid technologically-induced shifts in the world market, Nigeria's government revenue structure is inherently unstable and clearly unsustainable in the long run (Philips, 1997). The outcome of the Government's fiscal budget implementation is deficit and this has obtained for years.

4. Monitoring private savings

The need to sustain the current growth trend of the Nigerian economy and reduce the savings-investment gap has made it imperative to mobilize domestic resources to pursue truly owned national development strategies that respond to the country's priorities. Higher levels of mobilized domestic resources can also facilitate higher levels of investment and economic growth and more rapid poverty reduction through public investment.

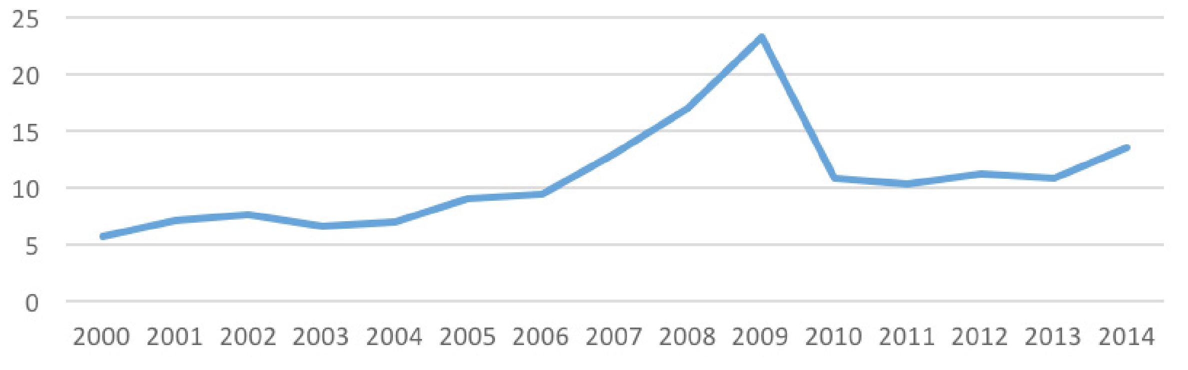
The domestic savings rate as a percentage of GDP increased from 5.9 per cent in 1999 to 7.9 per cent in 2002. There was a decline in the rate between 2003 and 2004, before it assumed an upward trend in 2005 and peaked at 23.2 per cent in 2009. As a result of the global financial crisis, it fell drastically to 10.9 per cent in 2010 and fell further to 10.7 per cent in 2013. Considering the country's endowment, the low capacity to generate and retain stable saving levels indicates a need to institute wide-ranging policies to address impediments to saving.

Figure V.8
Savings-investment gap in Nigeria



Source: *National Bureau of Statistics, Annual Abstract of Statistics, 2014.*

Figure V.9
Domestic savings rate as a percentage of GDP

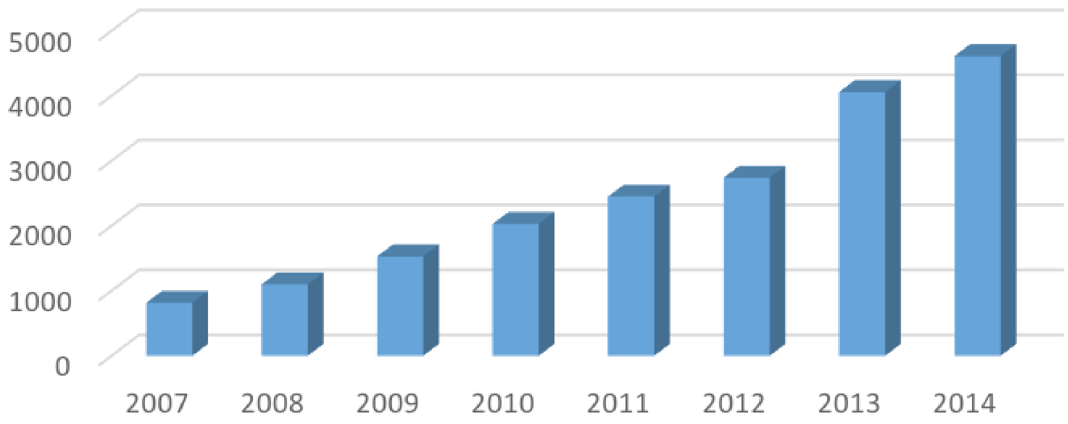


Source: *Central Bank of Nigeria, Statistical Bulletin, March 2014.*

Nigerian pension funds have grown substantially and present an opportunity for long-term investment capital in the right regulatory conditions. Pension fund assets increased from N815 billion in 2007 to N2 trillion in 2010 and peaked at N2.7 trillion in 2012 (figure 5.10). The National Pension Commission, reported that the country's pension assets hit N4.6 trillion in October 2014 (National Pension Commission, 2014). There are currently 21 pension fund administrators in Nigeria with combined assets growing at a rate of $250 million per month or 25 per cent per annum. They are allowed to invest a maximum of 5 per cent of their assets under management in private equity and, in 2014, this fund accounted for N9.45 billion (Ituanya and Augie, 2014; and National Pension Commission, 2015). However, industry stakeholders interviewed believed that legal instruments concerning the pension funds should be reviewed to encourage increased but prudent use of funds in public and private sector investment initiatives.

The Government of Nigeria has embarked upon various programmes to reform public expenditure in order to tackle the challenge of persistent fiscal deficit. The strategic framework of the reforms aimed to improve the quality of output and competitiveness in response to massive expenditure on physical infrastructure. In addition, efforts have been made to strengthen institutions and build capacity in the design and implementation of public policies, emphasising budget transparency, public expenditure

Figure V.10
Pension fund assets, 2007-2014 (Nbillions)



Source: *National Pension Commission, Monthly issues, Nigeria.*

Table V.6
Public finance in Nigeria

Year	Federal Govt. retained revenue (N billion)	Total expenditure (N billion)	Overall surplus (+) / deficit (-) (N billion)
2005	1660.7	1822.1	-161.406
2006	1836.605	1938.003	-101.398
2007	2333.66	2450.897	-117.237
2008	3193.44	3240.82	-47.3796
2009	2642.982	3452.991	-810.008
2010	3089.175	4194.577	-1105.4
2011	3553.543	4712.062	-1158.52
2012	3629.607	4605.391	-975.683
2013	4031.828	5185.318	-1153.49
2014	3599.63	4578.06	-978.43

Source: *Central Bank of Nigeria, Statistical Bulletin, 2014.*

management and aligning sectoral strategies to the overall structural transformation strategy.

One such programme is the Federal Public Administration Reform Programme. Through strategic interventions in areas of policy, planning, budgeting, human resources, service delivery and accountability, it aims to help the Federal Government of Nigeria become more capable and accountable. For example, the Integrated Payroll System saves Nigeria N160 billion (Interview with Director General of the Bureau of Public Service Reforms, October 2014). The Programme has also supported projects designed to increase the visibility, transparency and accountability of the Government's overall budget process to plug fiscal leakages.

5. Implementing subsidy reforms

Nigeria has also taken steps to address the huge public expenditure on subsidies, which serve as a significant drain on public resources. Despite being Africa's largest oil producer, Nigeria still imports refined petroleum products. It produces about 2.4 million barrels of crude oil daily, which is refined abroad because years of corruption-

Table V.7

Share of fuel subsidy as a percentage of GDP in Nigeria

	Fuel subsidy (N billion)	GDP (N billion)	Percentage share of subsidy in GDP
2010	673	54 204.8	1.241588
2011	2 587.087	63 258.58	4.089701
2012	1 049.6	71 186.53	1.474436
2013	832	80 222.13	1.03712

Source: *Asu, 2013.*

fuelled negligence have rendered domestic refineries largely moribund. As a result, Nigeria imports 70 per cent of its petrol (about 250,000 barrels per day of petroleum products) for sale to its citizens. In 2010, the subsidy cost on premium motor spirit was N1.3 trillion.

In 2012, the Ministry of Finance revised the 2011 subsidy bill of N1.3 trillion upwards to N2.587 trillion because of unpaid arrears for premium motor spirit consumption. In the same year, the colossal sum of N888 billion was earmarked in the budget for subsidy payments for petroleum product importers. Then, in December 2012, a supplementary budget of N161.6 billion for payment of fuel subsidy arrears was approved by the National Assembly, bringing the total fuel subsidy value to N1,049.6 trillion (Asu, 2013). By 2013, the subsidy bill had declined to N832 billion due to the subsidy removal. This resulted in an increase in the pump price of premium motor spirit from N65 per litre to N97 in January 2012.

An analysis of the subsidy/GDP ratio provides an interesting perspective on the role subsidies have played in the management of public finances in Nigeria. In 2012 and 2013, the fuel subsidy/GDP ratio stood at 1.5 per cent and 1 per cent (table 5.7). At first glance these figures may appear negligible, but an analysis of the 2013 budget showed that the allocation for fuel subsidy constituted about 20 per cent of the entire 2013 budget. It was 10 times more than the appropriated sum for agriculture and rural development (₦81.41 billion), three times the amount allocated health (₦279.23 billion), and twice the amount allocated to education (₦426.53 billion). The amount allocated to capital expenditure (₦1.54 trillion) is just a little above the amount set aside for the fuel subsidy (Asu, 2013).

This indicates that Government must ensure that such forgone revenues are reduced, primarily by plugging leakages and improving efficiency. More fundamentally, rather than focusing on the removal of subsidies from petroleum products as a strategy to raise revenue, attention should be devoted to ensuring that the four domestic refineries function efficiently. Doing so will not only eliminate imports of petroleum products by a major oil-producing country, but also generate tremendous employment opportunities, enhanced inter-industry linkages and spin-offs with more multiplier effects on the country's resource mobilization potential.

6. Encouraging free trade areas

Like some other countries, Nigeria has established free trade zones to increase foreign exchange earnings, enhance job creation, economic diversification and financial empowerment of the population, and to create forward and backward linkages. Free trade zones were established in 1991 in order to diversify Nigeria's export activity, previously dominated by the hydrocarbon sector. Investment in the free trade zones is profitable and needs to be encouraged, given the potential large consumer market. The presence of natural resources also gives investors the advantage of a competitive proximity to raw materials and seaports for ease of export, coupled with ongoing favourable government reforms and the wide array of other incentives.

The free trade zones regulatory framework in Nigeria is liberal and provides a conducive environment for profitable operations. The

law also provides for active participation of the private sector in that a free trade zone can be established by the public sector, the private sector or a combination or partnership of the public and private sector. The Government has provided generous physical and fiscal incentives aimed at making business in the zones competitive. Physical facilities are provided to address national infrastructure inadequacies, including water, electricity, security and telecommunication, which typically constitute up to 25 per cent of initial capital outlay for a business.

The challenges facing free trade zones in Nigeria include: policy reversals and inconsistencies; slow responses to changes in global trends; weak infrastructure; conflicting and overlapping laws and procedures with other relevant government agencies; delays in passing into law the proposed free trade zone Bill now before the National Assembly; the high cost of borrowing and lack of availability of long-term funds; and a lack of consideration of free zones in policy formulation.

In order to improve the efficiency of free trade zones, consistent, practical and integrated government policies are imperative, particularly in the process of formulating fiscal policy. The Government could benefit from strengthening ex-ante analysis of free zone fiscal policies and making appropriate exemptions where necessary. Laws and procedures could be simplified, especially by the Nigeria Customs Service and Federal Inland Revenue Service, to ensure minimal conflict or overlap with incentives. It might also improve the efficiency of administrative processes if the relevant authorities, such as the national customs, immigration and the Inland Revenue created an

Box V.3
Free trade zones in Nigeria: incentives and developments

Free trade zones provide an attractive incentive to invest in the Nigerian economy while essentially being compensated for structural and infrastructural bottlenecks in the form of predominantly fiscal incentives. The incentives include:

- Tax holiday from all federal, state and local government taxes, rates, customs duties and levies;
- One-stop approvals for all permits, operating licences and incorporation papers;
- One hundred per cent foreign ownership of investment;
- Duty-free, tax-free import of raw materials and components for goods destined for re-export;
- Duty-free introduction of capital goods, consumer goods, machinery, equipment and furniture;
- One hundred per cent repatriation of capital projects and dividends;
- Waiver of all expatriate quotas for companies operating in the zone;
- Prohibition of strikes and lock-outs;
- Rent-free land at construction stage within the zone;
- Enterprises in the zone can sell up to 100 per cent of their manufactured goods, with up to 35 per cent value addition, in the domestic economy, regardless of whether the item is banned or prohibited.

As a result, free trade zones are increasing in popularity. There are now 25 spread across the country, 14 of them fully operational; two are under construction – the Abuja Technology Village Free Zone and the Living Spring Free Zone –, seven have yet to commence development, one has had its operational licence suspended and the sponsor for another is yet to commit to work. As an example of the success of the zones, the Lekki Free Trade Zone has attracted $1.1 billion in investment commitments from 48 investors, including Puma Energy Free Zone, Imad Oil and Gas, FZE, China Railway Construction Corporation and YFK Pharmaceuticals (Gabriel, 2012). Calabar, the most advanced free trade zone, has also attracted significant FDI, including a proposed investment portfolio by General Electric of N$250 million, and Wilmar International Ltd with a proposed investment of N$200 million (Cross River State Investment Promotion Bureau, 2014). Overall, based on the huge potential inherent in free trade zones, about $9.4 billion (N1.5 trillion) worth of investments have been attracted to the country through the operation of free trade zones.

Source: *Nigeria Export Processing Zones Authority, Annual reports.*

integrated one-stop-shop facility at management level to handle all free zone matters speedily.

7. Boosting remittance flows

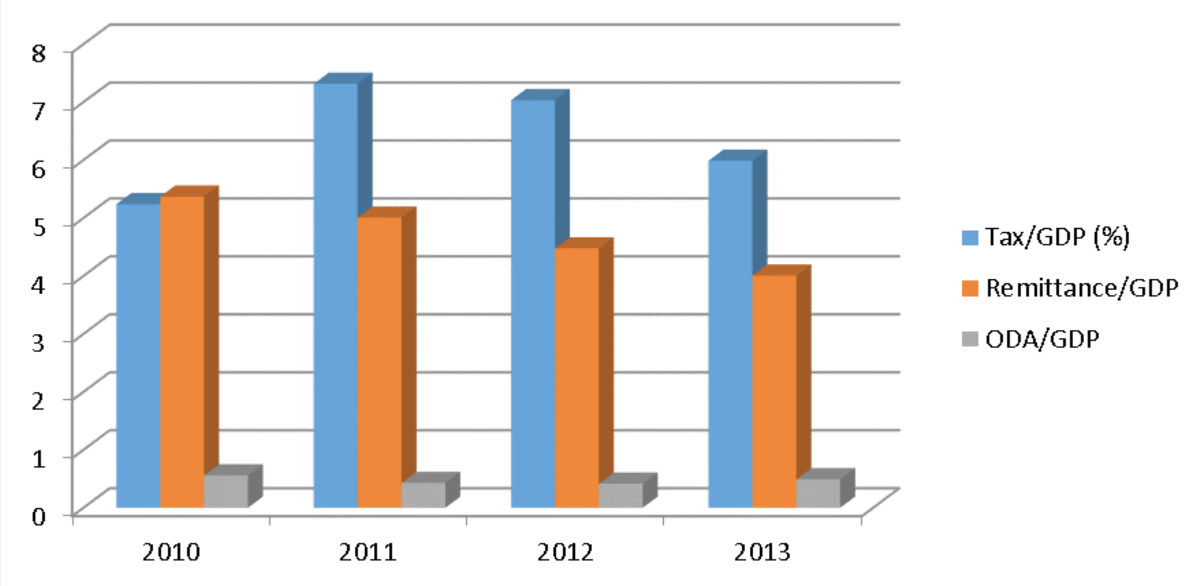
Like Ethiopia and Morocco, Nigeria is among the top recipients of officially recorded remittances because of the huge numbers of Nigerians living and working abroad. World Bank data show that remittance flows to Nigeria reached $21 billion in 2013, with real volumes being potentially much larger. For many Nigerian households, remittances are a tremendously important source of finance and foreign exchange, helping to stabilize irregular incomes, supplement weaknesses in social protection mechanisms, and build human and social capital.

These flows are fast becoming a good source of finance when compared to FDI and ODA and are the second highest source after tax revenues. For example, in 2013, international remittances in Nigeria were four times total FDI inflows and ten times higher than ODA (figure V.11). The estimated value of international remittances in 2014 was $33 billion, projected to reach $34 billion in 2015. The sources of international remittances to the Nigerian economy are spread across Europe, North America, Asia and the Middle East.

Unless remittances are channelled into productive consumption, investments or savings, the developmental reach is limited. Remittances as private flows are too often used to supplement household income so, rather than targeting them for development-related issues, Governments should offer incentives for indirect allocation of such transfers to productive or income-generating channels, rather than immediate but unnecessary consumption. Examples include financial services that encourage savings such as high-interest bearing accounts for remittances, and concessional loans for those with fixed savings accounts, providing collateral for credit facilities.

However, even considering these opportunities, the cost of transfers have remained very high in Nigeria because of regulatory restrictions and the prevalence of monopolies, including banks and a few money transfer operators enjoying exclusivity deals with banks. For example, nearly 80 per cent of transfers are handled by a few transfer operators. Since banks are the only entities allowed to pay money transfers, all official flows end up being handled by a small group of financial institutions that rely on approximately three money transfer operators (IFAD, 2014). There is global consensus on the need to reduce the cost of remittances, as reflected in the Addis Ababa Action Agenda, July 2015.

Figure V.11
Remittances and other sources of finance in Nigeria (percentage of GDP), 2010-2013



Source: *Computed from statistics obtained from the Central Bank of Nigeria Statistical Bulletin and World Bank (2015b).*

E. Conclusion

The country experiences highlighted in this chapter illustrate the complexities of attracting and utilizing in a productive manner domestic sources of finance other than public revenues generated through taxation. Measures the countries have taken include:

- Ethiopia's active engagement with the diaspora and South-South partners to tackle infrastructure shortages in the country; and its unorthodox approach to protecting its growing banking industry to boost and safeguard access and growth potential. Despite the fact that Ethiopia does not have a stock market, the Government has sought to mobilize the savings in pension and insurance funds through investments in long-term assets, venture capital and lease companies. The result in an increase in investments in government bonds, Treasury bills, Government-guaranteed loans and time deposits in banks, thus reducing reliance on external financing;

- Morocco's efforts to ensure that domestic industry is not only thriving but has access to wider markets through trade agreements. Both Morocco and Nigeria have tackled inefficient fuel-related subsidies, saving hundreds of millions of dollars;

- Nigeria: implementation of stock market reforms and steps taken to strengthen the country's stock market through subregional initiatives. In both Nigeria and Morocco, private equity is also fast becoming an alternative to traditional bank credit for small and medium enterprises and new companies.

The shortcomings associated with the traditional source of domestic resources have made emerging and innovative sources of domestic finance attractive. International financial markets are a largely untapped pool of capital to finance the structural transformation of Africa, while institutional investors also have the potential to provide an additional source of long-term finance. The private sector therefore has a role to play, not only in raising the resources required to finance the structural transformation agenda of the region, but also in enhancing the competitiveness of the industrial base in Africa. Strategic investments for structural transformation are discussed in the next chapter.

VI. Strategic investments for structural transformation

A. Introduction

Previous chapters have explored how the selected countries have mobilized domestic resources and their experiences in channelling resources to finance development, particularly in the sectors believed to drive transformation and generate employment opportunities. The importance of these sectors in boosting GDP growth was examined in chapter 1. This chapter looks at: what the countries have done specifically to direct resources to productive and transformative sectors; what has been achieved; and what lessons can be drawn going forward. It must be stated at the outset that resources alone are not sufficient to generate sustainable and dynamic growth in any sector. Strong development plans supported by sound, transparent and responsive institutions are key to leveraging country-specific strengths and establishing complementary industries, forward and backward linkages, and market opportunities. The objective of this chapter is not to assess the effectiveness of policy actions, but to document issues that could serve to highlight important areas for consideration for policymakers embarking on or in the process of implementing industrial policy.

B. Scale of investment

The strategic role of investment in the development process has been documented in a number of empirical investigations. For example, using cross-country data, Mijiyawa (2013) finds that investment, credit to the private sector, government effectiveness, exports and the share of agricultural value added in GDP are significant growth determinants in Africa. Ghazanchyan and Stotsky (2013) also report that investment boosts growth in Africa. However, the current pattern of economic growth in Africa has not been accompanied by significant improvements in investment rates. According to UNCTAD (2014a), the investment rate in Africa was 17.7 per cent between 1990 and 1999 and increased slightly to 18.7 per cent between 2000 and 2011. Africa has low investment rates compared to the average for developing countries. In the period 2000–2011, the average investment rate for Africa was about 19 per cent, compared to 26 per cent for developing economies (UNCTAD, 2014b)

With regard to the case-study countries, Morocco and Ethiopia exhibited consistently high gross capital formation/GDP ratios that exceeded the 26 per cent average for developing economies in 2000-2011; Ethiopia and Morocco have an average investment rate of 36.2 per cent and 31.1 per cent respectively, compared to 16.9 per cent for Nigeria (calculation based on World Bank's Development Indicators (World Bank, 2014b).

C. Composition of investment

Turning to the institutional composition of investment, table VI.1 reveals that, similar to the

Table VI.1
Average institutional composition of investment in Ethiopia, Morocco and Nigeria, 2000-2012.

	2000-2012			
	GFCF as percentage ageof GDP		Shares GFCF of total	
Country	Private	Public	Private	Public
Africa average	13.4	7.5	64.1	35.9
Ethiopia	7.9	15.1	34.3	65.7
Morocco	24	4.6	83.9	16.1
Nigeria	8.1	5.5	59.6	40.4

Source: *Computed from data obtained from World Bank (2014b).*

African average, public sector investment rates in Nigeria and Morocco are far lower than the private sector investment rate. In Ethiopia, however, growth in the last two decades has been driven mainly by public investment.

From a policy perspective, it is helpful to understand how the three countries have focused their interventions to stimulate investment and whether these government efforts have accorded due attention to the impact on structural transformation

D. Ethiopia

Ethiopia's Growth and Transformation Plan 2010-2015 is a medium-term development framework continuing from the Plan for Accelerated and Sustained Development to End Poverty 2005-2010, which was developed to guide Ethiopia towards achieving the long-term vision of becoming a middle-income country and ending poverty.

Ethiopia's strategy is based on a State-led development process that would sustain the rapid and broad-based growth path achieved during the 2005-2010 plan leaning on pillars of sustaining faster and equitable economic growth, and supporting agriculture and industrial development through enhanced infrastructure services. It is also enhancing the expansion and quality of social development, building capacity and deepening good governance, and promoting the empowerment of women and youth and equitable benefit.

1. Catalysing agricultural development-led industrial transformation

Transforming the agricultural sector is at the heart of Ethiopia's structural transformation agenda (Ministry of Finance and Economic Development, 2010), and the country's aspiration of achieving overall economic growth largely depends on the performance of this sector.[14] To this end, the Ethiopian Government has been implementing an agricultural development-led industrialization strategy in various forms and phases over the last two decades. Increased export earnings have provided the resources needed for some investments that require imported goods. Ethiopia's major exports are coffee, oil seeds, gold, chat (khat), pulses, cut flowers, and live animals. It experienced high growth in exports due to the upward price trends between 2003 and 2012. However, the recent drop in prices of key commodities has led to the worst export performance since 2013. This highlights the vulnerability of Ethiopia's exports and the importance of improving diversification and strengthening competitiveness.

The commitment of the Growth and Transformation Plan to supporting the private sector in large-scale commercial farming was characterized by a large State-led and financed development model, based on the assumption of a major jump in the size of private investment in the sector. To facilitate this the Government made over 2.3 million hectares of land available to commercial farming investors (United States State Department, 2015). The overall target set for the sector was a minimum growth rate of 8.1 per cent per annum while subsectoral targets included tripling the number of farmers receiving relevant extension services and more than doubling the production of key crops (Ministry of Finance and Economic Development, 2010). In order to reach these targets, Ethiopia channelled over 21 per cent of its budget into the sector over the Growth and Transformation Plan period, dwarfing the continental average of only 4 per cent (Overseas Development Institute, 2015)

Private investment has also been attracted to Ethiopian agriculture. Schulze Global Investments, the first international private equity firm to open an office in Ethiopia in 2008, launched the Ethiopia Growth and Transformation Fund in 2012. This is the first ever private equity fund devoted solely to Ethiopia. It completed a $86.5 million fundraising process in 2014. More private equity funds are focusing on Ethiopia, investing in agriculture, manufacturing, real estate, tourism, health care

14 Ethiopian agriculture is dominated by a subsistence, low input-low output, rain-fed farming system. Expansion of the cropped area to more marginal lands has led to severe land degradation in some areas, while periodic drought has reversed agricultural sector performance gains with devastating effects on household food security and poverty levels.

and education. There are, however, challenges to private equity, including an ambiguous regulatory context, a weak and uncompetitive business environment, limited exit and income repatriation options, currency convertibility constraints coupled with the constant shortage of foreign exchange reserves, and the paucity of credit coupled with the small size of Ethiopian businesses (Overseas Development Institute, 2015).

As Ethiopia approached the end of the first phase of the Growth and Transformation Plan, the Government called for consultations prior to roll-out of the second phase to evaluate the performance of the sector. During the consultations, the Government acknowledged the various shortcomings of the sector's performance and pledged to prioritize private sector engagement, modernize farming technologies and boost input utilization (Ethiopian Broadcasting Corporation, 2015)[15] to improve agricultural output in the second phase and reach the sector's potential as the major factor in achieving the projected double-digit economic growth and structural transformation.

2. Developing vibrant and sustainable manufacturing and services sectors

The second priority focuses on accelerating and enhancing the development of the industrial sector as a key driver of economic growth. Accordingly, concerted efforts have been made to intensify the development of the small and medium enterprises sector, the most important subsector for employment generation (Ministry of Finance and Economic Development, 2010). Attention has also been given to the development of medium and large enterprises. Complementary to these areas is the strong emphasis on increased infrastructure investment to ensure the provision of transport, communications and energy services to facilitate the expansion and diversification of the industrial sector.

15 Speech of Prime Minister Hailemariam Desalegn, available from http://www.ena.gov.et/en/index.php/economy/item/1286-increasing-private-sector-engagement-in-agriculture-key-in-2nd-gtp.

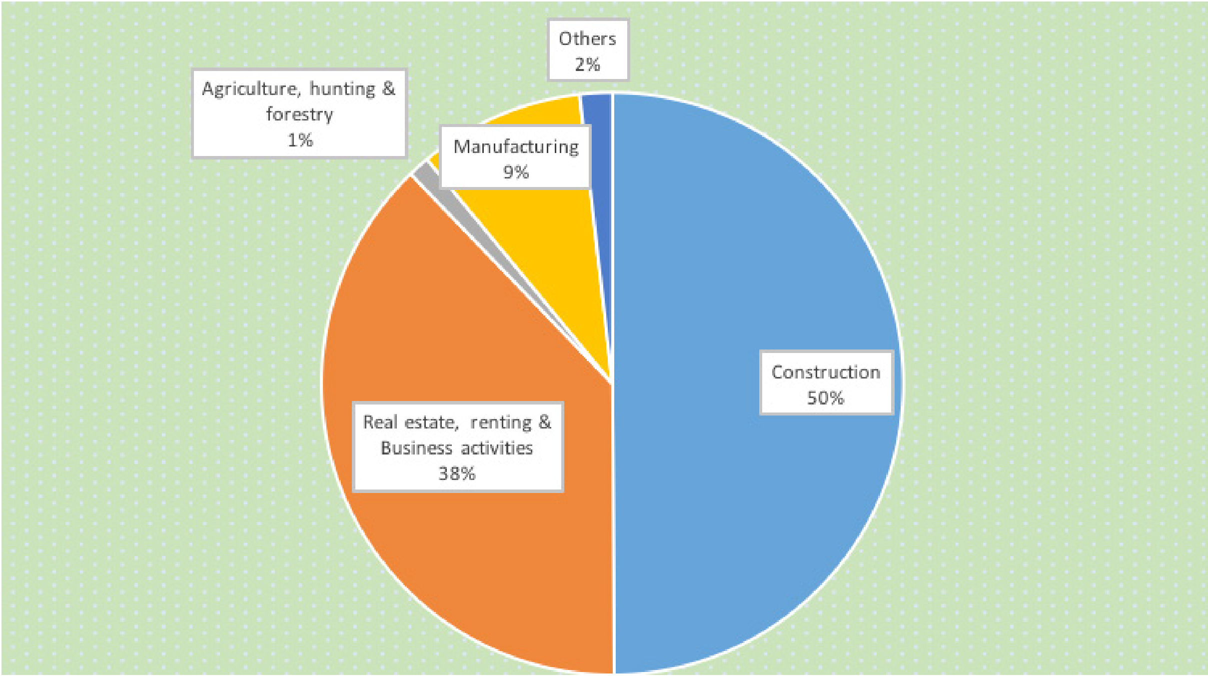
These measures have resulted in an expansion of industry, especially light manufacturing, focusing on sectors prioritized by the Government, such as leather and textiles. In its effort to become a manufacturing powerhouse, Ethiopia is implementing an ambitious industrial park programme hinging on attracting FDI to the export-led and labour-intensive manufacturing sector that builds on the country's agricultural foundations by moving toward new tradable activities. Ethiopia has abundant low-cost labour, giving it a comparative advantage in less-skilled, labour-intensive sectors, and abundant natural resources that can provide valuable inputs for light manufacturing industries serving both domestic and export markets. As a result, the country has experienced significant growth in various light-manufacturing sectors, such as leather shoes and textiles.

The focus of the first phase of the Growth and Transformation Plan (2010/11-2014/15) was on infrastructure and capacity development while the second phase (2015-2020) is expected to concentrate on mechanisms to increase manufacturing and agricultural exports. The Plan's overarching focus will shift slightly to improving the quantity and quality of social services and infrastructure, ensuring macroeconomic stability and enhancing productivity in agriculture and manufacturing.

Between 1992 and 2013, approximately 69,000 investment projects with an aggregate capital of Br1.3 trillion (approximately $71.4 billion) were licensed. Of these, 58,735 (85 per cent) were domestic, 14.8 per cent foreign, and the remaining 0.2 per cent public. In terms of capital, domestic investors accounted for 38.8 per cent, foreign investors for 38.6 per cent and the public sector for 22.6 per cent (National Bank of Ethiopia, 2015) .

In 2013, a total of 7,011 investment projects with a total capital of $6.2 billion were approved. The number of domestic investment projects reached 6,273, accounting for more than 89.5 per cent of total projects approved, whereas foreign projects reached 722 (10.5 per cent). In terms of investment capital, domestic private projects made up 31.1 per cent of total approved investment capital,

Figure VI.1
Distribution of investment by sector in 2013/14



Source: *National Bank of Ethiopia, 2015.*

while foreign investment projects accounted for 44.2 per cent and the remaining 24.8 per cent were public investment projects. The approved investment projects are expected to create job opportunities for 125,658 permanent and 255,931 casual workers (National Bank of Ethiopia, 2014).

Sectoral distribution data for 2013/2014 indicate that the construction sector accounted for 49.9 per cent, real estate, renting and business activities for 37.9 per cent, manufacturing for 9.2 per cent, agriculture, hunting and forestry for 1.2 per cent, and the remaining sectors for 1.8 per cent of total investment capital (figure 6.1). This distribution indicates that investment in Ethiopia targets a broad range of sectors.

FDI plays an important and increasing role in the Ethiopian economy. In 2013, it increased by $700 million over the previous year, making Ethiopia rank third (after South Africa and Angola) among African countries that experienced a substantial increase in FDI in 2013.

These inflows reached a new record of $953 million in 2013, up by 242 per cent from the previous year. This substantial increase in FDI inflows is attributed to the recent Ethiopian industrial strategy that attracted Asian capital to develop its manufacturing base (UNCTAD, 2014c). In 2013, China's Huanjin Group opened its first factory for shoe production, with a view to establishing a $2 billion hub for light manufacturing. In the same year, Julphar of United Arab Emirates, in conjunction with Medtech (a local partner in Ethiopia), officially inaugurated its first pharmaceutical manufacturing facility in Africa in Addis Ababa. Julphar's investment in the construction of the plant is estimated at around $8.5 million

3. Infrastructure

Tackling Ethiopia's infrastructure deficit will require sustained annual expenditure of $5.1 billion over the next decade, a level of spending that represents 40 per cent of the country's GDP. While removing inefficiencies in power generation and distribution, improving road maintenance, and privatizing information and communication

technology services could shrink the gap, the country would still need a significant increase in its already bulging infrastructure budget (Foster and Morella , 2010). Currently, Ethiopia is spending $1.3 billion annually, which is 10 per cent of its GDP, the highest percentage in Africa.[16]

So far infrastructure financing in Ethiopia has been traditional, shared between aid, foreign loans and public investment.[17] The country has a good record in implementing successful infrastructure projects. The success of the state-owned and managed Ethiopia Airlines, a leading regional carrier, a number of hydroelectric dams, and water and sanitation infrastructure expansion are among the achievements of the last two decades.

Furthermore, a number of mega projects are emerging under the umbrella of the Growth and Transformation Plan. The Grand Renaissance Dam, due for completion in 2017, is expected to generate 6,000 megawatts of electricity. This $5 billion project, is mainly funded by Ethiopia, 80 per cent of the financing coming from taxes and the remaining 20 per cent through bond issues, and is expected to earn Ethiopia in excess of $1 billion a year and establish the country as a principal exporter of hydroelectric power (White and Kitimbo, 2015). The reluctance of traditional financers to invest in the dam because of concerns about regional political ramifications and its potential environmental impact, has resulted in a new and unorthodox approach to mega-project financing which, if successful, could inspire a new trend in Africa. Free from the usual requirements and restrictions of traditional western financers, the dam has allowed Ethiopia to involve local contractors such as METEC[18] in the execution of major project components, thereby building local capacity and fostering key knowledge transfer. The economic spin-off from the electricity that will be generated, particularly its impact on the manufacturing and industrial sectors, is projected to be enormous. Ethiopia is also looking beyond its hydropower potential in its pursuit of clean energy. In early 2015 the 153MW Adama wind farm, the second largest in Africa and the country's second, went into operation. Another wind farm with a capacity to generate 300MW is due to be constructed near the Djibouti border using Chinese loans and technology (ESI Africa, 2015).

Another mega-project is the new 750km railway line connecting Ethiopia and Djibouti, on schedule to open in early 2016 following tests in the third quarter of 2015. This $4 billion project, financed through loans from three Chinese banks,[19] is being built by China Railway Engineering Corporation and China Civil Engineering Construction (Ministry of Foreign Affairs, 2015). The project, labelled a game-changer by the state-owned Ethiopian Railways Corporation, will connect the Djiboutian ports of Doraleh and Tadjourah with the Ethiopian highlands, halving the current travel time for freight and passenger services (Economist Intelligence Unit, 2015). The railway is expected to provide Ethiopia's budding manufacturing industries with a quicker, more reliable route to export markets, and eventually make it one of the most vibrant economic corridors in the world.

The recent completion of Addis Ababa Light Rail, which cost $475 million with China's Exim Bank granting 85 per cent in loans, is expected significantly to ease Addis Ababa's traffic congestion, transporting over a million people a day. The management of the system has been contracted out to two Chinese companies[20] with a view to building the capacity of the Ethiopian

16 "Ethiopia's Expenditure On Infrastructure Highest in Africa", 18 December 2012, available from http://allafrica.com/stories/201212180890.html.

17 About 75% of the road sector development program financing comes from internal sources while the remaining 25% is financed by the development partners (Government of Ethiopia, Ministry of Transport, Ethiopian Roads Authority, 2013), the road network of the country increased to 99,552 km in 2014,up from only 26,550 km in 1997 (http://aigaforum.com/article2016/Ethiopias-investment-in-access-to-roads.htm).

18 The Metals and Engineering Corporation (METEC) was set up by the Government as an umbrella organization for 15 manufacturing companies in order to enable implementation of the Growth and Transformation Plan and to accelerate the ongoing transition to industrialization and middle-income country status. METEC is a divisive entity viewed by many with suspicion because of the lack of transparency surrounding its establishment and operations.

19 The Exim Bank of China, the China Development Bank, and the Industrial and Commercial Bank of China.

20 Chinese Shenzhen Metro Group (SZMC) and China Railway Engineering Corporation (CREC).

Railways Corporation to operate and maintain the rail transit system before an eventual takeover (CCTV 2015). The external financing models of many of Ethiopia's infrastructure projects illustrate the country's preference for loan financing from Asia (particularly China) when available, with the trend likely to continue following the recent announcement by China of its plan to loan a staggering $1 trillion under its One-Belt–Road programme[21] for infrastructure projects in developing countries over the next decade (Capital, 2016).

There is also evidence that the Ethiopian infrastructure financing landscape is changing with an unprecedented shift towards private sector participation. In 2013, the Government and Corbetti Geothermal Plc[22] signed a power purchase agreement to build and operate up to 1,000 MW of geothermal power in two 500 MW phases by 2018 (www.icelandgeothermal.com, 2013). Ethiopia's ambitions go beyond this, however, with plans to sell power to neighbouring markets and further afield, with Yemen and Turkey in its sights. Another example is the Koshe Waste-to-Energy plant development agreement signed with Cambridge Industries Limited, a United Kingdom-based firm. Under the terms of this agreement, the Ethiopian Electric and Power Corporation will finance the entire $120 million cost of the facility with a capacity to generate 50MW power, while Cambridge Industries will supply the technology and management of what is to be the first waste-to-energy facility in sub-Saharan Africa (Ethiopian Electric and Power Corporation, 2013).

Public-private partnerships are emerging in a number of areas such as irrigation, housing, agro-processing, exhibition centre management, pre-paid metering, unified billing, dry waste management and recycling (Addis Ababa Chamber of Commerce and Sectoral Association, 2011). The estimated resource generation of such partnerships in infrastructure development is $270 million per year (UNDP Ethiopia, 2012), although implementation remains a challenge. There are increasing calls for the establishment of a specific public-private partnership facility to enhance capacity, act as the key point of contact to facilitate the coordination of such projects and develop appropriate legislation and regulatory frameworks (UNDP Ethiopia, 2012).

21 The programme is part of the new Chinese external assistance policy.

22 Investors include the United States of America-Icelandic-based Reykjavik Geothermal, Berkeley Energy, and Iceland Drilling.

E. Morocco

Morocco is classified as a lower middle-income African country with an annual per capita income of $3,000 (World Bank, 2014b). There is a clear trend towards urbanization: while about 75 per cent of the population was rural in the 1950s, since the mid-1990s the population has been predominantly urban, with the rural population representing only 43 per cent of the total in 2010 (AfDB, 2013).

The country has experienced sustainable economic growth for the past two decades, despite successive external shocks, including the euro zone crisis and volatile global markets. This encouraging growth performance has been assisted by political and social stability. Through a more peaceful vision of change, the country managed to avoid the regime change that toppled long-standing leaders of Tunisia, Egypt and Libya in 2011. Morocco has not, however, solved the problem of youth unemployment (ages 15-24), which reached 19.1 per cent in 2013 (African Economic Outlook, 2014).

Following two decades of externally imposed structural adjustment programmes, the Government began to take a more active role in the economy in the early 2000s, adopting an interventionist approach by targeting promising sectors.

In 2005, the Government adopted the Emergency Plan, aiming to increase growth by 1.6 per cent per year over the next ten years and to create an additional 440,000 new direct and indirect jobs (Morocco, Royal Institute of Strategic Studies, 2014). The Emergency Plan was reinvigorated into the National Plan for Industrial Emergence, adopted in 2009 for a period of seven years

(2009-2015), to spur industrialization through the creation and promotion of tech parks, new generation of industrial zones, trade facilitation measures and provision of training and skilled labour. To achieve these goals, six areas were targeted for support: the automobile, electronics, aeronautics, textile, agribusiness and business process outsourcing sectors (National Plan for Industrial Emergence, accessed November 2014).

During implementation of the plan, a number of challenges were identified, including a lack of coordination between the different ministries and departments, skills shortages and the need for a more effective approach to the chronic problem of youth unemployment. In order to tackle these challenges, it was replaced in 2014 by the Industrial Acceleration Plan 2014-2020.

1. Restructuring the contribution of the agricultural sector

The agricultural sector accounts for 19 per cent of GDP, divided between agriculture (15 per cent) and agro-industry (4 per cent) (Ministry of Agriculture and Fisheries, 2015). This sector employs over four million people, about 100,000 of them in agro-industry. The Green Morocco Plan launched in 2008 aims to make agriculture an engine for socioeconomic development by tackling challenges related to competitiveness on and access to international markets. The Green Morocco Plan is expected to contribute DH174 billion, create 1.15 million jobs and triple the income of nearly three million people in rural areas by 2020 (Ministry of Agriculture and Fisheries, 2015).

This Agricultural Strategic Plan focuses on two pillars: accelerated development of modern and competitive agriculture, vital for the national economy, through the implementation of a thousand new projects with high added value in both production and agro-food; and supporting smallholder agriculture through the implementation or professionalization of 545 projects of small farms in difficult rural areas, thereby promoting greater productivity, greater recovery of production and sustainability of farm income (Ministry of Agriculture and Fisheries, 2015).

The Plan was characterized from the outset by a high level of coordination, bringing together experts from the various fields concerned to ensure effective implementation, with the support of donors. The plan is considered one of the most successful strategic development plans for various sectors in Morocco. Overall agricultural output increased by 43 per cent between 2008 and the end of 2012, while sector GDP rose by 32 per cent (Moroccan Investment Development Agency, 2014).

The planned total investment is about DH10 billion per year up to 2020, which may result in the creation of six agricultural centres. According to the Ministry of Economy and Finance,[23] the Government mobilized nearly 66 billion dirhams for the period 2009-2015 under the Green Morocco Plan, which also benefited the Hassan II Fund (DH800 million over four years) and the Rural Development Fund. Driven by the credibility of the Green Morocco Plan, the potential of Moroccan agriculture and government investment incentives, domestic banks have developed financing solutions tailored to farmers' needs, while international funding partners have contributed significantly to the tune of about DH12.3 billion (5.3 billion in grants and 7 billion in loans). The funding mobilized will allow the construction of agricultural centres linked to food quality centres, and logistics and commercial centres for local products (in the regions of Berkane, Meknes, Tadla and Hoceima).

Implementation of the Green Morocco Plan has had very satisfactory results. Agricultural value added grew by an average of 6.7 per cent annually from 2008 to 2014, compared to 3.9 per cent for the rest of the national economy. Agricultural GDP per capita rose by 48 per cent in rural areas, reaching DH8,000 in 2014, helping to alleviate rural poverty and cutting the proportion of the population suffering from malnutrition and hunger. Agro-industry registered average growth of 7 per cent

23 Available from http://www.finances.gov.ma/fr/Pages/Strat per centC3 per centA9gies/Strat per centC3 per centA9gie-de-d per centC3 per centA9veloppement-agricole--le-Plan-Maroc-Vert.aspx?m=Investisseur&m2=Investissement.

over the period 2011-2014 and accounted for nearly 30 per cent of industrial sector value added, 12 per cent of industrial exports and 23 per cent of industrial sector employment.

The Plan also boosted the external competitiveness of Moroccan food products, illustrated by an increase of 34 per cent in food exports since 2008. This made Morocco the third largest exporter of food products in the Middle East and North Africa region and the fourth largest exporter in Africa. Morocco is currently the third largest exporter of canned olives and the fifth largest exporter of tomatoes in the world. Through the Plan, agriculture became less dependent and vulnerable to climate hazards by increasing the proportion of high added value crops more resilient to drought than cereals. Such crops now account for 70 per cent of agricultural value added. The good performance of the agricultural sector can also be attributed to the National Plan for Water-Saving Irrigation, which has been implemented since 2008 and has resulted in a 127 per cent increase in the micro-irrigation area (about 410,000 ha), nearly 75 per cent of the target of 550,000 ha. (Ministry of Economy and Finance, 2015b).

2. Transforming the manufacturing and services sectors

Driven by the various strategic plans in agriculture, industry, services and infrastructure, the Government has made remarkable public investment efforts over the last decade. Total public investment increased from DH167.3 billion in 2011 to DH189 billion in 2015, an increase of about 12.9 per cent, and the rate of implementation also improved significantly from 64.6 per cent to 68.59 per cent between 2011 and 2014 (Ministry of Economy and Finance, 2015b).

A distinctive feature of strategic planning in Morocco is the role of leading public institutions in helping companies and sectors to achieve the strategic objectives identified in the Plan for Industrial Emergence. A central institution assigned the role of mobilizing resources for investment is the Deposit and Management Fund. Box VI.1 highlights the dual role played by Deposit and Management Fund in mobilizing savings and as a strategic investor.

Industry has undergone structural changes in recent years with an increasing focus on value-added exports in manufacturing. The transformation has been manifest in the move away from traditional sectors such as textile, leather and agro-industry to high value-added sectors such as the automotive and aeronautics industries. Recent figures by the High Commission for Planning show that, although the industrial sector added 5000 jobs in 2012, its growth was weak, especially in manufacturing, a sector that has been in constant decline for nearly two decades (Morocco, Oxford Business Group, 2014).

Traditional industries have declined most in recent years. The textile industry has been the worst performer as a result of competition from lower-cost Asian exports.[24] Agro-industry and the chemical sector have remained stagnant. The best performing sectors in 2012 were automobile and tobacco manufacturing, which increased by 2 per cent and 2.9 per cent. (Morocco, High Commission for Planning, 2014; Moroccan Investment Development Agency, 2013).

The skills deficit is a major challenge to economic transformation in Morocco. The manufacturing sector is characterized by an unskilled labour force and limited investment in research and development. A survey conducted by the High Commission for Planning in 2012 revealed that seven out of ten households said finding a job was a worry. The survey also highlighted the major challenge of unemployment in a young country, African Economic Outlook and World Bank statistics in 2013 estimating youth unemployment at 19.1 per cent and 30 per cent respectively. This structural difficulty is illustrated

24 Morocco gradually lost its comparative advantage in European markets when quotas on exports from Asian Pacific countries were removed by the European Union and with the gradual extension of tariff preferences to comply with World Trade Organization rules since 2005. The loss of competitiveness is also explained by production cost gaps. For example, some countries, such as Romania, have production costs 30 per cent lower than Morocco (Royal Institute of Strategic Studies, 2014).

when one considers that according to the High Commission for Planning data, in 2010, 77.6 per cent of the unemployed who attained higher education have been unemployed for at least one year, and their average duration of unemployment is 40.2 months, that is, even more than three years (Morocco, High Commission for Planning , 2010). In these circumstances, what can be anticipated is not only a situation of unemployment and underemployment for higher education and upper secondary school leavers, but also a gradual downgrading of graduates of the various education levels as was highlighted in studies undertaken on comparative studies on Science and Math (AfDB, 2013). This mismatch between the skills produced by the higher education system and the needs of the manufacturing sector 2002 has somewhat constrained Moroccan industries from shifting to quality-based competitiveness. Most industries have therefore had to compete in global markets on the basis of cheap, uneducated labour.

The service sector consists mainly of tourism, telecoms, information technology and the retail industry. Tourism is the largest source of foreign currency, more than nine million tourists visiting Morocco in 2012, when tourist receipts totalled $8.5 billion. The information technology sector has expanded significantly since the 2000s. Morocco was the first North African country to establish a 3G network. In 2013, the number of Internet subscribers increased by 23 per cent over the previous year and was 100 per cent higher than in 2006.

The retail industry represents 12.8 per cent of Moroccan GDP and 13 per cent of the total workforce were employed in the sector in 2013 (AAFC 2014) . Organized retail, however, represents only a fraction of domestic trade. The rapid emergence of a middle class – around 30 per cent of the population – combined with a young and increasingly urban population and a craving for international brands, is rapidly changing the ways Moroccans spend their money. Average purchasing power remains low overall, forcing retailers to cater to a broad section of the population and to keep prices low. Despite the challenges, the retail sector has strong growth potential.

3. Attracting foreign investment

In 2013, FDI flows were nearly 20 per cent higher than in 2012 due to the improved business environment, and Morocco was able to attract 25 per cent of all FDI going to North Africa. According to Glocalup (2014) Morocco became the second most attractive country for FDI in Africa in 2013-14, attracting 8.3 per cent of all such flows to the continent. In addition to political stability, proximity to the European Union, reliable infrastructure (ports, public transport, telecommunications networks) and tax-exempt free trade agreements with 55 countries (including the European Union, the United States, Turkey, and several Arab countries), its increased ability to attract investment is attributable to the intensive business environment reforms under the National Pact for Industrial Emergence 2009-2015. The Pact, Morocco's industrialization policy, has mobilized DH16.4 billion towards its implementation with a state contribution of DH12.4 billion, 33 per cent of it for training and 24 per cent for investment incentives. In 2012, industry attracted the largest share of FDI, nearly DH8 billion, about 26 per cent of the total.[25]

The National Commission for Environmental Affairs introduced several reforms to facilitate the business creation process, which resulted in Morocco rising 21 places in the World Bank Doing Business ranking between 2011 and 2012, and from 94th position in 2012, to 71st of 189 countries in 2015 (World Bank, 2014a). Furthermore, in the spirit of attracting investment, the Industrial Emergence Plan led to the establishment of the Moroccan Investment Development Agency and the Industrial Integrated Platforms. The Agency raises awareness of the regulatory framework and investment opportunities in Morocco, assists the administration process of investments and

25 Available from http://www.finances.gov.ma/fr/Pages/Strat per centC3 per centA9gies/Pacte-National-pour-l per centE2 per cent80 per cent99Emergence-Industrielle.aspx?m=Investisseur&m2=Investissement.

builds international-local partnerships, while the Platforms support investors by offering appropriate real estate options, infrastructure, general and technical services, and a single administrative window grouping the various essential services relevant for investors, and specialized training institutes and the development of apprenticeships (Moroccan Investment Development Agency, 2014).

The sectors attracting FDI have changed considerably over the last few years. In the early 2000s, 80 per cent went to telecommunications but, by 2003, the industrial sector had taken over as the leading sector, absorbing 80 per cent. However, after a new policy on FDI was adopted in 2007, the real estate and tourism sectors fast became the most important sectors for foreign investors (Ministry of Economy and Finance, 2015c). Despite the healthy investment culture in Morocco, the global financial crisis demonstrates the risk of over-reliance on external flows because of its susceptibility to exogenous shocks. In addition to institutional reforms, Morocco continues to diversify income flows to mitigate this risk.

4. Strengthening infrastructure to support transformation

The Government recognizes the vital role of infrastructure in structural transformation and has not neglected it. Investment in transport infrastructure has increased significantly from DH27 billion in 1998-2002 to an estimated DH166 billion in 2012-2016 (figure 6.3). Over the period 1998-2016, the logistics sector is set to receive the largest share of investment at DH63 billion, followed by harbours at DH8.5 billion (figure VI.4).

In order to foster the use of digital technology the Government implemented a national strategy called "Morocco Numeric 2013" (2008-2013) with a budget of DH5.2 billion to develop four areas: broadband, e-government, the local track of information technology and computerization of small and medium enterprises.[26] Thus, the fixed

26 Ministry of Industry, Trade, Investment and the Digital Economy, 2008.

Box VI.1
Strategic role of public institutions in mobilizing resources and investment in Morocco: the case of the Deposit and Management Fund (CDG Group)

The Deposit and Management Fund is a public financial institution established by Royal Decree on 10 February 1959, with the primary objective of receiving, safeguarding, and managing savings resources that require specific security. Its ultimate purpose is to play an active role in the economic and social development of the country by supporting public development policies.

The main mission of the Fund is efficient long-term savings mobilization (through savings accounts, pension funds, deposits by the legal profession, and consignments) and ensuring that these funds are efficiently allocated to development projects profitable to the country's economic development. These development projects include financial markets, infrastructure, territorial development, corporate financing, and housing. The country needs large investments in many areas (including infrastructure, energy, utilities and communities) for which the Fund creates special investment instruments.

The Fund is now the leading institutional investor in the Morocco and a major player in the national economy. It is now a key player in the pension management sector and the consolidation of the financial and banking sectors and a leading operator in regional and sustainable development. With its subsidiaries, it provides support to public development policies and local government, and conducts business in the finance, real estate and services fields.

The Fund is organized around four core lines of business activity: deposits and consignments; provident and pension funds; banking, finance, and insurance; and regional and sustainable development (incubation, design and planning, development, management of services, territorial projects, timber, mixed corporations, and hotel management). Its subsidiary banking and financial services include CIh, CDG Capital, Sofac, Maroc Leasing, CMM, those in insurance and reinsurance include SCR, Atlanta and Sanad. Subsidiaries in the area of investment companies and funds include Fipar International, Fipar Holding, Jaida, ACAMSA, Sindibad, Fonds Capital Carbone Maroc and Cap Mezzanine. In 2013, the consolidated assets of the Deposit and Management Fund were \$20.7 billion, with deposits of \$8.8 billion and a consolidated net banking income of \$453.7 million

Source: *Presentation by CDG Group during an interview in October 2014.*

and mobile telephony base reached 45.3 million subscribers in 2013, 33 per cent above target, with an average annual growth rate of 13.2 per cent for mobile telephony, reaching 42.4 million subscribers, and -0.45 per cent for fixed, reaching 2.9 million subscribers in 2013. Furthermore, the number of Internet subscribers reached almost double the target (2 million) as a result of the expansion of mobile 3G Internet. Despite these positive trends in access, sector turnover reached only DH32.8 billion in 2013, 18 per cent less than the strategy target.

Between 2011 and 2014, about 1,511 km of highways and nearly 778 km of expressways were built and 2,100 km of other roads were strengthened and widened. The modernization of railways is illustrated by the high-speed train (TGV) connecting Tangier to Casablanca, which was 72 per cent complete by end-August 2015, and the rehabilitation and expansion projects for the Fez-Oujda, Settat-Marrakech and Casablanca-Kenitra lines. The main achievements regarding ports are the construction of the second port Tanger-Med 2, which will increase domestic capacity by five million containers; finalization of the airport infrastructure of Lagune Marchica in Nador; the planned port of Safi; the extension of Jebha port reserved for sea fishing in Tanger-Tetouan-El Hoceima; and the extension of five ports (Jorf, Agadir, Ifni, Tarfaya and Dakhla). Developments in aviation are represented by the opening of Beni-Mellal Airport and the airport construction and/or extension of air terminals (Ministry of Economy and Finance, 2015c).

Like fuel for cars, secure availability of energy is essential for socioeconomic development. Morocco has therefore adopted an ambitious energy strategy with specific targets for 2020 and 2030 (Ministry of Energy, Mines, Water and the Environment, 2013b).[27] One priority of the Strategy is renewable energy: if successfully implemented, it will increase the renewable energy share of total capacity to 42 per cent by 2020. According to the Ministry, the Investment Commission approved investment projects equivalent to DH67.21 billion in the energy sector over the period 2000-2013.[28]

F. Nigeria

1. Supporting the value-added of agriculture in the transformation process

Agriculture was a major engine of growth for the Nigerian economy prior to 2009. Its contribution to GDP averaged 31.09 per cent between 1999 and 2014, and represented over half of all employment (table VI.3). Agriculture's share of GDP has declined from 37.1 per cent in 2009 to 20.2 per cent in 2013, suggesting that production and productivity remain well below potential levels in view of the dominance of smallholder farmers. Nigeria's agricultural exports are concentrated in a narrow range of products, such as cocoa beans and the products thereof, sesame seeds, gum arabic, cigarettes, cut flowers, and cotton. Despite the agricultural sector's potential, Nigeria is a net importer of agricultural goods.

Some of the challenges confronting the sector include inadequate access to finance, low farm-mechanization, weak infrastructure, the nature of the land tenure system, problems of storage and processing facilities, poor extension activities and marketing systems. For example, between 2005 and 2010, the agricultural sector attracted on average 2 per cent of the total credit to the economy, in contrast to its average contribution to GDP of 42.2 per cent over the same period. This suggests that, despite the increased deposits and asset base of banks as a result of the recapitalization policy, the real sectors still suffered from limited access to credit. The low credit to the sectors by the commercial banks has been attributed to several factors, including inherent risk and insufficient collateral, poor managerial ability, low ability to repay, unfavourable growth prospects in the sector, and the perception of the sector as non-strategic to the business models of the commercial banks.

27 Targets include meeting a 45 per cent increase in demand for primary energy by 2020 and a 185 per cent increase by 2030, and a 68 per cent increase in electricity demand by 2020 and a 295 per cent increase by 2030.

28 Ministry of Energy, Mines, Water and the Environment, 2013a.

Table VI.2
Tourism in Morocco

	2005	2006	2007	2008	2009	2010	2011	2012
International tourism, number of arrivals (millions)	5.8	6.6	7.5	7.9	8.3	9.3	9.3	9.4
International tourism, receipts ($billion)	5.4	6.9	8.3	8.9	8	8.2	9.1	8.5
International tourism, receipts (percentage of total export earnings)	32.7	35.5	34.5	29.1	33.3	30.2	28.6	26.5

Source: *World Bank (2014b).*

Anyanwu (2010) notes that in credit packaging, bank treasurers evaluate the safety of their funds, the liquidity of balance sheets and the profitability of proposed ventures. The smaller the asset base, the greater the weight of safety of funds in the decision-making process. Furthermore, the market-determined interest rates have tended to exclude the real sectors, especially, agriculture, from the credit market. Analysis of the National Accounts of Nigeria shows that the real sectors contribute over 60 per cent to GDP but attract only about 40 per cent of total credit (Anyanwu, 2010).

In response to the challenges impeding the growth of the agriculture sector, the Agricultural Transformation Agenda was launched as part of the Federal Government effort to revamp the sector to contribute to private sector-led agricultural growth for food security, promote agribusiness, attract private sector investment in agriculture, reduce post-harvest losses, add value to local agricultural produce, develop rural infrastructure and enhance farmers' access to financial services and markets. The Agenda has three components: infrastructure development; commodity value chain development; and programme management. It set out to create over 3.5 million jobs along the value chains of priority crops: rice, sorghum, cassava, horticulture, cotton, cocoa, oil palm, livestock, fisheries, etc.

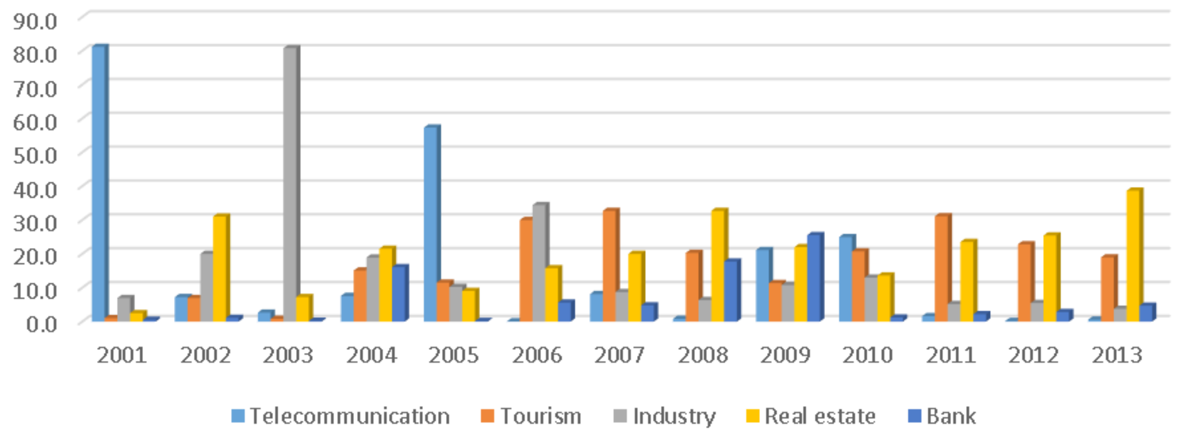
As part of the strategy, the markets for agricultural commodities are being strengthened through the establishment of commodity-marketing corporations for each commodity. The Federal Government is supporting the development of private sector-driven marketing organizations to grow agriculture. It has also allocated N200 billion for agricultural credit schemes provided through the commercial banks for commercial farmers and through state governments for smaller farmers.

2. Attracting investment to the manufacturing and services sectors

Nigeria is by far the largest recipient of FDI flows to West Africa, receiving more than 50 per cent of the subregion's total since 1999. Figure 6.5 shows total FDI in Nigeria between 1999 and 2012 and the proportion of inflows to Nigeria in relation to the rest of West Africa. It shows that Nigeria remains a top destination for investment in West Africa, receiving about 50 per cent in 1999 while receipts reached a peak of about 72 per cent in 2006. From the 2006 peak, however, the proportion of West Africa-bound investment that ended up in Nigeria declined steadily, dropping below 50 per cent for the first time in the 1999-2012 period in 2012; Nigeria received only about 42 per cent of FDI flows to West Africa in 2012.

It is important to note that, although FDI flows to Africa were generally rising in this period, the proportion Nigeria attracted did not rise. Clearly, Nigeria underperformed in this regard during this period. Several factors led to this decline: uncertainties surrounding the long-awaited petroleum industry Bill and security issues, triggering a spate of asset disposals by foreign

Figure VI.2
Share of FDI by sector (percentage), 2001 - 2013

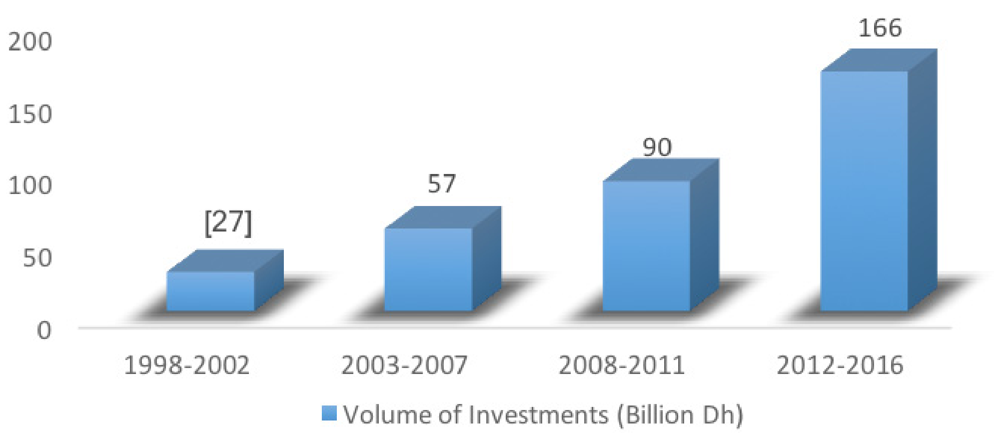


Source: High Commission for Planning.

companies; and the discovery of oil in other African countries (such as Angola and Sudan) eroded Nigeria's natural resource advantage. While divesting was ongoing in Nigeria, in 2013, Ghana and Cote d'Ivoire started to produce oil, attracting considerable investment from companies such as Royal Dutch Shell, ExxonMobil, China National Offshore Oil Company, China National Petroleum Corporation and state-owned petroleum companies in Thailand and India (UNCTAD, 2014c). Moreover, some other large African countries – examples are Egypt and South Africa – were able to attract FDI into sectors other than the extractive sector (UNCTAD, 2009).

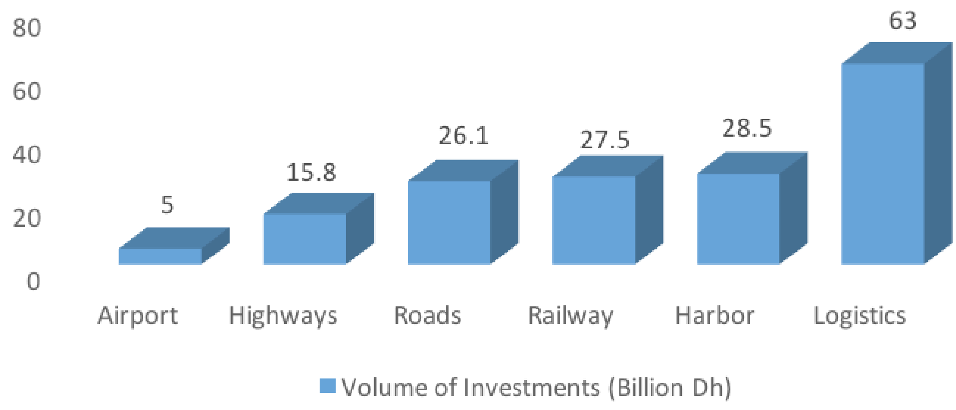
Nigeria's underperformance in attracting investment outside the oil sector is amply demonstrated by the number of major multinational companies that are not present in Nigeria but have invested in its peers. As at 2003, only 18 of the top 100 non-oil multinationals (as measured by assets held abroad) had affiliates in Nigeria, compared with 42 in South Africa 25 in Egypt, and 17 in Kenya. A total of 41 of the top 100 were present in at least one of these countries but not in Nigeria. The 41 companies represent a wide range of sectors, with pharmaceuticals and motor vehicles prominent among them. It is therefore evident that diversifying future FDI flows into the Nigerian economy means attracting world-class multinationals.

Figure VI.3
Investment in transport infrastructure (1998-2016)



Source: Ministry of Equipment and Transport.

Figure VI.4
Sectoral composition of investment in transport infrastructure (1998-2016)



Source: *Ministry of Equipment and Transport.*

Table VI.3
The structure of the Nigerian economy (percentage of GDP)

Year	Economic Sector	Mean	Minimum	Maximum
1999 - 2014	Agriculture	31.09	20.24	48.57
1999 - 2014	Industry	34.70	20.67	52.21
1999 - 2014	Services	34.21	20.54	59.10

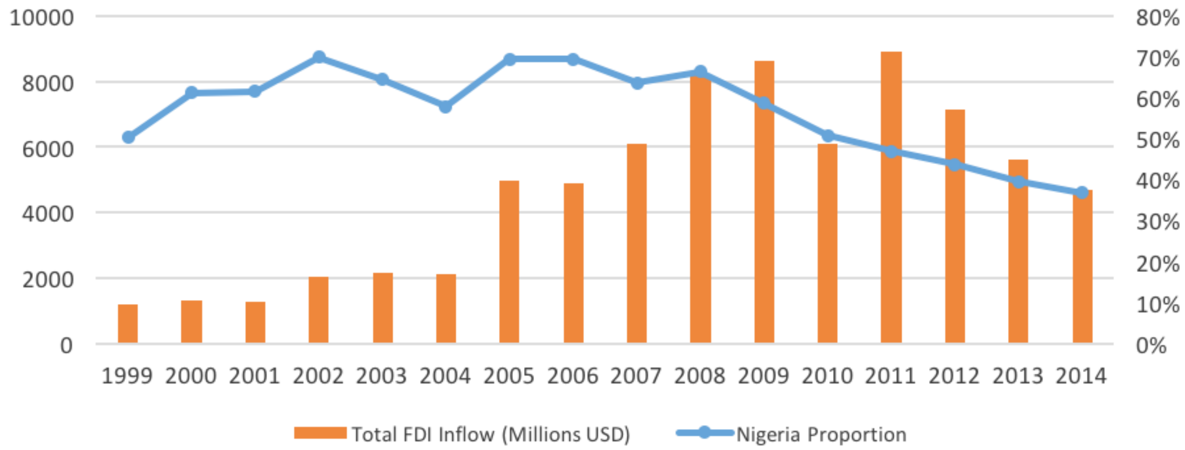
Source: *Computed from World Bank (2015b).*

The share of FDI flows to the manufacturing and processing sector has gradually increased, while the portion going to the mining and quarrying sector has lost ground. In light of the oil industry's prominence, it is not surprising that investment in Nigeria has traditionally come from the host countries of the oil majors. Topping the list of the largest foreign investors in Nigeria are: the United States, present through Chevron Texaco and ExxonMobil; the Netherlands with Shell; and France with Total (table VI.4). While Western Europe and the United States remain dominant as sources of direct investment, other countries are becoming increasingly involved in the Nigerian oil sector.

An upsurge in investment from South Africa is one of the most significant trends of the last decade. Nigeria is South Africa's third largest African trading partner, after Zimbabwe and Mozambique, and the largest in West Africa. More than 20 South African companies are now present in Nigeria, in sectors ranging from construction, telecommunications and entertainment, to revenue collection and aviation. To stimulate investment, the Government has undertaken a number of reforms, established economic zones and concluded bilateral treaties, as detailed in box VI.2.

Notwithstanding the encouraging trends in FDI, the lack of rapid growth in the manufacturing and services sector is to a significant degree a result of the limited support provided to the private sector. At least 80 per cent of Nigeria's economy is driven by the private sector, which contributes substantially to the development of the country in terms of job creation, revenue generation and value addition (Olaleye and others, 2014). Despite its importance, however, domestic credit to the private sector as a percentage of GDP has been generally low, save for a few years when it rose above 25 per cent. It should be recalled that, since

Figure VI.5
FDI in Nigeria: total and proportion of total in West Africa (1999-2012)



Source: *UNCTADstat, available from http://unctadstat.unctad.org/wds/TableViewer/tableView.aspx?ReportId=96740.*

the rule that made it mandatory for banks to grant a minimum of 20 per cent of their credit to small enterprises was abolished in 1996, Nigerian banks have paid very little attention to this sector.[29]

Nevertheless, given the importance of small and medium enterprises in driving the growth of an economy, the Central Bank came up with the N200 billion Small and Medium Enterprises Restructuring and Refinancing Facility to re-finance and restructure existing bank loan portfolios to manufacturers in order to achieve double-digit growth in line with the Vision 20:2020 small and medium enterprise financing target of 20 per cent of total credit to the economy.

3. Funding infrastructure through public-private partnerships and targeted interventions

Infrastructure development in Nigeria remains grossly inadequate because of lack of investment. The Federal Government noted that Nigeria would require a minimum of N2.24 trillion annually to finance the development of basic infrastructure facilities, as against the current spending of N960 billion. This gap has given rise to a number of high value public-private partnership arrangements in various sectors of the economy, such as the Lekki Deep Sea Port and the Second Niger Bridge. However, the public-private partnership model needs to be improved to suit the country's particular needs and must deliver clear benefits without leaving future governments with service or debt repayment problems.

On 1 March 2010, the Central Bank of Nigeria established the Infrastructure Finance Office to tackle the infrastructure finance deficit. The responsibilities of the Office include devising a sustainable financing framework to stimulate long-term financing for infrastructure development in the country. The measures adopted by the Central Bank of Nigeria to improve infrastructural services include the N300 billion Power and Aviation Intervention Fund, whereby the Bank provided a N300 billion facility for investment in debentures to be issued by the Bank of Industry in accordance with section 31 of the Central Bank of Nigeria Act 2007 for investment in power and aviation projects. The funds are to be channelled through the Bank of Industry for onward lending to the Deposit Money Banks, at a maximum interest rate of 1 per cent, for disbursement at a concessionary interest rate of not more than 7 per cent and a tenor of 10 - 15 years.

As part of the Central Bank measures to further encourage banks to lend to the real sector of the economy, particularly small and medium enterprises, infrastructure and agriculture, its Board

29 This finding is important as most Nigerian enterprises in the real sector are still of micro and small scale (NBS-SMEDAN, 2012).

Table VI.4
Sources of FDI inflows to Nigeria (US$ million)

Country	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Africa	527	560	549	1285	1264	1571	2129	2232	1574	774	18610
France	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	2529	214
Germany	7.5	6.8	-105.5	n/a	n/a	n/a	n/a	n/a	n/a	101	6
United Kingdom	322	343	336	787	774	962	1303	1367	964	10	3464
United States	13	14	14	33	32	40	54	57	40	119	4532

Source: UNCTAD (http://unctad.org/Sections/dite_fdistat/docs/webdiaeia2014d3_NGA.pdf).

Box VI.2
Measures to increase FDI in Nigeria

Different measures, incentives and policies have been implemented in Nigeria to attract FDI. Analyses of the Nigerian investment climate by the Foreign Investment Advisory Service and others recommended the elimination of the Nigeria Investment Promotion Council Business Permitting process because it impeded investment rather than promoting it. The Nigeria Investment Promotion Council Act was Nigeria's investment law and governed inward investment. It allowed for 100 per cent foreign ownership of firms, except in the petroleum and a few other sectors. No investment approval was needed, but all investments with foreign participation had to be registered with the Council to be covered by the treatment and protection clauses of the Act (sections 17 and 27).

In practice, however, the Council limited registration to companies investing a minimum share capital of N10 million, although registration was not necessary for companies setting up in the Export Processing Zones or that obtained Export Processing Factory status. In those cases, investment approval and licensing were the responsibility of the Nigerian Export Processing Zones Authority (UNCTAD, 2009). Overhaul of the Council was called for in order to transform the institution into a promoter, facilitator and advocate of foreign investment and eliminate the registration process.

In March 2006, the One-Stop-Shop Investment Centre was established on the Council premises with the objective of reducing the problems related to the multiplicity of agencies involved in various aspects of investment facilitation in Nigeria and the resultant inter-agency rivalry, complicated by conflicting statutory laws/legal frameworks, arbitrary use of discretion in granting approvals, limited transparency, bureaucratic procedures, and poor service orientation (Nigerian Investment Promotion Commission, 2006). The Centre has helped to make the process of obtaining a business permit easier, the necessary steps having been reduced from nine to three.

The negotiation of bilateral investment treaties negotiations are conducted by the Inter-Ministerial Committee on Investment Promotion and Protection Agreements, which comprises representatives of the Ministries of Finance, Commerce, Justice, Industry and Foreign Affairs; the National Planning Commission; the Central Bank; and the Nigeria Investment Promotion Council. Between 1999 and 2013, 14 bilateral investment treaties were signed, but only six have come into effect.

The official explanation for the low rate of treaty ratification is the lack of action by treaty partners, but Nigeria's disorganized and non-proactive approach to seeking ratification may also be a factor (UNCTAD, 2009). In this respect, a more coordinated and energetic approach on the part of the Nigerian treaty negotiators is needed to obtain ratification with strategic partners and to conclude new treaties, especially with countries that have strong potential to be large investors in the short to medium term. Furthermore, bilateral investment treaties should be embedded into other, broader instruments of economic diplomacy negotiated between Nigeria and strategic partners. Effective mechanisms to ensure coordination and consultation among the different government agencies involved in the negotiation, ratification and implementation of the process should also be put in place.

of Directors has approved the amendment of the prudential guidelines on loan loss provisioning, and the rules and regulations on margin lending. The objective is to take cognizance of the current dynamics in the industry and provide guidance on the recognition and measurement of loans, establishment of loan loss allowances, credit risk disclosure and related matters. The revised prudential guidelines recognize the use of a time-based approach for specialized loans. The time-

based approach establishes longer timelines for measuring asset quality, based on the gestation periods of projects in the target sectors.

G. Conclusion

The aim of this chapter was to document some of the strategic investments Ethiopia, Morocco and Nigeria have made to stimulate structural transformation in their economies. A number of issues can be highlighted:

One critical aspect of strategic planning is the proactive role of leading public institutions in assisting companies and sectors to achieve the strategic objectives identified in development plans. The Deposit and Management Fund, the leading institutional investor in Morocco, provides valuable lessons on mobilizing resources for investment.

The ability to continue to attract FDI flows, and remain competitive in doing so, is crucial. It is important to provide an enabling environment that remains dynamic in order to present new opportunities and gain comparative advantage. If foreign investment is to flow to areas that will be the catalyst for transformative growth, it must be managed in alignment with the national industrial strategy, and incentives need to be provided to investors, particularly in new or niche areas.

The agriculture sector still represents a large share of GDP and employment in all three countries, but particularly in Ethiopia and Nigeria. All the countries have drawn up a national agricultural development plan and sought ways to finance implementation in order to: ensure food security, promote agribusiness, attract private sector investment in agriculture, reduce post-harvest losses, add value to local agricultural produce, develop rural infrastructure, and enhance farmers' access to financial services and markets. Challenges remain and it is unclear what the long-term sustainability of promoting agricultural finance will be if wider support and links are not present to encourage graduation from small to commercial-scale farming and mass export capability.

The manufacturing and service sectors are becoming the preferred sectors for domestic and foreign investors, but the risk is that these sectors will become dominated by large multinationals taking advantage of cheap resources and repatriating profits, and small-scale and/or informal operations, as a result of the lack of credit made available to small and medium enterprises. Recognizing the challenges most small and medium enterprises face in expanding their business – and increasing the benefits to the wider economy – Nigeria created a N200 billion Small and Medium Enterprises Restructuring and Refinancing Facility to reach a target of 20 per cent of total credit to the economy flowing to such enterprises.

Infrastructure remains a critical element of industrialization-led transformation, evidenced by the huge levels of investments involved. All countries are utilizing public-private partnerships in one form or another and engaging with a variety of partners, including large foreign companies and countries outside traditional partnerships. Ethiopia has branched out beyond these to engage the diaspora and fund managers world-wide to raise capital through bonds, and the Central Bank of Nigeria has stepped in to assist Nigeria in securing funds for power and aviation development through the establishment of an Infrastructure Finance Office.

It is clear that the bulk of resources mobilized need to be invested in the agriculture and infrastructure sectors. African economies have also made significant effort to attract FDI but there are still significant gaps in the provision of infrastructure support that would boost both domestic and foreign investment. This explains the limited impact of foreign investment in some African economies. Innovative ways of financing infrastructure in Africa are therefore needed to enhance the structural transformation and economic competitiveness of the continent.

VII. Summary of key issues, priorities and lessons

A. Summary of key issues

African countries are stepping up their efforts to mobilize domestic resources but increasing the share of such resources in the fiscal resource envelope faces the challenges of low saving rates, a limited tax base and poor public sector governance and planning. The financial sector in most countries struggles to mobilize resources in ways appropriate for either the public or the private sector.

The experiences of the three selected African countries have shown that a successful transformation process is driven primarily by: a strong and focused national vision underpinned by a time-bound measurable development plan; and a sound strategic industrial policy that seeks to maximize existing or potential opportunities for domestic resource mobilization for structural transformation and equitable development, and to mitigate risks, while also addressing structural weaknesses.

The analysis in this report shows that domestic resources are mobilized using a variety of instruments, each of which has strengths and weaknesses. These instruments therefore need to be managed if they are to be effective in mobilizing large volumes of domestic resources for investment and economic transformation and equitable development. The features of each instrument should be examined on the basis of their impact on the key priorities for structural transformation, as outlined in the country's development plan.

The productive base of most African economies remains weak, narrow and externally-oriented, with primary production activities accounting for a good percentage of exports. While appropriate infrastructure and institutional arrangements are required, an effective industrial policy, based on a high degree of complementarity, should be geared to the priority sectors of manufacturing, agriculture and infrastructure.

B. Priorities and lessons

Bearing in mind the key issues identified above, this report proposes the following policy recommendations to enhance resource mobilization and investment for Africa's economic transformation. The policy recommendations fall into nine interconnected themes:

1. Domestic resource mobilization and investment should be integral parts of development plans

Strong development plans supported by sound, transparent and responsive institutions are key to leveraging country-specific strengths, establishing complementary industries, facilitating forward and backward linkages, and enhancing market opportunities.

Fundamental to the success of the plans developed by African countries is the ability to mobilize resources and allocate them to productive sectors that will support the growth and diversification of the economy and thus be the driver of sustainable inclusive development. All three countries examined in this study have undertaken extensive reforms of their tax systems in order to: tackle inefficiencies and losses caused by weak tax administrations resulting from low capacity and low technological diffusion; broaden the tax base; alleviate the tax burden on low-income households and burgeoning immature private sector enterprises; reassess the fiscal incentives provided to investors; and strengthen their natural resource management and subsequent utilization of receipts.

2. Broad and comprehensive tax reforms for structural transformation and inclusive development

Progressive fiscal reforms should encourage a shift from a tax system characterized by a multiplicity of inconsistent taxes with high rates and excessive tax alleviations aimed at encouraging investment to a more consistent, simplified and efficient tax system. Central to the success of such reforms is consultation with all stakeholders from the public sector, private sector, civil society, universities and think-tanks to review an assessment of the country and formulate a roadmap for improvement.

Reforms should address the regressive orientation of indirect taxes on goods consumed by poor and rich alike and generally imposed on most goods in most developing countries. For example, in Morocco, special brackets have been allocated for basic commodities in order to protect the poor and low-income families from paying high taxes when consuming food and other basic products.

Fiscal imbalances should be tackled to maintain socioeconomic stability and improve the effectiveness of fiscal administration by strengthening social cohesion and consolidating relations between taxpayers and the tax administration. Support to private sector competitiveness should be a central component of tax reforms. Small and medium-sized enterprises continue to enjoy special attention from Governments.

3. Encourage a more developmental role for domestic savings to enhance investment and private sector development

It is important for African Governments to create incentives such as risk-sharing to encourage banks to provide loans with high economic and social benefits. Development banks can play an important role in channelling financial flows towards productive sectors and supporting the role of domestic entrepreneurs in them.

Effective financial sector information infrastructure, such as credit bureaux and land registries, are essential for the development of long-term credit markets (North South Institute, 2010). Equally important are the innovative instruments, such as mobile phone and electronic banking, that are providing opportunities for a number of African countries to increase affordable and cost-effective means to the unbanked. Governments should also introduce programmes to strengthen financial literacy among the general population and build capacity for banking regulation.

African countries that have yet to establish, re-establish and/or re-capitalize their development banks should do so without delay. When doing so, appropriate safeguards should be introduced to avoid a repeat of the pre-structural adjustment era, especially undue political interference in the operation of the banks and suffocating bureaucratic controls.

African central banks should complement government development agendas by judiciously and pragmatically providing industrial and infrastructural development finance in the form of contributions to the capital base of development banks and/or provision of intervention funds to specific sectors of the economy, guided by the priorities set out in a development plan.

4. Deepen capital markets

Strong all-stakeholder governance systems should be put in place to minimize the risks of capture and unethical practices by dealers and operators.

In order to deepen capital markets, the conditions for listing small and medium enterprises should be liberalized and all multinational companies in all sectors should be required to list on the local stock exchange.

In order to deal with the problem of speculators, a stringent regulatory framework designed to discourage and penalize nefarious and unethical activities by speculators should be put in place and vigorously enforced. In the medium to long term, these should be institutionalized through appropriate legislation. Appropriate regulations

should be put in place to contain the dangers of portfolio investment.

5. Tackle illicit financial flows and other development leakages

Illicit financial flows have been the subject of a high-level panel that made copious recommendations in its report, which, if implemented, should be instrumental in tracking, stopping and retrieving illicit financial flows out of Africa (ECA, 2015, chapter 5).

African Governments should support Sustainable Development Goal 16.4, and paragraphs 23 and 24 of the Addis Ababa Action Agenda, which call for illicit flows to be substantially reduced by 2030.

In order to deal with the problem of income leakages through various tactics, including illicit financial flows, profit repatriation and capital flight, and their adverse effects on domestic private savings, in the medium to long-term African Government should embark on participatory development planning and implementation aimed at, among others:

e) Reviewing all existing concessions, waivers and other incentives offered to multinational companies in all sectors and eliminating those that are no longer justifiable;

f) Compelling the immediate listing of all multinational companies in all sectors of the economy on the local stock exchange to provide opportunities for private individuals and local institutional investors to invest in their equities and thus share in their profits, part of which may be saved;

g) Linking rural economic activities with modern urban activities in mutually beneficial and well-regulated production networks, thereby raising rural incomes, enhancing financial savings by rural dwellers and reducing the adverse effects of informality on private savings;

h) Reducing and eventually eliminating the enclave nature of multinational companies, especially those in the extractive industries, by increasing linkages with the domestic economy through outsourcing, subcontracting and localizing multinationals' research and development activities in the medium to long term;

i) Reducing and eventually eliminating the export of minerals and other products without significant local beneficiation and value addition;

j) In the long term, organizing institutions and initiatives to delink multinationals from importation of most of their inputs, including machinery and equipment.

6. Support a leveraging role for international finance in enhancing domestic resources for structural transformation

In order for African countries to make better use of international public and private finance, there should be a greater focus on public and private international investment, which can be used to unlock and leverage domestic resources to tackle the critical challenges hindering equitable economic transformation.

In order to maximize the benefits and impacts of FDI on domestic resource mobilization and economic diversification, African Governments should nurture, promote and support indigenous investors and entrepreneurs to partner with their foreign counterparts to their mutual benefit and in line with national development aspirations. The strategies proposed for dealing with the challenges of decimation of the tax base by the unwholesome activities of the multinationals should also apply to FDI.

With regard to remittances and diaspora engagement, the monetary authorities should encourage recipients of remittances to open and operate domestic accounts, as in Ethiopia. This would reduce the cost of remittances through oligopolistic money transfer organizations, and may also financialize rural savings. Needless to say, a prerequisite for this is a high level of financial

inclusion, which the monetary authorities should also spearhead.

The foreign missions of African countries should be encouraged to be more aggressive in encouraging migrants/the diaspora to organize professional networks and associations through which information on developments in their home countries may be shared. Such information may be instrumental in increasing remittances and encouraging migrants to maintain foreign currency accounts at home into which portions of their savings can be remitted at intervals. In addition, African countries should follow the example of Ethiopia and other countries in legalizing dual nationality as a strategy to further encourage the engagement of the diaspora in the development of their home country.

African Governments should ensure that donors support national planning processes, use country systems for resource allocation and implementation, improve the predictability of resource provision and improve systems to make them more results-focused, transparent, and accountable.

Development partners should provide effective financial and technical support to enhance tax capacity-building efforts and improve tax administration in priority areas defined by African countries. Donors should also embrace a science and technology-led agenda in Africa by partnering with African higher education institutions, research centres and technological entrepreneurs to bolster economic growth and make the transition away from foreign aid.

7. Speed up response to innovative sources of finance

The shortcomings associated with the traditional source of domestic resources have made emerging and innovative sources of domestic finance attractive. International financial markets present a largely untapped pool of capital for financing the structural transformation of Africa, while institutional investors also have the potential to provide an additional source of long-term finance. The private sector therefore also has a role to play, not only in raising the resources required to finance the structural transformation agenda of the region, but also in enhancing the competitiveness of the industrial base.

The challenge of sovereign wealth funds in Africa has revolved around the unwillingness of incumbent political leaders to subscribe to the principle of saving for a rainy day. They typically want to spend all that has been earned on their programmes and claim credit. Put simply, political leaders find it easier to claim credit for development programmes than for savings. To deal with this problem, Governments should institutionalize sovereign wealth funds by taking appropriate legislative action, supplemented by credible and timely audit reports that should be widely publicized, including in newspapers and on the website of the wealth fund agency. In addition, appropriate safeguards should be put in place to prevent political interference and suffocating bureaucratic controls.

African Governments that have yet to undertake pension reforms should do so as soon as possible, drawing on the experiences of several African countries that have implemented such reforms. Those that have undertaken reforms should regularly review the legislation and institutional arrangements guiding their investment portfolios, discouraging them from taken unreasonable risks. They should be allowed to increase their exposure to long-term infrastructure and similar development projects, provided they are amenable to user charges from which they can recoup their investments with reasonable returns.

8. Promote effective public expenditure reforms

To address the challenge of the persistent fiscal deficit, African Governments should accelerate their efforts to improve the quality of output and competitiveness, strengthen institutions and build capacity in the design and implementation of public policies, with an emphasis on budget transparency, public expenditure management

and aligning sectoral strategies to the overall structural transformation strategy.

A number of countries, such as Nigeria and Morocco, have taken serious steps to tackle the huge public expenditure on subsidies, which are a significant drain on public resources. Governments must ensure that such forgone revenues are reduced, primarily by plugging leakages and improving efficiency. For oil-producing countries, more fundamentally, rather than focusing on the removal of subsidies from petroleum products as a strategy for raising revenue, attention should be devoted to ensuring that domestic refineries function efficiently. This would not only eliminate imports of petroleum products, but also generate tremendous employment opportunities, enhanced inter-industry linkages and spin-offs, and have further multiplier effects on the resource mobilization potential of the country.

9. Short- and long-term strategies for enhancing investment

Effective investment strategies will help African countries to enhance domestic resource mobilization. In order to achieve the ultimate goals of securing high and inclusive growth and economic transformation, it is imperative to ensure that the largest possible proportion of domestic resources mobilized is effectively and efficiently invested in projects and programmes that will have the highest possible impact on growth and economic diversification.

Governments should also pay due attention to the challenge of the institutional composition of investment in order to increase the contribution of the public sector while preventing undue fluctuations that can prolong the implementation of capital projects, delay the flow of benefits to all stakeholders and frustrate complementary investments by the private sector. It is also critical to address the challenge of functional distribution of public sector investment, especially the low and unstable allocation to economic services, which is inimical to the much desired complementary relationship between public and private investment programmes.

The skills deficit is a major challenge to economic transformation in Africa. The manufacturing sector in many countries is characterized by an unskilled labour force and limited investment in research and development. Most industries have therefore had to compete in global markets on the basis of cheap, uneducated labour.

Short-term strategies for dealing with these challenges (assuming the largest possible domestic resources have been mobilized) include:

a) Prudent and pragmatic management of recurrent expenditure in order to: eliminate waste and unnecessary duplication; rationalize government ministries, departments and agencies for the sake of efficiency and effectiveness; eliminate over-staffing; and reduce and prevent inordinately high remuneration of political and public office holders;

a) Efficient management of government finances to eliminate unnecessary budget deficits that are financed with the proceeds of government debt instruments, and the attendant escalation of debt service charges and payments, further decimating public investment;

a) Efficient management of public sector investment programmes, ensuring that all government investment projects are properly analysed, evaluated, and subject to credible and comprehensive cost-benefit analysis before admission into the capital programme of government. This may mean allocating a proportion of recurrent expenditure to project and programme preparation by government ministries, department and agencies;

a) Tackling the mismatch between the skills produced by the higher education system and the needs of the manufacturing sector. This will allow African industries to shift to a quality-based competitiveness.

In the medium to long term, African Governments should re-engage in participatory development planning processes in order to encourage long-term investment in productive sectors. Furthermore, in many African countries, the domestic business class is growing and in some cases they are becoming more sophisticated and should therefore be able and encouraged to participate actively in discussions on setting the development agenda, contribute to plan and programme preparation, and participate in plan implementation, monitoring and impact assessment. In essence, the development process should be a shared responsibility of Government and all segments of the special interest groups. A participatory development planning system should, however rest squarely on the following critical success factors:

a) Political commitment of the leadership to maximizing the welfare of the people (the ultimate principals), working with a competent, well-trained, constantly retrained and highly motivated bureaucracy with the ability, authority and support required to get the basics right;

b) Avoidance of adversarial relationships between public and private sectors;

c) Promotion of cooperation and complementarity consistent with the realities of a mixed economy at the early stages of economic diversification where the pragmatic choice is not between State and market but between different combinations of public and private institutions in order to deliver sustainable and equitable development opportunities to all segments of society;

d) Pursuit of a prudent, flexible and pragmatic role of the State is imperative if the Government is to adjust policies quickly once credible and convincing evidence shows that certain strategies and policies are no longer applicable or are untenable in light of emerging circumstances.

In short, active collaboration of all stakeholders is required under the leadership and guidance of a democratic developmental State. Vigorous efforts are needed to rebuild the capacity of African States and position them to work with special interest groups to devise, implement, monitor and evaluate the impact and outcome of development plans. All stakeholders should see development as the shared responsibility of all.

References

Abay, Soloman (2015). "Ethiopia: ERCA projects 559 billion birr revenue in GTP II period" available from http://hahudaily.com/ethiopia-erca-projects-559-billion-birr-revenue-in-gtp-ii-period/.Abay, T.W. (2010). Domestic resource mobilization in sub-Saharan Africa: The case of Ethiopia. The North–South Institute.

Abiye, Y. (2015). "Ethiopia targets USD one billion from textile Export in GTP II", available from http://allafrica.com/stories/201504131965.html.

Abugre, C. and A. Ndomo (2014). Structural transformation and the challenge of financing Africa's post-2015 development agenda. Nairobi: United Nations Millennium Campaign Africa and UNDP Regional Service Centre for Africa.

Adam, C. and D. Bevan (2004). "Fiscal policy design in low-income countries", in Fiscal Policy for development, T. Addison and A. Roe, eds. Palgrave MacMillan.

Addis Ababa Chamber of Commerce and Sectoral Association (2011). The potential for public–private partnership (PPP) in Ethiopia. Addis Ababa.

Addis Fortune (2015a). "Ethiopia: GTP II discussion aims for industrialized economy", available from http://allafrica.com/stories/201507141765.html.

___________ (2015b). "Sugar corporation reverts to imports after target shortfall", available fromhttp://addisfortune.net/articles/sugar-corporation-reverts-to-imports-after-target-shortfall/.

AfDB (2013). Analysis of the Education and Training Sector, Morocco, Economic and Sector Work. OSHD Department, AfDB, Tunisia, April 2013.

AfDB, OECD and UNDP (2014). African economic outlook 2014: Global Value Chains and Africa's Industrialisation, available fromhttp://www.africaneconomicoutlook.org/sites/default/files/content-pdf/AEO2014_EN.pdf.

___________ (2015). African economic outlook 2015: Regional development and spatial inclusion, available from http://www.africaneconomicoutlook.org/en/telechargements.

Agricultural Transformation Agency of Ethiopia, http://www.ata.gov.et/programs/production-productivity/rural-financial-services-rfs/, accessed November 2016.

Agriculture and Agri-Food Canada (AAFC) (2014). Consumer Profile: Morocco, Global Analysis Report, Market Access Secretariat, Government of Canada, May 2014, available at http://www.iberglobal.com/files/2016/morocco_food.pdf.

Ajakaiye, Olu et al. (2014). Multidimensional Poverty in Nigeria: First order dominance approach. WIDER Working Paper no. 143, 2014. Helsinki: UNU-WIDER.

Alade, Sarah O. (2012). Quality Statistics in Banking Reforms for National Transformation. CBN Journal of Applied Statistics Vol.3 No.2, available from

https://www.cbn.gov.ng/out/2013/sd/cbn%20jas%20volume%203%20number%202_document%201.pdf.

Alemu, Getnet (ed.) (2014). Financing Urban Infrastructure in Ethiopia. Addis Ababa: Ethiopian Economic Association, available from http://www.eeaecon.org/node/5024.

Anyanwu, Cajetan M. (2010). An Overview of Current Banking Sector Reforms and the Real Sector of the Nigerian Economy, Central Bank of Nigeria, Economic and Financial Review, Volume 48/4, December 2010.

Arestis, P. et al. (2002). The impact of financial liberalization policies on financial development: Evidence from developing economies, International Journal of Economics and Finance, 7(2), pp. 109-121.

Arestis, P., P.O. Demetriades and K.B. Luintel (2001). Financial development and economic growth: The role of stock markets. Journal of Money, Credit, and Banking 33, pp. 16–41.

Ashiagbor D. et al. (2014). Pension funds and private equity: Unlocking Africa's potential. London: Commonwealth Secretariat.

Ashley Theron (2015). Geothermal power: Ethiopia signs for first phase of a 1,000MW project, available from http://www.esi-africa.com/geothermal-power-ethiopia-signs-for-first-phase-of-a-1000mw-project/, via http://energymixreport.com/geothermal-power-ethiopia-signs-for-first-phase-of-a-1000mw-project/.

Assefa, H., B. Derk and C. Dan (2013). "Ethiopia's Investment prospects: A sectoral overview", African Review of Economics and Finance, Vol. 4, No.2, June 2013.

Asu, F. (2013). "Nigeria spends N4.9trn in 7 years on fuel subsidies", White Pages, available from http://whitepagesng.com/blog/nigeria-spends-n4-9trn-in-7-years-on-fuel-subsidies/.

Baker, R. (2008). "Illicit financial flows: A note on concepts", preface to D. Kar and D. Cartwright-Smith, Illicit financial flows from developing countries: 2002-2006, available from SSRN at http://ssrn.com/abstract=1341946 or http://dx.doi.org/10.2139/ssrn.1341946.

Balin, B.J. (2008). Sovereign wealth funds: A critical analysis. Working Paper Series, The Johns Hopkins University School of Advanced International Studies.

Bank Al-Maghrib (2014). Bank Al-Maghrib Annual Report. Morocco.

Bankole, A. S. (2004). African interests, options and challenges in the DDA and EPA services trade negotiations. Paper prepared for AERC Collaborative Research on African Imperatives in the New World Trade Order. Trade Policy Research and Training Programme, University of Ibadan.

Bhushan A., Y. Samy and K. Medu (2013). Financing the post-2015 development agenda: Domestic revenue mobilization in Africa. Ottawa: North-South Institute.

Bin Dahman, J (2013). The situation of the tax system (Morocco), in The Situation of Tax Systems (Morocco, Jordan, Lebanon, Palestine). Arab NGO Network for Development and the Social and Economic Policies Monitor.

Black Rhino Group (2015). Ethiopia's Growth and Transformation Plan – GTP. Available from http://blackrhinogroup.com/ethiopias-growth-and-transformation-plan-gtp/.

Boyce J. K. and L. Ndikumana (2012). Capital flight from sub-Saharan African countries: Updated estimates, 1970 – 2010. Research Report. Amherst: Political Economy Research Institute, University of Massachusetts.

Capital (2016). "China to invest $1 trillion in infrastructure for developing nations", available from http://capitalethiopia.com/2016/01/15/china-to-invest-1-trillion-in-infrastructure-for-developing-nations/#.WBwoiKPP_LM.

Capital (2016). China to invest $1 trillion in infrastructure for developing nations, available at http://capitalethiopia.com/2016/01/15/china-to-invest-1-trillion-in-infrastructure-for-developing-nations/#.WAtbiVV97yM.

Caprio, Giovanni and Getnet Haile (2010). The Federal Democratic Republic of Ethiopia - The Federal PFM performance report: A repeat assessment. Addis Ababa: Federal Democratic Republic of Ethiopia.

CCTV (2015). Ethiopia's new proposal sets to transform economy. Available from http://www.cctv-america.com/2015/09/15/ethiopias-new-proposal-sets-to-transform-economy.

Central Bank of Nigeria (2013). Statistical Bulletin. Abuja: Central Bank of Nigeria.

Central Intelligence Agency (2014). Nigeria. CIA World Factbook, available from https://www.cia.gov/library/publications/the-world-factbook/geos/print_ni.html.

Chang, H. (2012). Industrial Policy: Can Africa do it? Paper presented at IEA and World Bank Roundtable on Industrial Policy in Africa, Pretoria, South Africa, 3-4 July 2012China Central Television (2014). Chinese companies sign light rail operating agreement with Ethiopia, available at http://newscontent.cctv.com/NewJsp/news.jsp?fileId=272007.

Cobham, A., P. Janský and Prats (2013). Swiss-ploitation: The Swiss role in Commodity Trade, Christian Aid.

Conseil Déontologique pour les Valeurs Mobilières: CDVM (2013). CDVM Annual Report. Morocco.

Daba, D. (2014). Tax reforms and tax revenues performance in Ethiopia, Journal of Economics and Sustainable Development, Vol.5, No.13, 2014.

Dalberg Global Development Advisors (2014). Innovative financing for development:Scalable business models that produce economic, social and environmental outcomes, available from www.globaldevincubator.org.

Daniel, P., M. Keen and C. McPherson and others, eds. (2010). The taxation of petroleum and minerals: Principle, problems and practice. Oxford: Routledge.

Demirguc-Kunt, A., E. Feyen and R. Levine (2011). The evolving importance of banks and securities markets. Policy Research Working Paper 5805. Washington D.C: World Bank.

Devarajan, Shantayanan, Margaret J. Miller, and Eric V. Swanson (2002). Development goals: History, prospects and costs, World Bank Policy Research Working Paper. Washington D.C.: World Bank.

De Waal, A. (2012). The Theory and Practice of Meles Zenawi. Published by Oxford University Press on behalf of Royal African Society.

DFID (2012). DFID Ethiopia, Operational Plan 2011-2015. Addis Ababa.

ECA (2011). Industrial policies for the structural transformation of African economies: Options and best practices, Policy Research Paper, No 2, Addis Ababa.

___________ (2012). Building public-private partnerships for climate-friendly investment in Africa, November 2012, Addis Ababa

___________ (2013). Economic transformation in Africa: Drivers, challenges and options, Issues Paper prepared for the Third Meeting of the High Level Panel of Eminent Persons, 30th January to 1st February, 2013 . Addis Ababa.

___________ (2014a). Economic Report on Africa 2014: Dynamic industrial policy for Africa: Innovative institutions, effective processes and flexible mechanisms. Addis Ababa.

___________ (2014b). Domestic Resource Mobilization, Issues Paper, ADF IX, 12-16 October 2014, Marrakech, Morocco.

___________ (2015). Economic Report on Africa 2015: Industrializing Through Trade, Addis Ababa.

ECA, AfDB and African Union Commission (2012). African Statistical Yearbook 2012, Scanprint, Denmark, ISSN 1561-2805.

ECA and African Union Commission (2012). Unleashing Africa's potential as a pole of global growth. Issue Paper. Addis Ababa.

___________ (2013a). Industrialization for an emerging Africa. Issue Paper prepared for the Sixth Joint Annual Meetings of the ECA Conference of African Ministers of Finance, Planning and Economic Development and African Union Conference of Ministers of Economy and Finance, 25 and 26 March 2013, Abidjan, Côte d'Ivoire.

___________ (2013b).Economic Report on Africa 2013: Making the most of Africa's commodities: Industrializing for growth, jobs and economic transformation. Addis Ababa.

___________ (2014). Economic Report on Africa 2014: Dynamic Industrial Policy in Africa: Innovative institutions, effective processes and flexible mechanisms, Addis Ababa, Ethiopia.

___________ (2015). Joint African Union Commission–Economic Commission for Africa elements paper for the regional consultation on financing for development, prepared for the Eighth Joint Annual Meetings of the African Union Specialized Technical Committee on Finance, Monetary Affairs, Economic Planning and Integration and the Economic Commission for Africa Conference of African Ministers of Finance, Planning and Economic Development, 23 and 24 March 2015, Addis Ababa.

ECA and NEPAD Planning and Coordinating Agency (2014). Mobilizing domestic financial resources for implementing NEPAD national and regional programmes and projects: Africa looks within, January 2014, available at http://www.un.org/africarenewal/sites/www.un.org.africarenewal/files/DRM_ENGLISH_REPRO_OP.pdf.

Economist Intelligence Unit (2015). Country Report Ethiopia, 2nd Quarter.

Embassy of the People's Republic of China in the Federal Democratic Republic of Ethiopia (2015). China, Ethiopia reiterate commitment to taking bilateral relations to new level, available from http://et.chineseembassy.org/eng/zagx/t1254261.htm.

Emran, M. Shahe and Joseph E. Stiglitz, (2009). "Financial Liberalization, Financial Restraint and Entrepreneurial Development," Working Papers 2009-02, George Washington University, Institute for International Economic Policy.

Epstein, G. (2007). Central banks as agents of employment creation, DESA Working Paper No. 38, United Nations, New York.

Ernst and Young (2014). Attractiveness survey: Africa 2014. EY Africa, Johannesburg, South Africa.

ESI Africa (2015). "153MW Adama wind farm grows Ethiopia's renewable energy plan", available from http://www.esi-africa.com/153mw-adama-wind-farm-grows-ethiopias-renewable-energy-plan/.

Essers, D. (2013). "Developing country vulnerability in light of the global financial crisis: Shock therapy?" Review of Development Finance, vol. 2, 2, pp 61–83.

Africa's services trade for growth and development. New York and Geneva. United Nations.

United Nations Conference on Trade and Development and International Labour Organization (2014). Transforming economies: Making industrial policy work for growth, jobs and development. Geneva. ILO.

United Nations Department of Economic and Social Affairs (2015). Final push for milestone event to finance development, available from http://www.un.org/en/development/desa/newsletter/desanews/feature/2015/07/. United Nations Department of Economic and Social Affairs

United Nations Department of Economic and Social Affairs and ECA (2014). Background notes for the sessions – regional outreach for the Intergovernmental Committee of Experts on Sustainable Development Financing, held on 2 and 3 May 2014, Addis Ababa.

United Nations Development Programme Ethiopia (2011). Ethiopia fact sheet - Agriculture growth and transformation. Addis Ababa.

___________ (2012). Summary of commissioned studies: Prospects of non-traditional sources of development finance in Ethiopia, No. 1/2012.

___________ (2013). Annual report 2013. Addis Ababa.

___________ (2014). Ethiopia: Quarterly economic brief. Addis Ababa.

___________ (2015). Prospects of public-private partnership (PPP) in Ethiopia, No. 1/2015.

United Nations Industrial Development Organization (2013a). Competitive industrial performance report 2012/2013: The industrial competitiveness of nations looking back, forging ahead. Vienna.

___________ (2013b). Industrial development report 2013. Sustaining employment growth: The role of manufacturing and structural change. Vienna.

___________ (2013c). Industrial statistics database 2-Digit level, ISIC Revision 3 (INDSTAT2). Vienna.

___________ (2013d). MVA database 2010. Vienna.

United Nations Millennium Campaign (2013). Structural transformation in the African context: Reflections on priorities for the post-2015 development agenda. Midrand, South Africa. UNMC.

United Nations News Centre (2014). "UN-African Union report urges more credible industrial policies to transform continent", available from http://www.un.org/apps/news/story.asp?NewsID=47555#.WCB14aPP_LM.

United Nations System Task Team on the Post-2015 UN Development Agenda (2013). Financing for sustainable development in the global partnership beyond 2015. United Nations Department of Economic and Social Affairs.

United States State Department (2015). Ethiopia's Growth and Transformation Plan (GTP) At-A-Glance, available from http://photos.state.gov/libraries/ethiopia/427391/PDF per cent20files/GTP per cent20At-A-Glance.pdf.

Vala, H. (2015). Reykjavik geothermal and Iceland Drilling sign agreement, available from http://icelandreview.com/news/2015/08/05/reykjavik-geothermal-and-iceland-drilling-sign-agreement-ethiopia.

Walta Information Center (2014). Ethiopia to make USD 20 billion investment for power development, available from http://www.ethiopianembassy.be/en/ethiopia-to-make-usd-20-billion-investment-for-power-development/.

White, G. (2001). A Comparative Political Economy of Tunisia and Morocco. New York University Press.

White, Lyal and Adrian Kitimbo (2015). Infrastructure development: East Africa is on the move. http://www.dailymaverick.co.za/article/2015-09-08-infrastructure-development-east-africa-is-on-the-move/#.VgB-o_mqqko.

World Bank (1993). The East Asian miracle: A World Bank policy research report. Washington, D.C.

___________ (2002). Moroccan manufacturing sector at the turn of the century, Results of the firm analysis and competitiveness survey FACS-MOROCCO 2002, Pilot Investment Climate Assessment, available at http://siteresources.worldbank.org/INTPSD/Resources/336195-1092412588749/morocco_proof_3.pdf.

___________ (2005). Remittances: Development Impact and Future Prospect, Chapter 4. Washington, D.C.

___________ (2006). Making finance work for Africa. Washington, D.C.

___________ (2013a). Financing for development post-2015. Washington, D.C.

___________ (2013b). UNTT working group on sustainable development financing. Washington, D.C

___________ (2014a). Doin¬g Business 2015: Going Beyond Efficiency. Washington D.C., available from http://www.doingbusiness.org/reports/global-reports/doing-business-2015.

___________ (2014b). World Development Indicators. World Bank,. Washington, D.C.: World Bank

___________ (2015a). Ethiopia economic overview. Accessed 7 November 2016, available from http://www.worldbank.org/en/country/ethiopia/overview.___________ (2015b). World Development Indicators, Washington, D.C.

Wright, G. (1999). A critical review of savings services in Africa and elsewhere. Mimeo prepared for Microsave, Nairobi.

Yong, L. (2014). "The return of industrial policy in Africa", GREAT Insights Magazine, Vol. 3, Issue 5, May 2014.

Zhang, Y., P. Block, M. Hammond and A. King (2015). "Ethiopia's Grand Renaissance Dam: Implications for Downstream Riparian Countries", Journal of Water Resource Planning Management, 10.1061/(ASCE)WR.1943-5452.0000520, 05015002.evolving-industry/.

Iwuagwu (2009). "Nigeria and the challenge of industrial development: The new cluster strategy", African Economic History, Issue 37, pp 151-180.

Jaber, F and I. Al Riyahi (2014). Comparative study: Tax systems in six Arab countries. Arab NGO Network for development and the Social and Economic Policies Monitor.

Janský, P. and A. Prats (2013). Multinational corporations and the profit-shifting lure of tax havens. Christian Aid Occasional Paper Number 9, March.

Jewell, A. et al. (2015). Fair taxation in the Middle East and North Africa. IMF Discussion Notes, September 2015.

Kieh, G.K. (2015). "Constructing the social democratic developmental state in Africa: lessons from the 'Global South'", Journal of the Global South, vol 2, no 2, February 2015, available from https://bandungjournal.springeropen.com/articles/10.1186/s40728-014-0004-4.

Levine, R. (1997). "Financial development and economic growth: views and agenda", Journal of Economic Literature, Vol. XXXV (June 1997), pp. 688–726.

___________ (2002). Bank-based or market-based financial systems: Which is better? Working Paper 9138, National Bureau of Economic Research. Cambridge, United States.

Lin J.Y., and L.C. Xu (2012). "Financial structure and economic development", in New structural economics: A framework for rethinking development and policy, J.Y. Lin ed., Washington, D.C. World Bank.

Lowery, Clay (2007). Sovereign wealth funds and the international financial system. Remarks at the Federal Reserve Bank of San Francisco's Conference on the Asian Financial Crisis Revisited. Washington, D.C. United States Treasury (21 June).

Martins (2014). Structural change in Ethiopia: An employment perspective. Policy Research Working Paper 6749. The World Bank, Africa Region, Poverty Reduction and Economic Management Department. Washington, D.C.

Masseti, O. and A. Mihr (2013). Capital markets in sub-Saharan Africa. Research Briefing, Deutsche Bank AG, Germany.

Matovu, J. M. (2010). Domestic resource mobilization in sub-Saharan Africa: The case of Uganda. Ottawa North-South Institute.

McKinley, T. and J. Tyson (2014). Financialization in developing Countries: Mapping the issues. Report for the European Commission's Financialization, Economy, Society and Sustainable Development Programme.

Migration Policy Centre (2013). Migration Profile: Morocco. The Demographic-Economic Framework of Migration, the Legal Framework of Migration, the Socio-Political Framework of Migration. Report written by the MPC Team on the basis of CARIM South database and publications.

Mijiyawa, A. (2013). "Africa's recent economic growth: What are the contributing factors?" African Development Review. 25(3):289–302.

Miller, M. (2014). The hot new Africa investment trend: Pension funds.

Mkandawire, Thandika (2001). "Thinking about Developmental States in Africa", Cambridge Journal of Economics, vol. 25, pp 289–313.

Morocco, Economic and Social Council (2012) "Green Economy, Wealth and employment Employment Creation opportunities," May 2012. Rabat, Morocco.

___________ (2014). Invest in Morocco, 2014. Rabat, Morocco

Morocco, High Commission for Planning, (2010). Annual Report, 2010. Rabat, Morocco.

___________ (2012) National Survey of Youth: Report of the first results.

___________ (2014). Annual Report, 2014. Rabat, Morocco. Moroccan Investment Development Agency (2013). Invest in Morocco, 2013. Rabat, Morocco.

Morocco, Ministry of Agriculture and Fisheries (2015) Agricultural Development Fund Report, April 2015. Morocco.

Morocco, Ministry of Agriculture and Maritime Fisheries (2009). Plan Maroc Vert. Morocco.

Morocco, Ministry of Economy and Finance (1999). Le système fiscal marocain: diagnostic et défis. Direction des Etudes et des Prévisions Financières, Morocco.

___________ (2001). L'épargne intérieure au Maroc. Morocco.

___________ (2008). Projet de Loi de Finances pour l'Année 2009: Rapport économique et financier. Morocco.

___________ (2014a). Projet de Loi de Finances pour l'année 2015: rapport économique et financier. Morocco.

___________ (2014b). Rapport d'activités 2014. Direction Générale des Impôts (Tax Authority), Morocco.

___________ (2015a). Projet de Loi de Finances pour l'Année 2016: Note sur la repartition régionale de l'investissement. Morocco.

___________ (2015b). Projet de Loi de Finances pour l'année 2016: Rapport économique et financier. Morocco.

___________ (2015c). Tableau de bord sectoriel 2015. Direction des Etudes et des Prévisions Financières. Morocco.

Morocco, Ministry of Energy, Mines, Water and the Environment (2013a). Bilan des investissements dans le Secteur de l'energie et des mines. Direction de l'Observation et de la Programmation. Morocco.

___________ (2013b). La nouvelle stratégie energétique nationale: Bilan d'étape. Direction de l'Observation et de la Programmation, Morocco.

Morocco, Ministry of Industry, Trade, Investment and the Digital Economy (2008). Maroc Numeric 2013. Morocco.

___________ (2009). Pacte National pour l'Emergence Industrielle, 2009-2015. Morocco.

Morocco, Royal Institute of Strategic Studies (2014). Industrialisation et compétitivité globale au Maroc. Morocco: IRES.

National Bank of Ethiopia (2014). National Bank Annual Report 2012-2013, Addis Ababa.

___________ (2015). National Bank Annual Report 2013-2014, Addis Ababa.

National Pension Commission of Nigeria (2014), (2015). Monthly reports available from: http://www.pencom.gov.ng/publications.php.

NBS-SMEDAN (2012). Nature and number of enterprises and businesses. National MSME Collaborative Survey, available from http://nigerianstat.gov.ng/pdfuploads/SMEDAN%20 2013_Selected%20Tables.pdf.

Nigeria, Federal Inland Revenue Services (2013). Tax statistics. Abuja: Federal Inland Revenue Services.

Nigerian Investment Promotion Commission (2006). Report on the establishment of one-stop-shop service in Nigeria. Abuja.

North-South Institute (2010). Do-it-yourself development: A synthesis report on domestic resource mobilization in Africa. Ottawa: North-South Instute.

OECD (2010). "Domestic Resource Mobilization for Development: the Taxation Challenge" OECD Global Forum on Development, Issues Paper, available at https://www.oecd.org/site/oecdgfd/44465017.pdf___________ (2013). Perspectives on global development: Smart industrial policies for development. Paris.

___________ (2014). Global Outlook on Aid: Results of the 2014 DAC survey on donors' forward spending plans and prospects for improving aid predictability. Paris.

OECD and ECA (2014). Mutual Review of Development Effectiveness 2014.

Olaleye, S. O, F. Edun, H.T. Bello and S.B. Taiwo (2014). Government Expenditure and Economic Growth: An Empirical Analysis of the Armey Curve in Nigeria, Romanian Economic Journal; March 2014, vol. 17, issue 51, pp. 47-66.

Ondiege, P. (2010). "Mobile banking in Africa: Taking the bank to the people", Africa Economic Brief, Vol 1, Issue 8, December 2010. AfDB.

Overseas Development Institute (2015). One Foot on the Ground, One Foot in the Air – Ethiopia's Delivery on an Ambitious Development Agenda, September 2015, available at https://www.odi.org/sites/odi.org.uk/files/odi-assets/publications-opinion-files/9917.pdf

Oxford Business Group (2014). "Adding value: Exports are driving the sector forward and drawing in FDI", available at https://www.oxfordbusinessgroup.com/overview/adding-value-exports-are-driving-sector-forward-and-drawing-fdi.

Oyejide, T. A and A.S. Bankole (2005). Gats and Nigeria: Dealing with multilateral services negotiations within the context of development objectives. ILEAP. Negotiation Advisory Brief No. 9, July.

Philips, A. O. (1997). Nigerian fiscal policy, 1998-2010. Nigerian Institute of Social and Economic Research (NISER), Monograph Series No. 17, Ibadan.

Rashid, H. (2011). Credit to private sector, interest spread and volatility in credit flows: Do bank ownership and deposits matter? United Nations Department for Social and Economic Affairs, Working Paper 105, ST/ESA/2011/DWP/105, UNDESA, New York.

___________ (2012). Foreign banks, competition for deposits and terms and availability of credit in developing countries, Working Paper. Cited in Greenwald and Stiglitz (2012).

Reporter (2014). "Ethiopia issues USD 1 billion sovereign bond", available from http://www.diretube.com/articles/read-ethiopia-issues-usd-1-billion-sovereign-bond_7506.html.

___________ (2015a). "A less ambitious plan around the corner", available from http://allafrica.com/stories/201509071942.html.

___________ (2015b). “Closing the chapter on GTP I”.

Rewane, B. (2013). Nigeria loses N90bn to tax evasion in automobile industry. People’s Daily, 14 March.

Rodrik, D. (2009). The Real Exchange Rate and Economic Growth, Brookings Papers on Economic Activity, spring 2009.

Rowthorn, R. and Coutts, K. (2004). “De-industrialisation and the Balance of Payments in Advanced Economies”, Cambridge Journal of Economics, vol. 28, pp. 767-790.

Sanusi, L.S. (2012). Banking reform and its impact on the Nigerian economy. Lecture delivered at the University of Warwick Economic Summit, Warwick, 17 February.

Shadare, O.A. and S. T. Elegbede (2012). “Graduate unemployment in Nigeria: Causes, effects and remedies”, British Journal of Arts and Social Sciences, Vol.5 No. 2, available from http://www.bjournal.co.uk/paper/bjass_5_2/bjass_05_02_01.pdf.

Stenberg K. et al. (2010). Responding to the challenge of resource mobilization: Mechanisms for raising additional domestic resources for health. World Health Report (2010) Background Paper, 13. Geneva. World Health Organization.

Stiglitz, J., J.L. Yifu and E. Patel, eds. (2013). The industrial policy revolution II: Africa in the 21st century. International Economics Association, Conference Vol. 151-II, 2013, Palgrave Macmillan.

Szirmai, A. (2012). Proximate, intermediate and ultimate causality: Theories and experiences of growth and development. MERIT Working Papers 032, United Nations University, Maastricht.

Szirmai, A. and B. Verspagen (2015). “Manufacturing and economic growth in developing countries 1950-2005”, Structural Change and Economic Dynamics, Vol. 34, C, pp. 46-49. Elsevier.

Taye, H.K., T.A. Gashaw and K.K. Monica (2015). Domestic resource mobilization: Case Study on Ethiopia, African Capacity Building Foundation, July 2015.

Timmer, C. Peter et al. (2011). Patterns of growth and structural transformation in Africa: Trends and lessons for future development strategies. International Food Policy Research Institute WCAO Thematic research note No. 2, available from http://www.ifpri.org/publication/patterns-growth-and-structural-transformation-africa.

Trading Economics (2015). Nigeria unemployment rate, available from http://www.tradingeconomics.com/nigeria/unemployment-rate.

United Nations (2014). World economic situation and prospects 2014. New York and Geneva. United Nations.

United Nations Conference on Trade and Development (2007). World investment report 2007: Transnational corporations, extractive industries and development. New York and Geneva. United Nations.

___________ (2009). Investment Policy Review: Nigeria. New York and Geneva. United Nations.

___________ (2011). Economic Development in Africa: Fostering industrial development in Africa in the new global environment. New York and Geneva. United Nations.

___________ (2012). Economic Development in Africa: Structural transformation and sustainable development in Africa. New York and Geneva. United Nations.

___________ (2013). World Investment Report 2013. Global Value Chains: Investment and Trade for Development. New York and Geneva. United Nations.

___________ (2014a). Transforming economies: Making industrial policy work for growth, jobs and development. Geneva. ILO.

___________ (2014b). Economic Development in Africa: Catalysing investment for transformative growth in Africa. New York and Geneva. United Nations.

___________ (2014c). World Investment Report: Investing in the SDGs: An action plan. New York and Geneva. United Nations.

___________ (2015). Economic Development in Africa: Unlocking the potential of Africa's services trade for growth and development. New York and Geneva. United Nations.

United Nations Conference on Trade and Development and International Labour Organization (2014). Transforming economies: Making industrial policy work for growth, jobs and development. Geneva. ILO.

United Nations Department of Economic and Social Affairs (2015). Final push for milestone event to finance development, available from http://www.un.org/en/development/desa/newsletter/desanews/feature/2015/07/. United Nations Department of Economic and Social Affairs

United Nations Department of Economic and Social Affairs and ECA (2014). Background notes for the sessions – regional outreach for the Intergovernmental Committee of Experts on Sustainable Development Financing, held on 2 and 3 May 2014, Addis Ababa.

United Nations Development Programme Ethiopia (2011). Ethiopia fact sheet - Agriculture growth and transformation. Addis Ababa.

___________ (2012). Summary of commissioned studies: Prospects of non-traditional sources of development finance in Ethiopia, No. 1/2012.

___________ (2013). Annual report 2013. Addis Ababa.

___________ (2014). Ethiopia: Quarterly economic brief. Addis Ababa.

___________ (2015). Prospects of public-private partnership (PPP) in Ethiopia, No. 1/2015.

United Nations Industrial Development Organization (2013a). Competitive industrial performance report 2012/2013: The industrial competitiveness of nations looking back, forging ahead. Vienna.

___________ (2013b). Industrial development report 2013. Sustaining employment growth: The role of manufacturing and structural change. Vienna.

___________ (2013c). Industrial statistics database 2-Digit level, ISIC Revision 3 (INDSTAT2). Vienna.

___________ (2013d). MVA database 2010. Vienna.

United Nations Millennium Campaign (2013). Structural transformation in the African context: Reflections on priorities for the post-2015 development agenda. Midrand, South Africa. UNMC.

United Nations News Centre (2014). "UN-African Union report urges more credible industrial policies to transform continent", available from http://www.un.org/apps/news/story.asp?NewsID=47555#.WCB14aPP_LM.

United Nations System Task Team on the Post-2015 UN Development Agenda (2013). Financing for sustainable development in the global partnership beyond 2015. United Nations Department of Economic and Social Affairs.

United States State Department (2015). Ethiopia's Growth and Transformation Plan (GTP) At-A-Glance, available from http://photos.state.gov/libraries/ethiopia/427391/PDF per cent20files/GTP per cent20At-A-Glance.pdf.

Vala, H. (2015). Reykjavik geothermal and Iceland Drilling sign agreement, available from http://icelandreview.com/news/2015/08/05/reykjavik-geothermal-and-iceland-drilling-sign-agreement-ethiopia.

Walta Information Center (2014). Ethiopia to make USD 20 billion investment for power development, available from http://www.ethiopianembassy.be/en/ethiopia-to-make-usd-20-billion-investment-for-power-development/.

White, G. (2001). A Comparative Political Economy of Tunisia and Morocco. New York University Press.

White, Lyal and Adrian Kitimbo (2015). Infrastructure development: East Africa is on the move. http://www.dailymaverick.co.za/article/2015-09-08-infrastructure-development-east-africa-is-on-the-move/#.VgB-o_mqqko.

World Bank (1993). The East Asian miracle: A World Bank policy research report. Washington, D.C.

___________ (2002). Moroccan manufacturing sector at the turn of the century, Results of the firm analysis and competitiveness survey FACS-MOROCCO 2002, Pilot Investment Climate Assessment, available at http://siteresources.worldbank.org/INTPSD/Resources/336195-1092412588749/morocco_proof_3.pdf.

___________ (2005). Remittances: Development Impact and Future Prospect, Chapter 4. Washington, D.C.

___________ (2006). Making finance work for Africa. Washington, D.C.

___________ (2013a). Financing for development post-2015. Washington, D.C.

___________ (2013b). UNTT working group on sustainable development financing. Washington, D.C

___________ (2014a). Doing Business 2015: Going Beyond Efficiency. Washington D.C., available from http://www.doingbusiness.org/reports/global-reports/doing-business-2015.

___________ (2014b). World Development Indicators. World Bank,. Washington, D.C.: World Bank

___________ (2015a). Ethiopia economic overview. Accessed 7 November 2016, available from http://www.worldbank.org/en/country/ethiopia/overview.___________ (2015b). World Development Indicators, Washington, D.C.

Wright, G. (1999). A critical review of savings services in Africa and elsewhere. Mimeo prepared for Microsave, Nairobi.

Yong, L. (2014). "The return of industrial policy in Africa", GREAT Insights Magazine, Vol. 3, Issue 5, May 2014.

Zhang, Y., P. Block, M. Hammond and A. King (2015). "Ethiopia's Grand Renaissance Dam: Implications for Downstream Riparian Countries", Journal of Water Resource Planning Management, 10.1061/(ASCE)WR.1943-5452.0000520, 05015002.