United Nations
Economic Commission for Africa

# INNOVATIVE FINANCING FOR THE STRUCTURAL TRANSFORMATION OF WEST AFRICAN ECONOMIES

United Nations
Economic Commission for Africa

# INNOVATIVE FINANCING FOR THE STRUCTURAL TRANSFORMATION OF WEST AFRICAN ECONOMIES

To order copies of ***Innovative Financing For The Structural Transformation Of West African Economies*** by the Economic Commission for Africa, 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

© 2017 Economic Commission for Africa
Addis Ababa, Ethiopia

All rights reserved
First printing October 2017

Material in this publication may be freely quoted or reprinted. Acknowledgement is requested, together with a copy of the publication.

The designations employed in this report and the material presented in it do not imply the expression of any opinion whatsoever on the part of the Secretariat of the United Nations Economic Commission for Africa concerning the legal status of any country, territory, city or area or of its authorities, or concerning the delimitation of its frontiers or boundaries.

Designed and printed in Addis Ababa by the ECA Printing and Publishing Unit. ISO 14001:2004 certified.
Printed on chlorine free paper

Cover photos: Shutterstock.com

# Table of Contents

**Preface** ........ viii

**Acknowledgments** ........ x

**Executive summary** ........ xi

**I. Introduction** ........ 1

**II. Macroeconomic performance and infrastructure needs in West Africa** ........ 4
1. Recent economic developments ........ 4
2. Consumption, sustainable development goals and new financing needs ........ 5

**III. Decline of traditional financing mechanisms** ........ 8
1. Official development assistance: fatigue and unpredictability ........ 8
2. Foreign direct investment (FDI): sectoral polarization and trends in West Africa ........ 10
3. Debt and its sustainability: the limits of the subregion ........ 12
4. Infrastructure financing needs in West Africa ........ 13

**IV. Mobilization of domestic resources** ........ 14
1. Widening the tax base ........ 14
2. Rationalizing tax exemptions ........ 16
3. Action to combat tax fraud ........ 16
4. Action to combat illicit capital flight ........ 16

**V. Utilization of innovative financing mechanisms in West Africa** ........ 19
1. Securitization and channelling of migrant remittances ........ 19
2. Public-private partnerships and infrastructure development in West Africa ... 20
3. Utilization of subregional and international markets ........ 22
4. Recourse to Islamic finance ........ 23
6. The need for investment funds ........ 24

**VI. Factors of success and constraints for the implementation of innovative financing** ........ 26
1. Factors of success ........ 26
2. Constraints on the implementation of innovative financing mechanisms ... 27

**VII. Prospects** ........ 34
1. Additional mechanisms and centralization of resources ........ 34
2. Improving the quality of institutions ........ 35
3. Learning from mechanisms already at work in various countries and adopting a gradual approach ........ 35
4. Capacity-building of States in the area ........ 35
5. Optimizing the collection of domestic resources ........ 36
6. Developing local financial markets ........ 36

**VIII. Conclusion** ........ 37

**References** ........ 38

# List of Tables

Table 1 : Distribution by region of net ODA received (% GDP) in 1990, 2000 and 2010 .......... 9

Table 2 :Rate of annual growth of total official assistance in ECOWAS countries (as a percentage), 2005-2014 .......... 9

Table 3 : Net FDI inflows into ECOWAS countries (millions of US dollars), 1995-2014 .......... 12

Table 4 : Income, expenditure and budget deficit of ECOWAS countries as a percentage of GDP, 2012-2014 .......... 14

Table 5: Outline Table of Government Financial Operations of WAEMU countries (in billions of CFA francs) .......... 15

Table 6 : Capital flight trends ($ billions) .......... 17

Table 7: Remittances to ECOWAS countries ($ billions4) .......... 20

Table 8: Projects financed by public-private partnership in West Africa .......... 21

Table 9 : Evolution of public debt stock in WAEMU .......... 23

Table 10: Security issues on the international market .......... 23

Table 11: Sukuk resources mobilized in some ECOWAS countries .......... 24

Table 12: Some active investment funds in ECOWAS countries .......... 24

Table 13 : Overview of factors of success, constraints and solutions identified by the participants in the Dakar workshop .......... 29

Table 14: Simulations of resources that may be collected through various mechanisms (in millions of CFA francs) .......... 34

# List of Figures

Figure 1: Average ECOWAS growth rates (as a percentage), 1985-2014 .......... 5
Figure 2: FDI trends in sub-Saharan Africa in ECOWAS countries, 1990-2014 .. 11
Figure 3: Evolution of ECOWAS debt burden and service .......... 13

# Acronyms and abbreviations

| | |
|---|---|
| AfDB | African Development Bank |
| AFAO | West African Women's Association |
| AFRISTAT | Economic and Statistical Observatory of Sub-Saharan Africa |
| AICD | Africa Infrastructure Country Diagnostic |
| BRVM | Regional stock exchange |
| CCEET | Contrat de construction, exploitation, exploitation, transfert |
| COMAI | Conference of African Ministers in charge of Integration |
| CREPMF | Regional Public Savings and Financial Markets Council |
| DAC | Development Assistance Committee |
| ECA | Economic Commission for Africa |
| ECOWAS | Economic Community of West African States |
| EDG | Électricité de Guinée |
| FDI | Foreign direct investment |
| GDP | gross domestic product |
| IMF | International Monetary Fund |
| MRU | Mano River Union |
| ODA | Official Development Assistance |
| OECD | Organisation for Economic Co-operation and Development |
| PAP | Priority Actions Programme |
| PIDA | Programme for Infrastructure Development in Africa |
| UNDP | United Nations Development Programme |
| WADB | West African Development Bank |
| WAEMU | West African Economic and Monetary Union |
| WAMA | West African Monetary Agency |

# Preface

The Economic Community of West African States (ECOWAS) is one of the major drivers of African economic growth. The subregion ranks second among the African subregions with the highest growth rates, after East Africa. In addition to this noteworthy performance, reflected in a mean growth rate of around 5 per cent over the past decade, the subregion has clearly enunciated its aims in terms of economic and social development, as set out in national and subregional plans and visions.

In order to consolidate its macroeconomic performance and translate into reality its aims for development, ECOWAS needs to make up for its lack of basic infrastructure, which is blocking its potential for growth. Studies have shown that infrastructure deficit in transport, energy and new communication technology sectors is having a negative impact on the subregion's growth in a context where trade between regions remains at very low levels.

Over and above huge infrastructure needs, climate change threatens the continent. In this context, West Africa remains in the forefront, in terms of vulnerability and hence of needs for adaptation and mitigation, among economies required to transition from proven vulnerability to desired resilience. Given the requirements of the middle class in Africa together with changes that emerging concerns impose on modes of consumption, the post-2015 development programme and lessons learned from the implementation of the Millennium Development Goals call for a more effective strategy for the financing of development aims. The Sustainable Development Goals, which are more numerous and more diversified than the Millennium Development Goals, require a greater mobilization of Africa's development resources, with particular attention to domestic resources.

In view of these enormous challenges, the diversification of means of financing is becoming the rule for promoting the development of West African economies. As traditional sources of financing reveal their limited capacity to meet the new needs being superimposed upon the old, it has become imperative to leave the beaten track. In a context of low mobilization of fiscal resources at State level and given the limited ability of States to attract foreign direct investments, which are often directed towards countries rich in natural resources, recourse to non-traditional forms of development financing becomes a necessity. Questions raised about official development assistance (ODA) and its effectiveness for development consequently make it necessary for West Africa to rely on its internal resources and to build upon opportunities offered by public-private partnerships. Such partnerships have indeed set a trend and have helped to finance infrastructure in such countries as Senegal, Côte d'Ivoire and many others.

The utilization of Islamic finance, the channelling of migrant savings and the mobilization of institutional investors for the structural transformation of the economies of the subregion should be underpinned by sound national and subregional financial intermediation. Following the decline of traditional financing mechanisms and the lifting of the constraints to development financing in West Africa and in

Africa generally, there is a need for the active participation of both the foreign and the local private sector and for action to combat tax fraud and all other forms of illicit capital flight which deprive the subregion of the means to implement its policy.

West African countries have made commendable efforts to mobilize innovative financing mechanisms extending beyond traditional choices slanted towards official development assistance, foreign public debt and foreign direct investment whose limits are increasingly evident. Initiatives aimed at mobilization of public financing to finance infrastructure, efforts to securitize migrant remittances, innovative public-private partnerships, the mobilization of sukuks (Islamic bonds) and Islamic finance in general, recourse to national and subregional financial markets, the mobilization of green funds, etc., are living proof of an ongoing revolution in West Africa.

There is an enormous need to share experience drawing on lessons learned from successes and failures, while the strengthening of regulatory and institutional frameworks and the development of the human resources capable of carrying through these initiatives are the necessary springboards for holistic policies.

The Economic Commission for Africa, through the Subregional Office in West Africa, in pursuing its work of supporting the development dynamic in West Africa and building up the capacity to identify, implement and evaluate economic development policies, will continue to join with ECOWAS countries and any other stakeholders who express the need in seeking to strengthen innovative financing mechanisms and optimize their contribution to the process of structural transformation of the subregion.

*Dimitri Sanga*

*Director, Subregional Office for West Africa (ECA)*

# Acknowledgments

This report on "Innovative financing for the structural transformation of West African economies" was prepared under the leadership of Professor Dimitri Sanga, Director of the Subregional Office for West Africa of the Economic Commission for Africa (ECA/SRO-WA). The preparation of the report was coordinated by Mr. Joseph Foumbi, Chief of the Subregional Initiatives Section in the Subregional Office for West Africa (SRO-WA).

The Subregional Office was assisted by Professor L.J. Esso, consultant, member of the Economic Policy Analysis Unit (CAPEC) of the Ivorian Centre for Economic and Social Research (CIRES) in Abidjan (Côte d'Ivoire), tasked with preparing the document. The consultant's work was supervised by Mr. Jean-Luc Mastaki Namegabe, expert for economic affairs in the Subregional Office. The report was reviewed and finalized in-house by the BSR-AO team consisting of Mr. Ahmadou Diouf, Mamoudou Sebego, Florent Melesse, Simon

Neumueller and Jérôme Ouédraogo. The report also takes into account the comments and contributions of the experts who participated in the ad hoc meeting of the group of West African experts on "Innovative financing for the structural transformation of West African economies", held in Dakar on 23 and 24 February 2016.

The meeting was attended by experts from member States of the Economic Community of West African States (ECOWAS), namely, Benin, Burkina Faso, Cabo Verde, Côte d'Ivoire, the Gambia, Ghana, Guinea, Guinea-Bissau, Liberia, Mali, the Niger, Nigeria, Senegal, Sierra Leone and Togo. Their contributions in terms of country experience of innovative financing enriched the report. Regional economic communities and other intergovernmental organizations participating in the meeting included the Economic Community of West African States (ECOWAS), the West African Economic and Monetary Union (WAEMU), the Mano River Union (MRU), the Economic and Statistical Observatory of Sub-Saharan Africa (AFRISTAT), the Central Bank of West African States (BCEAO), the African Development Bank (AfDB), the West African Monetary Agency (WAMA), the Regional Public Savings and Financial Markets Council (CREPMF), the Regional Stock Exchange (BRVM), the West African Women's Association (AFAO), Water and Sanitation for Africa and ActionAid. These entities brought a subregional and/or sectoral perspective to the issue of development financing in West Africa.

The Subregional Office of the Economic Commission for Africa in West Africa extends its sincere thanks to the Ministry of the Economy, Finance and the Plan of the Republic of Senegal for its support for the holding of the meeting of experts and for sharing the experience of Senegal in infrastructure financing and, in particular, private sector participation in development financing.

Colleagues in the Subregional Office, including Mr. Jean Baptiste Eken, Mr. Privat Denis Akochayé, Mr. Mounkaila, Ms. Kadijatou Amadou, Ms. Zara Sani and Ms. Balkissa Allagbada, also made valuable contributions to the finalization of this report.

# Executive summary

Macroeconomic performance in the West African subregion has been good, with an average growth rate higher than 5 per cent over the past decade. Forecasts show that growth should be strong over the period 2016-2020, with an average growth rate ranging between 5 and 7 per cent.

Current growth will mean a greater demand for infrastructure, the lack of which is one of the greatest obstacles to sustainable development in the subregion, while climate change is creating new needs for financing which in turn exacerbate existing shortfalls.

Since the Monterey conference in 2002, development financing options for the continent have been greatly fleshed out. At the same time, Africa's common position on the post-2015 development programme makes development financing from national sources the priority of governments.

The emergence of a middle class in Africa and changes in behaviour and patterns of consumption generate needs in terms of economic infrastructure while the setting of Sustainable Development Goals raises the problem of post-2015 development financing.

These new financing needs are emerging in a context characterized by a downturn in traditional financing mechanisms. Assistance is showing clear signs of fatigue combined with a crippling unpredictability; foreign direct investment, centred on particular sectors and countries, seems increasingly on the decline; and debt is limited by the extent to which it can be sustained.

Official development assistance is decreasing annually in just over half of the ECOWAS countries, declining in nine and eight countries respectively in 2013 and 2014. Over those two years, it dropped by between 53.1 per cent (Côte d'Ivoire, 2014) and 3 per cent (Nigeria, 2014). Foreign direct investment (FDI) was affected by the 2007 financial and economic crisis. After several years of sustained growth, investment inflows in West Africa fell by nearly 10 per cent between 2008 and 2009, amounting to US$17 billion in 2011, then $15 billion in 2012. This downturn continued in 2013 and 2014. FDI flows to West Africa are directed mainly towards rich countries.

The debt stock of ECOWAS member States is one of the highest in sub-Saharan Africa. Before 2005, it was well below $80 billion, settling at a little more than $50 billion in 2012.

Infrastructure needs in sub-Saharan Africa are expected to exceed $93 billion yearly over the next 10 years. There is a financing shortfall of more than $50 billion. Furthermore, the Priority Actions Programme (PAP) adopted under the Programme for Infrastructure Development in Africa (PIDA) sets needs for priority infrastructure financing over the period 2012-2020 at $68 billion.

The fact is that, notwithstanding the progress made in the mobilization of domestic resources, illicit financial flows are one of the major obstacles to development financing, involving amounts that sometimes exceed inputs of assistance and investments. The West African countries lose on average from $9.6 billion to $68 billion in tax revenue every year through exemptions. The loss is biggest in Nigeria and Ghana. It is therefore important to step up efforts to combat tax fraud while continuing to fight illicit capital flows.

Innovative financing, which is one of the most promising solutions to meeting Africa's development needs, offers additional funds through the exploration of an existing but unexplored potential. This potential also includes the mobilization of non-traditional resources for development.

The use of innovative financing mechanisms should encourage the securitization and channeling of migrant remittances. Public-private partnerships also offer great opportunities for the development of economic infrastructure. Development resources need to be mobilized through recourse to subregional and international markets and the channeling of inputs from local financial markets and bond issues on international markets. Increasingly frequent recourse to Islamic finance could facilitate financial inclusion and access to resources. Moreover, ECOWAS States can be expected to draw on various investment funds to make up for insufficient financing in a number of sectors.

It remains nevertheless true that the key to the success of innovative financing lies in the existence of an adequate regulatory framework and properly trained personnel. Where regulations are concerned, it is encouraging to note that regulatory frameworks and specific laws exist for public-private partnerships in some countries although most African countries, in addition to South Africa, are faced with human resource problems, albeit at different levels. Unfavourable country risk assessment by investors is a further handicap to attracting private investment.

Capacity-building programmes are needed to ensure that the resources collected are used rationally. Attention must also be given to the question of the exorbitant costs of collecting and transferring the resources of migrants and to upgrading the skills of those charged with exploring and negotiating contracts on innovative financing for enhanced mobilization of domestic resources while at the same time combating tax fraud and illicit capital flight.

The financial markets of the subregion are awash with liquidity. For all that, people do not have easy access to those markets which do not make their full contribution to financing productive investment. Multiple reforms have been undertaken in the past few years in the ECOWAS countries to develop financial integration and optimize the impact of financial activities on growth and the well-being of the population. These advances must be built upon.

# I. Introduction

West Africa is a subregion whose economic growth is among the fastest in the continent. Its macroeconomic performance has been good, with an average growth rate higher than 5 per cent over the past decade, attesting to the resilience of the area to international and regional turbulence.1 Current forecasts (2015-2020) show that growth should be strong over the period 2016-2020 with an average growth rate ranging between 5 per cent and 7 per cent.

Current growth will mean an increased demand for infrastructure, the lack of which is one of the greatest obstacles to sustainable development in the subregion and in the continent. Studies by the Programme for Infrastructure Development in Africa (PIDA) and the Africa Infrastructure Country Diagnostic (AICD) have revealed that some countries in the subregion are falling behind in terms of infrastructure cover, owing, in particular, to difficulties in mobilizing the necessary funding. The infrastructure gap in Africa negatively impacts on growth by about 2 per cent yearly2.

The West African countries are, in addition, the primary victims of climate change. Because of their low income, they have difficulty in financing the necessary adaptation measures, and climate change represents an additional development cost. Climate change creates new financing needs that exacerbate the already existing shortfalls.

Since the Monterey conference, development financing options for the continent have been considerably fleshed out. Portfolio investments into Africa have progressed while the relative weight of bilateral assistance from OECD countries has tapered off considerably in a context where South-South cooperation is continuing to grow rapidly.

The African common position on the post-2015 development programme establishes development financing from national sources3 as the priority of governments. Innovative financing, considered to be one of the most promising solutions to the problem of Africa's development needs, offers additional funds through the exploration of an existing but unexplored potential and the mobilization of non-traditional resources for development. It provides a means of countering shortcomings and the drop in traditional official development assistance.4

1 African Development Bank, Organization for Economic Cooperation and Development, United Nations Development Programme (2014), African Economic Outlook 2014, West Africa, 2014, http://www.africaneconomicoutlook.org/index.php/en/home.
2 Seventh Conference of African Ministers in charge of Integration (COMAI VII) Programme for Infrastructure Development in Africa (PIDA): Charting the way forward on infrastructure and integration, 14-18 July 2014, Swaziland (COMAI VII, 2014).
3 ECA-African Union, Expert committee meeting, Fifth Annual Joint Conference of Ministers of Economy and Finance of the African Union and African Ministers of Finance, Planning and Economic Development of the United Nations Economic Commission for Africa (ECA), Financing of the Programme for Infrastructure Development in Africa (PIDA).
4 French Republic, Ministry of Ecology, Sustainable Development and Energy, Office of the Commissioner General for Sustainable Development, Innovative Financing Mechanisms, Department of Economy, Evaluation and Integration of Sustainable Development, February 2013, www.developpement-durable.gouv.fr.

New trends in development financing in West Africa range from incentives to direct investment by the private sector, both abroad and locally, to the promotion of various forms of public-private partnership and the development of innovative ways of mobilizing resources, including bond issues on the national, regional and international financial market, the mobilization of investment funds and recourse to development banks. Local capital markets play an important role, consisting in commercial bank loans, certain corporate bond and share issues and the involvement of institutional investors, notably pension funds and insurance companies.

Innovative financing mechanisms face a number of challenges in the form of transaction costs and the many administrative obstacles to the implementation of financing mechanisms generally. Those obstacles need to be evaluated with a view to designing an instrument for dealing with them that would ensure greater effectiveness and reliability, as well as economies of scale.

Innovative financing mechanisms need to be regulated by the public authorities in order to guard against their producing undesirable effects. Their successful implementation will depend on the quality of financial intermediation at the subregional level and will also call for the development of appropriate institutional and regulatory frameworks. In many West African countries, the institutional, legal and regulatory framework is both incomplete and imprecise, particularly in regard to the management, follow-up, review and monitoring procedures for the various forms of public-private partnership. Implementation of these texts comes up against a problem of interface with public procurement and outsourcing service codes in force. At the same time, the overlapping of texts is often a source of confusion5.

Such is the background to this report on "Innovative financing in West Africa: baselines, constraints and factors of success". The report seeks mainly to identify the challenges and opportunities connected with the financing of structural transformation in West Africa in order to highlight the role that innovative financing mechanisms may play in this approach.

Specifically, the report aims to:

b. Quantify financing shortfalls and needs;

c. Identify sources and stakeholders through a concise study of supply and demand in respect of financial resources for development;

d. Analyse possibilities for mobilizing domestic resources in the subregion through a quantitative assessment of financial opportunities, possible sources and challenges relating to the various possibilities;

5 WADB, Study on the harmonization of the institutional and regulatory framework for private infrastructure financing in ECOWAS countries for a private operator. The study would benefit from clarification. Nodalis Conseil, 2014.

e. Take stock of the options for innovative financing mechanisms available in West Africa and of those currently adopted, their strengths, shortcomings, opportunities and threats, and assess how well they can be adapted to the environment of the subregion;

f. Analyse, on the basis of specific cases, the various constraints and challenges connected with innovative financing mechanisms and the difficulties involved in optimizing their contribution to the structural transformation of economies in the subregion;

g. Discuss factors for success and selection criteria for innovative financing mechanisms in West Africa and the preconditions for them to make the best possible contribution to the process of structurally transforming West African economies;

h. Make relevant policy recommendations to strengthen the development of innovative financing mechanisms and optimize their contribution to the structural transformation of economies, naturally in the light also successful concrete experiences and failures in West Africa and elsewhere.

The remainder of the document is organized as follows. Section 2 outlines major sources of financing in West Africa and related challenges; Section 3 discusses issues relating to the mobilization of domestic resources. Sections 4, 5 and 6 report on case studies of countries in the area. Section 7 sets out policies for the optimization of innovative financial inputs. The main conclusions are put forward in Section 8.

# II. Macroeconomic performance and infrastructure needs in West Africa

Strong growth in West Africa should lead to greater demand for infrastructure. To better assess these needs, this section describes the macroeconomic performance of African countries. It highlights changes in the structure and patterns of consumption of countries, which generate new infrastructure needs.

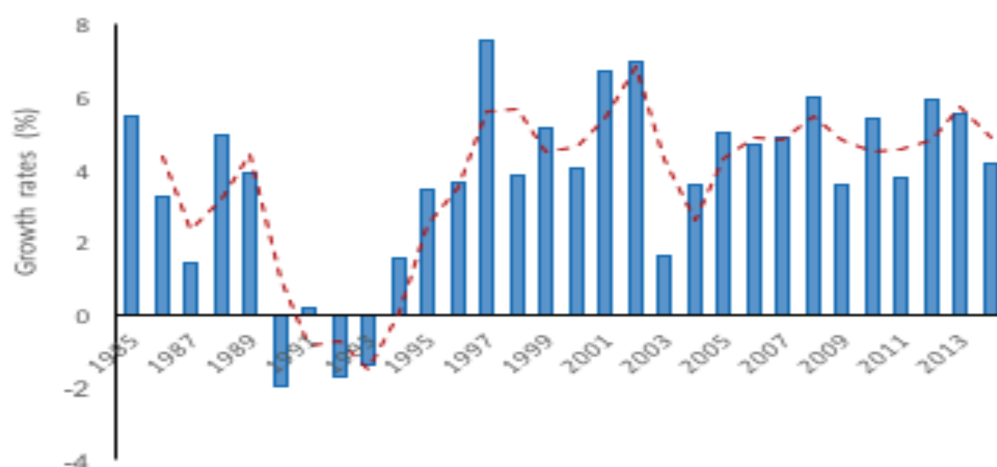
## 1. Recent economic developments

Growth in Africa remains strong despite the hesitant recovery of developed country economies following the 2007 crisis. According to recent forecasts of global growth, made by the International Monetary Fund (IMF, 2016), GDP growth in sub-Saharan Africa should stand at 3.5 per cent, 4 per cent and 4.7 per cent respectively in 2015, 2016 and 2017. Despite the Ebola outbreak, West Africa saw 6 per cent growth in 2014 and should continue to be one of the most vigorous subregions of Africa between 2016 and 2020. Figure 1 shows average ECOWAS growth rates since 1985. It can be seen that, since 2005, the average growth rate has remained at around 4 per cent. The growth rate is positive in most of the countries, with the exception of one or two countries according to the year. For example, in 2011, in Côte d'Ivoire, the growth rate was -4 per cent. In Sierra Leone, the growth rate was also sustained for slightly more than 10 years.

Growth in Africa is carried by external and internal factors. Internationally, growth is driven by a sustained demand for raw materials, mainly under the impetus of China and other emergent countries, and rising prices.

Higher prices for raw materials, particularly oil, have benefited producing countries. However, the current drop in oil prices, which is expected to last, should lead to a fairly pronounced slowdown in these economies, notably Nigeria. The fall in export revenue and the ensuing budgetary adjustments have negative consequences for the real economy (IMF, 2016): in Nigeria, forecasts point to 3 per cent growth in 2015, 4.1 per cent in 2016 and 4.2 per cent in 2017 – a far cry from the 7 per cent projected before oil prices started to fall. Domestically, reference can be had to the political stability of several countries, implementation of optimal economic policies and an increase in domestic demand. Some West African countries (Benin, Côte d'Ivoire, Senegal and Togo) were among the 10 countries that had undertaken major reforms to improve the business climate in the world. Domestic demand, for its part, is driven by private consumption and public infrastructure investments.

**Figure 1: Average ECOWAS growth rates (as a percentage), 1985-2014**




*Source:* UNCTAD-STAT (2015), our calculations.

## 2. Consumption, sustainable development goals and new financing needs

### *a. Increase in private consumption*

The increase in private consumption is largely due to the emergence of a middle class in Africa. Even though there is much debate about how this class is made up, studies (AfDB 2011; BGG 2013; Standard Bank; IMF 2014) note new patterns of consumption. For instance, middle-class households devote a larger part of their budget to education, health, insurance services and financial services. In addition, these households express a preference for non-expendable goods and services: clothing, automobiles, electronic goods (television and telephone), insurance and health services. This change in the consumption patterns of African populations and the steady increase in their purchasing power suggests a potential demand for new goods and products. This demand generates needs for economic infrastructure (roads, bridges, airports, electricity, etc.) and for social infrastructure (schools, hospitals, etc.).

These “new” middle-class needs give added weight to the question of the financing of public infrastructure investments.6 According to the World Bank, annual infrastructure needs in Africa are estimated at $93 billion, or 15 per cent of African GDP. The public sector finances infrastructure investments in an amount of some $22.5 billion yearly. The shortfall in terms of infrastructure is about $50 billion yearly. In addition, about a third of the infrastructure shortfall can be filled by operational optimization, which would reduce the shortfall to $31 billion, or 5 per cent of GDP.

6 It is not being overlooked that some infrastructure is the preserve of the private sector. However, emphasis is being placed on public infrastructure such as roads, power stations, hospitals, etc.

### b. *Challenges of Sustainable Development Goal financing*

The Sustainable Development Goals take forward and expand the Millennium Development Goals. Defined at the Rio +20 summit, the Sustainable Development Goals are the fruit of collaboration among the members of a group of representatives of more than 70 countries. This integrated approach resulted in a consensus around an outcome document adopted by the United Nations General Assembly. The 17 Goals are as follows:

i. End poverty in all its forms everywhere;

ii. End hunger, achieve food security and improved nutrition and promote sustainable agriculture;

iii. Ensure healthy lives and promote well-being for all at all ages;

iv. Ensure inclusive and equitable quality education and promote lifelong learning opportunities for all;

v. Achieve gender equality and empower all women and girls;

vi. Ensure availability and sustainable management of water and sanitation for all;

vii. Ensure access to affordable, reliable, sustainable and modern energy for all;

viii. Promote sustained, inclusive and sustainable economic growth, full and productive employment and decent work for all;

ix. Build resilient infrastructure, promote inclusive and sustainable industrialization and foster innovation;

x. Reduce inequality within and among countries;

xi. Make cities and human settlements inclusive, safe, resilient and sustainable;

xii. Ensure sustainable consumption and production patterns;

xiii. Take urgent action to combat climate change and its impacts;

xiv. Conserve and sustainably use the oceans, seas and marine resources for sustainable development;

xv. Protect, restore and promote sustainable use of terrestrial ecosystems, sustainably manage forests, combat desertification, and halt and reverse land degradation and halt biodiversity loss;

xvi. Promote peaceful and inclusive societies for sustainable development, provide access to justice for all and build effective, accountable and inclusive institutions at all levels;

xvii. Strengthen the means of implementation and revitalize the Global Partnership for Sustainable Development.

West Africa faces many challenges notwithstanding the high growth rates recorded over the past decade. It needs in particular to combat poverty and inequality, stabilize revenue from agricultural and non-agricultural raw materials and maintain competitive economies. However, one of the major determining factors for competitiveness is the development of the various types of infrastructure. The ECOWAS area still has to contend with the lack of infrastructure. Estimated at some $50 billion yearly, the shortfall in infrastructure accounts for a loss of growth in the order of 2 per cent for the whole of Africa. A third of the infrastructure shortfall can be filled by operational optimization, which would reduce the shortfall to $31 billion, or 5 per cent of GDP.

Sustainable Development Goal financing is crucial for the goals to be attained by 2030. The cost of ending poverty (Goal 1) would be about $66 billion a year, according to the Intergovernmental Committee of Experts on Sustainable Development Financing. Overall, it seems difficult to estimate how much financing would be needed to attain each of the goals. For this reason, work has focused on methods of financing rather than on the amount. The main methods envisaged are the mobilization of domestic resources and private sector resources through innovative mechanisms.

Infrastructure development is essential to ensure better economic and social performance in the ECOWAS area through improved private sector productivity and the generation of positive externalities conducive to economic performance. Infrastructure development is a vector of structural transformation, which is a major source of economic and social development. West Africa must therefore seek new mechanisms to supplement traditional methods for its infrastructure financing in order to accelerate structural transformation.

# III. Decline of traditional financing mechanisms

The West African countries have tried out a good number of development financing mechanisms, mainly in the form of official development assistance, foreign public debt and foreign direct investment. However, these methods of financing are coming up against limits through the slowing of world growth. Assistance seems more unpredictable and foreign direct investment seems to be running out of steam, while sectoral polarization is becoming more pronounced. At the same time, debt is on the increase and is becoming unsustainable in the medium and long term.

## 1. Official development assistance: fatigue and unpredictability

Official development assistance (ODA) is a form of financing based on bilateral or multilateral agreements that do not generally include reimbursement or exorbitant rates of interest. Sub-Saharan African countries receive the largest share of global ODA, amounting to some 44 per cent of global ODA in 2010 (table 1). ECOWAS countries receive 26 per cent of this assistance, or a little more than a quarter of total assistance. Although ODA has increased, spurred by non-member countries of the Development Assistance Committee[7] in the past few years, it should be noted that it has been affected by the recent world crises, which left the European economies more vulnerable. Table 2 shows that every year ODA becomes slightly smaller in the little more than half the ECOWAS countries. This decrease was more marked in 2013 and 2014. ODA decreased in nine and eight countries respectively in 2013 and 2014. In those two years, the decrease varied between 53.1 per cent (Côte d'Ivoire, 2014) and 3 per cent (Nigeria, 2014). In absolute terms,[8] the decrease in ODA amounted to $1.44 billion and $0.35 billion for Côte d'Ivoire in 2013 and 2014 respectively. In the case of Nigeria, the absolute decrease was $77 million.

Despite the drop in ODA in most of the countries in the area, Sierra Leone and Guinea continue to receive steady assistance from donors. Nevertheless, aid flows have decelerated[9] over the years in those countries. For instance, for Guinea, the growth rate dropped from 70 per cent (2012) to 38 per cent (2013) and 18.9 per cent (2014).

7 DAC non-member countries that make a substantial contribution to ODA for African countries are: Croatia, Cyprus, Estonia, Hungary, Israel, Kuwait, Latvia, Lithuania, Malta, Romania, Russian Federation, Saudi Arabia, Thailand, Turkey, United Arab Emirates.

8 These figures are in millions of constant US dollars, base 2013.

9 The term "deceleration" refers to a decline in the growth rate.

**Table 1 : Distribution by region of net ODA received (% GDP) in 1990, 2000 and 2010**

| Regional Area | 1990 | 2000 | 2010 |
|---|---|---|---|
| Small Caribbean States | 1.21 | 0.58 | 0.59 |
| East Asia and Pacific | 14.78 | 21.22 | 9.75 |
| Europe and Central Asia | 2.62 | 11.07 | 7.26 |
| Latin America and Caribbean | 9.45 | 11.81 | 10.14 |
| North America and Middle East (all income levels) | 25.68 | 11.93 | 12.07 |
| North America | 0.08 | 0 | 0 |
| Small Pacific island States | 0.48 | 1.01 | 1.01 |
| South Asia | 11.47 | 10.20 | 15.22 |
| Sub-Saharan Africa | 34.23 | 32.18 | 43.97 |
| including ECOWAS | | | 26 |

*Source* : World Bank data.

The long and short of it is that ODA is steadily declining in the ECOWAS countries. This trend continued in 2015 and should be maintained in 2016 and 2017, particularly as the main contributors are gradually replacing donations by concessional loans. ODA is thus becoming an unstable or "unpredictable" source of financing.

**Table 2 :Rate of annual growth of total official assistance in ECOWAS countries (as a percentage), 2005-2014**

| | 2000 | 2005 | 2010 | 2011 | 2012 | 2013 | 2014 |
|---|---|---|---|---|---|---|---|
| Benin | 29.96 | -13.91 | 2.47 | -7.20 | -22.13 | 27.12 | -9.56 |
| Burkina Faso | -44.88 | 5.34 | -2.93 | -11.75 | 20.32 | -9.76 | 6.84 |
| Cabo Verde | -24.39 | 9.99 | 70.87 | -28.11 | 5.52 | -4.46 | -5.87 |
| Côte d'Ivoire | -13.32 | -43.65 | -64.56 | 62.21 | 92.42 | -53.12 | -27.83 |
| Gambia | 52.97 | - 3.46 | -7.62 | 6.62 | 6.60 | -17.42 | -14.36 |
| Ghana | 2.51 | -18.94 | 6.30 | 1.07 | 1.18 | -26.21 | -15.82 |
| Guinea | -33.48 | -30.26 | 4.26 | -10.76 | 70.15 | 38.01 | 18.89 |
| Guinea-Bissau | 70.39 | -15.82 | -13.31 | -9.38 | -31.19 | 30.32 | 4.86 |
| Liberia | -24.34 | 1.25 | 168.75 | -48.39 | -23.71 | -6.78 | 39.21 |
| Mali | -11.86 | 18.80 | 9.89 | 9.97 | -19.15 | 37.95 | -11.73 |
| Niger | 19.00 | -6.50 | 59.76 | -17.73 | 43.18 | -12.29 | 14.82 |
| Nigeria | 16.92 | 965.81 | 23.17 | -18.63 | 9.49 | 30.81 | -3.09 |
| Senegal | -13.99 | -36.08 | -8.52 | 6.94 | 5.59 | -8.53 | 11.34 |
| Sierra Leone | 150.61 | -12.40 | 3.39 | -13.68 | 7.01 | 0.81 | 97.65 |
| Togo | 8.66 | 22.82 | -21.14 | 26.42 | -53.96 | - 8.38 | -7.23 |
| Number of countries (decrease) | 7 | 9 | 6 | 9 | 5 | 9 | 8 |

*Note:* The shaded areas are for negative rates (decrease in ODA). The last line shows the number of countries where ODA has decreased.

*Source:* AfDB/OCDE/UNDP (2015), Economic Outlook in Africa 2015.

## 2. Foreign direct investment (FDI): sectoral polarization and trends in West Africa

Foreign direct investments (FDI) consist of the various financial operations designed to affect the operation and management of companies established in a country other than that of the parent (multinational) company. FDI thus designates a transfer of tangible and intangible assets from one country to another for the purpose of producing wealth under the total or partial control of the owner of the assets. According to UNCTAD, investment will be considered to be direct and foreign when an investor based in one country (the country of origin) acquires an asset in another country (host country) with the intention of managing it. Seen from this angle, three kinds of FDI may be distinguished: capital shareholding (mergers, acquisitions), the creation of so-called greenfield projects and the reinvestment of profits and other capital flows (short-or long-term loans between the parent company and its subsidiary). In the case of capital shareholding, the share of capital should be at least 10 per cent for it to be possible to talk of FDI.

For developing countries, emerging economies and countries in transition, FDI has become an increasingly important source of economic development. This means of financing would appear to offer many advantages. FDI may be said to be a viable alternative to the capital market in so far it is a source of international investment that is less volatile for the host countries than other forms of investment.10 Furthermore, the reinvestment of profits from FDI in the host country brings new modes of management and new competencies in terms of organization and access to the international market. It provides residents with a wide range of products. FDI also increases productivity and this is advantageous to other stakeholders in the national productive system and certain economic agents in so far as the entire profit does not go not to the foreign investor. Domestic workers will benefit from it in terms of higher real salaries, domestic households in terms of lower prices and government in terms of higher tax income.

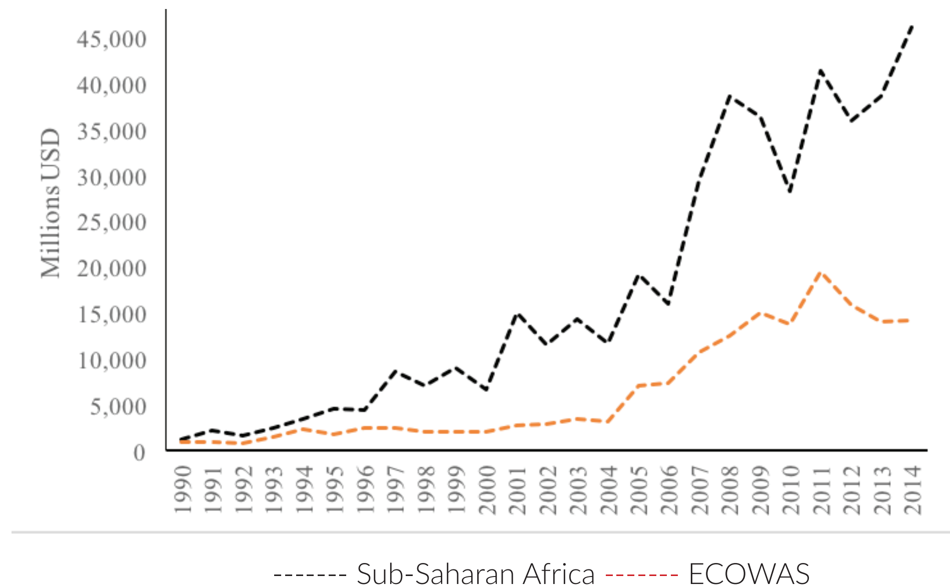
FDI is also conducive to the transfer of production technology to developing countries. Its impact on economic growth would thus appear greater than that of domestic private investment. FDI generally supports job creation, improved productivity and transfers of know-how and technology. Ultimately, it leads indirectly to higher salaries. It also helps to boost exports. In addition, FDI generates tax revenue and may thereby contribute to the implementation of social policy for population groups absent from the consumption market. Lastly, FDI allows the countries concerned to be better integrated into the world economy by making products more competitive.

Multinational corporations have become one of the main engines of the global economy and their importance is steadily increasing in all continents. The increased influence of multinational corporations from the OCDE area in the developing countries is particularly striking. Developing countries currently represent more than a third of total inputs of foreign direct investments, as against a little more than a fifth in 1990. The increase in FDI which began in the 1990s in sub-Saharan Africa,

10 Dembélé (2008).

and particularly in the ECOWAS countries (figure 2), and in the emerging economies is a consequence of their real and anticipated advantages in terms of quality job creation and the introduction of modern production and management technology. This indeed is the reason that many governments have put in place policies designed to attract foreign direct investments.11

**Figure 2: FDI trends in sub-Saharan Africa in ECOWAS countries, 1990-2014**




*Source:* World Bank (2015), World development indicators.

Foreign direct investment in West Africa was compromised by the financial and economic crisis of 2007. After several years of sustained growth, investment inflows into West Africa fell by nearly 10 per cent between 2008 and 2009, amounting to $17 billion in 2011, then $15 billion in 2012. This downward trend continued in 2013 and 2014.

Table 3 shows that Ghana and Senegal are the two main beneficiaries of FDI inputs into the ECOWAS area. In 2014, those two countries alone accounted for 65 per cent of net FDI flows into the area. Over the past four years, Ghana has become a valued FDI pole even though net FDI flow into that country remains lower than for Senegal. The FDI share directed towards that country rose from 6 per cent in 1995 to 27 per cent in 2014. This trend noted in respect of Ghana is seen in Africa generally (AfDB, 2015).

FDI flows from the OCDE countries (traditional contributors) are decreasing in Africa. There is, however, a greater flow of Chinese, Indian and African capital. Between 2009 and 2014, African capital served to finance 19 per cent of projects in Africa, in contrast with 11 per cent over the period 2003-2008.

11 OECD (2008), Do Multinationals Promote Better Pay and Working Conditions?

**Table 3 : Net FDI inflows into ECOWAS countries (millions of US dollars), 1995-2014**

| | 1995 | 2000 | 2005 | 2010 | 2011 | 2012 | 2013 | 2014 |
|---|---|---|---|---|---|---|---|---|
| Benin | 8.01 | 59.74 | 53.04 | 176.80 | 161.09 | 229.58 | 360.24 | 377.36 |
| Burkina Faso | 9.82 | 23.11 | 34.15 | 34.62 | 143.66 | 329.30 | 490.26 | 341.90 |
| Cabo Verde | 26.18 | 43.45 | 81.55 | 158.82 | 154.69 | 70.15 | 70.17 | 78.06 |
| Côte d'Ivoire | 211.76 | 234.70 | 311.92 | 338.94 | 301.58 | 330.28 | 407.47 | 462.04 |
| Gambia | 15 | 43.52 | 87.09 | 20.44 | 66.03 | 93.37 | 37.64 | 28.40 |
| Ghana | 106.50 | 114.90 | 144.97 | 2 527.36 | 3 237.39 | 3 293.43 | 3 226.33 | 3 356.99 |
| Guinea | 0.77 | 9.94 | 105 | 101.35 | 956.12 | 606.47 | 135.30 | 566 |
| Guinea-Bissau | 0.04 | 0.70 | 8 | 33.22 | 25.02 | 6.62 | 19.64 | 21.46 |
| Liberia | 4.60 | 20.80 | 82.81 | 449.96 | 785.30 | 984.60 | 1 061.27 | 302.00 |
| Mali | 111.39 | 82.44 | 223.80 | 405.90 | 556.15 | 397.87 | 307.85 | 198.93 |
| Niger | 14.42 | 8.44 | 30.29 | 940.32 | 1 065.79 | 841.28 | 719.13 | 768.99 |
| Nigeria | 1 271.05 | 1 309.67 | 4 978.26 | 6 098.96 | 8 914.89 | 7 127.38 | 5 608.46 | 4 693.83 |
| Senegal | 35.06 | 62.94 | 44.59 | 266.11 | 338.22 | 276.18 | 311.28 | 342.65 |
| Sierra Leone | 7.29 | 38.88 | 90.70 | 238.40 | 950.50 | 225.10 | 144.10 | 439.90 |
| Togo | 32.05 | 41.47 | 76.99 | 85.83 | 711.09 | 121.52 | 183.55 | 292.09 |
| ECOWAS | 1 853.95 | 2 094.68 | 6 353.17 | 11 877.04 | 18 357.51 | 14 933.11 | 13 082.70 | 12 270.59 |

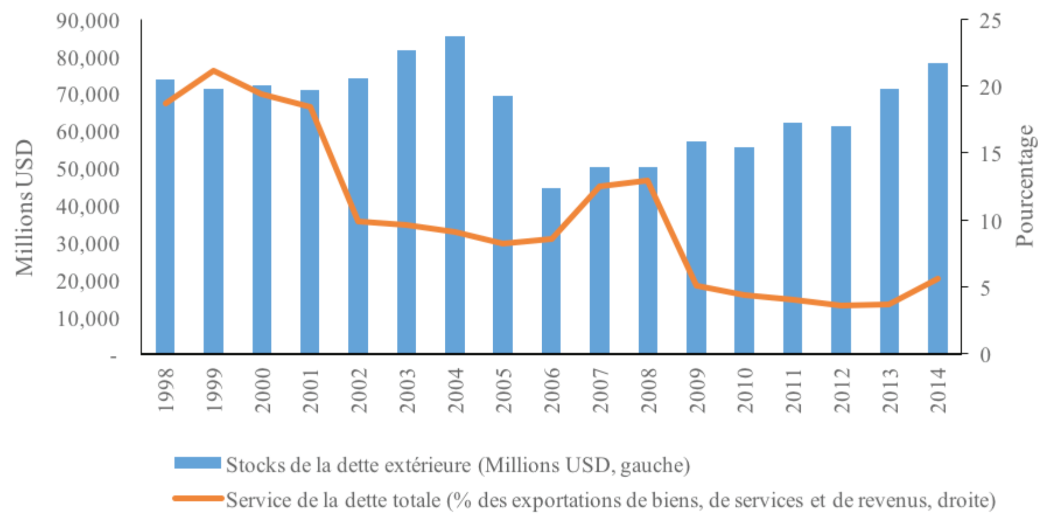
***Source:*** ECOWAS (2015), UNCTADStat.

FDI inflows into West Africa are mainly earmarked for natural resources management (oil and gas, gold, iron ore, magnesium, wood) and are directed towards countries rich in those resources. In 2013-2014, the bulk of investments went to oil-producing countries in West Africa. In addition to these traditional sectors, FDI now tends to flow towards the service sector (new technologies, retail sales) and the agro-industry sector. In Ghana, for example, FDI is mainly allocated to information and communication technology and retail sales (IMF, 2014). Chinese capital is invested in in the transport, building and clothing sectors.

## 3. Debt and its sustainability: the limits of the subregion

The debt stock of ECOWAS member countries is among the highest in sub-Saharan Africa. Pre-2005, the debt of the area was well under $80 billion, settling at just over $50 billion in 2012 (figure 3). The share of debt in exports fell from 18 per cent in 1998 to less than 5 per cent in 2012. This decrease in the debt burden is due to the fact that nearly all the countries in the area (12 out of 15) reached (or exceeded) the completion point of the Heavily Indebted Poor Countries Initiative (HIPC), in view of the solvency issues that arose. The countries were Benin, Burkina Faso, Côte d'Ivoire, Ghana, Guinea, Guinea-Bissau, Liberia, Mali, the Niger, Senegal, Sierra Leone and Togo. Even though such initiatives are not mechanisms for debt conversion, like for example Debt2Health, they seek to redirect funds intended for debt servicing to anti-poverty programmes. In addition to these initiatives, some countries in the area have benefited from a debt alleviation programme, like Côte d'Ivoire.

Figure 3: Evolution of ECOWAS debt burden and service




*Source:* World Bank (2015).

## 4. Infrastructure financing needs in West Africa

The Africa Infrastructure Country Diagnostic study12 shows that infrastructure needs in sub-Saharan Africa are expected to exceed $93 billion yearly over the next 10 years.13 At the present time, less than half of that sum is available. There is thus a financing shortfall of more than $50 billion. Furthermore, according to the Priority Actions Programme (PAP) adopted under the Programme for Infrastructure Development in Africa (PIDA), priority infrastructure financing needs over the period 2012-2020 amount to $68 billion. In view of the scale of the investments required, and in a context of pressure on the public finances of States, domestic reforms are needed in order to raise the level of domestic resources and make use of innovative methods of financing.

12 AICD, 2009. Africa Infrastructure Country Diagnostic.
13 Having regard to the period when the study was made, this assessment could be valid up to 2019.

# IV. Mobilization of domestic resources

The mobilization of domestic resources remains a key problem in the countries of West Africa. Notwithstanding the progress achieved in this regard, African countries, particularly in West Africa, still have to contend with huge difficulties in levying substantial amounts of taxes (AfDB, 2015). One of the greatest obstacles is the illegal financial flows out of Africa, particularly as their amount sometimes exceeds total contributions in aid and investment. In addition to this outflow, considerable amounts of resources are not mobilized on account of the exemptions granted to certain companies. We shall consider in this section how these problems affect the efforts of West African countries to mobilize domestic resources.

## 1. Widening the tax base

Despite the efforts made by some countries in the matter of taxation, income from taxes is insufficient to cover financing needs. With the exception of Nigeria, all the ECOWAS countries showed a negative overall balance in 2012 (table 4). In 2014, the financial operations of States resulted overall in a slight (percentage) increase in the overall deficit, which rose to nearly 10.9 per cent of GDP for Ghana and 10 per cent for the Gambia.

**Table 4 : Income, expenditure and budget deficit of ECOWAS countries as a percentage of GDP, 2012-2014**

| Country | 2012 | | | 2013 | | | 2014 | | |
|---|---|---|---|---|---|---|---|---|---|
| | TI* | PE | OB | TI | PE | OB | TI | PE | OB |
| Benin | 18.8 | 21 | -0.3 | 19.4 | 22.4 | -2.1 | 18.2 | 21.8 | -2.5 |
| Burkina Faso | 17.5 | 25.5 | -3.1 | 18.5 | 27.8 | -3.9 | 17.3 | 23.3 | -1.9 |
| Cabo Verde | 21.6 | 34.7 | -10.3 | 22.2 | 33.6 | -8.9 | 21.3 | 30.3 | -7.4 |
| Côte d'Ivoire | 18.4 | 22.1 | -3.1 | 18.5 | 22.1 | -2.2 | 18.6 | 23.2 | -2.3 |
| Gambia | 16.4 | 29.1 | -4.4 | 16.3 | 27.1 | -8.5 | 18.7 | 32.4 | -10 |
| Ghana | 17 | 30.7 | -12.2 | 16.3 | 27.8 | -11.1 | 17.7 | 29.3 | -10.9 |
| Guinea | 20.1 | 26.1 | -3.3 | 1841 | 25.1 | -5.2 | 17.9 | 26.1 | -4.1 |
| Guinea-Bissau | 9.1 | 13.7 | -2.2 | 8.1 | 13.4 | -4.8 | 12 | 22.4 | -1.4 |
| Liberia | 26 | 30.1 | -1.6 | 25 | 32.8 | -4.7 | 23.5 | 32.3 | -3.5 |
| Mali | 17.1 | 18.5 | -1.1 | 17.3 | 23.5 | -2.8 | 17.6 | 23.8 | -3.5 |
| Niger | 15.2 | 22.3 | -1.1 | 17 | 27.8 | -2.6 | 18 | 31.9 | -8.3 |
| Nigeria | 14.3 | 14 | 0.3 | 11 | 13.4 | -2.3 | 10.5 | 12.5 | -2 |
| Senegal | 20.5 | 28.5 | -5.2 | 19.9 | 27.9 | -5.5 | 21 | 29.2 | -4.9 |
| Sierra Leone | 11.4 | 20.4 | -5.2 | 10.7 | 15.6 | -2.4 | 9.9 | 17.9 | -3.6 |
| Togo | 17.6 | 26.4 | -7.2 | 18 | 25.5 | -4.6 | 17.7 | 24.6 | -4.9 |

***TI:*** Total income, excluding grants; PE: Public expenditure; OB: Overall balance, including grants

***Source:*** IMF, 2015. Regional Economic Outlook.

Moreover, total income (excluding grants) has scarcely increased over the past three years. The tax revenue of countries in the area derives largely from the exploitation of natural resources and agricultural products. It is therefore understandable that, of

ECOWAS countries, Nigeria has the highest taxes (about 29 per cent over the period 2012-2014).14

Having insufficient tax revenue to finance infrastructure and new investment needs, the budget authorities are making efforts to rationalize public spending. They may also contract loans to finance the shortfall and widen the tax base so as to increase taxes.

As far as the rationalization of public spending is concerned, it should be noted that some States our seeking to reduce the share of total spending in relation to GDP. A slight decrease in spending (as a percentage of GDP) can thus be seen over the period 2012-2014. However, this decreased share of spending does not spell the end of budget deficits, which are becoming increasingly marked in most countries, with the exception of Ghana.

**Table 5: Outline Table of Government Financial Operations of WAEMU countries (in billions of CFA francs)**

| | 2010 | 2011 | 2012 | 2013 | 2014 |
|---|---|---|---|---|---|
| Total income and grants | 7083.28 | 7061.72 | 8552.66 | 9646.19 | 10251.63 |
| Total income excluding grants | 6230.40 | 6133.52 | 7607.41 | 8294.05 | 8897.28 |
| Tax income | 5529.21 | 5479.70 | 6684.96 | 7293.51 | 7324.75 |
| Non-tax income | 592.69 | 475.79 | 760.82 | 892.26 | 911 |
| Total grants | 852.87 | 928.20 | 945.25 | 1352.24 | 1354.35 |
| Total expenditure and net loans | 8056.52 | 8408.71 | 9778.59 | 11074.14 | 11798.97 |
| Total expenditure | 7996.09 | 8322.32 | 9752.23 | 11079.39 | 11671.93 |
| Current expenditure | 5342.15 | 5585.22 | 6582.19 | 6902.31 | 7457.01 |
| Other expenditure | 132.92 | 140.33 | 157.07 | 174.17 | 177.84 |
| Loans minus cost recovery | 39.84 | 27.38 | 20.39 | -35.41 | -3.27 |
| Overall balance excluding grants | -1498.12 | -1933.70 | -1724.20 | -2148.83 | -2419.65 |
| Overall balance | -1013.74 | -1392.30 | -1308.12 | -1434.90 | -1542.85 |
| Financing | 1 545.98 | 1 508.79 | 1 181.80 | 1 238.82 | 1 958.64 |
| Foreign financing | 1 163.60 | 1 217.40 | 920.73 | 654.62 | 1 521.57 |
| Domestic financing | 382.38 | 291.39 | 261.07 | 584.20 | 437.06 |

*Source:* BCEAO, our calculations.

The persistence of shortfalls raises the question of States' financing needs. In most cases, countries have no choice but to go outside. Table 5 shows that more than 75 per cent of the financing of WAEMU countries comes from regions outside the Union. The ratio between overall balance (including grants) and nominal GDP, which needs to be higher than or equal to -3 per cent, fluctuated between -3.1 per cent (2012) and -3.2 per cent (2014).

14 Nigeria is one of the six African countries whose total tax revenue was 70 per cent of African GDP in 2013 (AfDB, 2015). The other countries are Algeria, Angola, Egypt Libya and South Africa.

## 2. Rationalizing tax exemptions

Being granted an exemption means not having to pay a tax, a levy or a due under certain conditions defined by law. Exemptions are granted to individuals, corporations and certain diplomatic entities and diplomatic corps. The magnitude of the exemptions in WAEMU countries reduces tax liability and affects tax returns. Lowering the corporate tax rate by one percentage point results overall in the short term in a 3.7 percentage point reduction in the corporate tax base in any given country.15 Such exemptions do greater harm to ECOWAS economies, particularly when most of them are granted to companies engaged in the agricultural and industrial sectors. The ECOWAS countries derive an essential part of their resources from the sale of agricultural and industrial products (e.g. Nigeria).

It can be argued, a priori, that tax exemptions are a way of attracting foreign capital. However, a study by Van Parys et al. (2010) shows that such changes in corporate taxation do not significantly affect FDI flows or fixed capital formation and eat away at the tax base.

Another report16 notes that West African countries lose on average $9.6 billion in tax revenue every year through exemptions. In addition, despite the special tax exemption policies introduced in Côte d'Ivoire, Ghana, Nigeria and Senegal, these have had little effect on foreign investment. The biggest losses are in Ghana and Nigeria.

## 3. Action to combat tax fraud

Action to combat tax fraud is a major component of sovereignty and the consolidation of public accounts for member countries in the ECOWAS area. It is a precondition for ensuring the principle of tax equality. Tax fraud undermines solidarity within a country by leaving the tax burden exclusively to those who meet their obligations as taxpayers and, the same time, makes for unfair competition between companies.

In its 13 July 2015 issue, the newspaper Libération (AFP, 13 July 2015) reports that tax fraud deprived ECOWAS of $210 billion between 2002 and 2011. Although figures are not available in this connection, this loss in tax revenue is far higher than the amount of official assistance received by many countries in the area.

## 4. Action to combat illicit capital flight

Efforts to stamp out poverty in West Africa call for net inputs of capital for investment in infrastructure, the social sector, productive activities, etc., owing to the small amount of available domestic resources. While such financial assistance has a significant role, other movements of capital to or from developing countries are far more consequential, both by their number and by their scale. These financial flows include capital flight which is one of the main obstacles to the development of

15 These figures are drawn from a report published in 2015 by the Open Society Initiative for West Africa.
16 ActionAid and Tax Justice Network Africa Report.

West African countries in view of the amounts of money involved, but also because it undermines the structures of States and the implementation of good governance.

Capital flight in the ECOWAS area consists of major licit or illicit financial flows towards countries outside the area. Several factors account for this phenomenon, including political or economic instability and higher returns from investments elsewhere in the world, as well as economic crimes (embezzlement). Regardless of the factors involved, such capital flight affects human development because it reduces the resources of the country of origin and does so in several ways.

The first way is through debt creation. There is indeed a close link between capital flight and indebtedness. For every dollar of Africa's foreign debt, more than 50 cents leave the country in the same year, in the form of flight capital (Ndikumana and Boyce, 2011). Where West Africa is concerned, having to repay public debt means that countries are less able to increase their spending on health, education and infrastructure. Capital flight also exacerbates inequality. Those who benefit are the elites who cheat on the value of imports and exports or those who are able to get hold of resources illegally in order to transfer them abroad. Practically all those who engage in this form of evasion are among the richest 10 per cent of the population (Ngaruko, 2012).

The second channel taken by capital flight is investment, which affects human development. If the sums involved were saved and invested in the national economy of the country of origin, they would raise per capita income and help to fight poverty. For example, that would have meant an additional investment of more than $10.7 billion yearly in Nigeria over the period 2000-2008 (Fofack and Ndikumana, 2010). Capital flight is said to have amounted to $45.1 billion in Côte d'Ivoire over the period 1970-2008, which places that country in third place among sub-Saharan African countries with the highest capital flight movements (Ndikumana and Boyce, 2011). Table 6 shows capital flight trends in a number of countries between 2000 and 2009. It may be seen that Côte d'Ivoire, Ghana and Nigeria have the highest flows. Accumulated flight capital since 1970 represents about $273 billion.

**Table 6 : Capital flight trends ($ billions)**

| | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 |
|---|---|---|---|---|---|---|---|---|---|---|
| Burkina Faso | -0.10 | -0.05 | -0.13 | 0.46 | -0.20 | -0.31 | -0.32 | -0.05 | 0.15 | 0.18 |
| Côte d'Ivoire | 3.63 | -0.68 | 1.34 | 3.27 | -0.06 | 3.28 | 0.49 | 0.98 | -1.12 | -2 |
| Ghana | 0.21 | 0.20 | 1.04 | 0.40 | 0.50 | -0.91 | 0.75 | 0.73 | 1.45 | 0.68 |
| Guinea | -0.06 | -0.23 | 0.05 | -0.05 | -0.33 | -0.73 | -0.01 | -0.13 | 0.03 | -0.54 |
| Niger | -0.01 | -0.51 | -0.53 | -0.39 | | | | | | |
| Nigeria | 0.52 | 3.36 | 2.72 | 13.11 | 9.81 | 29.26 | 24.31 | 26.91 | 37.99 | 29.03 |
| Senegal | 0.15 | -0.38 | -0.77 | -0.62 | | | | | | |
| Togo | -0.04 | -0.26 | -0.15 | | | | | | | |

***Source:*** Ndikumana and Boyce, 2011.

Illicit flights of capital are accentuated by political instability arising out of the various conflicts that have occurred in the area over the past three decades. Wars have exacerbated illicit trafficking in natural resources and agricultural raw materials such as cocoa, but also in arms sales to paramilitary militias and defence and security forces. The West African countries would have more resources to invest in development if their Governments put in place mechanisms designed to limit the phenomenon of illicit financial flows.

# V. Utilization of innovative financing mechanisms in West Africa

This section focuses on the experience of some countries in the use of innovative financing. Innovative financing for development is a mechanism for raising funds for development. It is a tool that complements official development assistance by being predictable and stable. Recourse may be had to such financing to supplement budget resources already earmarked for development and for climate change mitigation. It is closely linked to the idea of global public good and seeks also to correct the negative effects of globalization. Innovative financing refers to forms of taxation applied to income which is not taxed or is taxed very little because of a lack of international coordination, as well as to other financial mechanisms (in particular, loan guarantees and market mechanisms). It is generally based on activities linked to globalization such as, for example, air and sea transport or financial transactions.

## 1. Securitization and channelling of migrant remittances

Official transfers of funds from migrants remain one of the main sources of international financial inputs into Africa. They represent approximately 33 per cent of outside inputs since 2010 (AfDB, 2015). In 2014, eight ECOWAS countries17 were among the main beneficiaries of migrant remittances in Africa.

Migrant remittances are particularly distinguished from other financial flows by their stability and predictability. Cash transfers from migrants to the ECOWAS countries have come to represent a substantial amount of capital over the past few years (table 7). The volume of remittances amounts to some $23.6 billion (including $21.3 billion for Nigeria) in 2014 as compared with $10.2 billion over the period 1995-1999. Over the period 1995-2014 the two major beneficiaries in the area were Ghana and Nigeria.

Migrant remittances are a source of income for households. They are used first and foremost for consumer spending. However, studies conducted in a number of countries (Burkina Faso, Kenya, Nigeria, Uganda, Senegal) show that a part of these resources goes into productive investment (agricultural equipment, housebuilding, creation of enterprises, land purchase, farming improvements). At the macroeconomic level, remittances are a major source of foreign currency and savings for the country.

17 Cabo Verde, the Gambia, Guinea-Bissau, Liberia, Mali, Nigeria, Senegal and Togo.

**Table 7: Remittances to ECOWAS countries ($ billions4)**

| | 1995-1999 | 2000-2004 | 2005-2009 | 2010 | 2011 | 2012 | 2013 | 2014 |
|---|---|---|---|---|---|---|---|---|
| Benin | 0.42 | 0.37 | 0.92 | 0.14 | 0.17 | 0.21 | 0.25 | - |
| Burkina Faso | 0.37 | 0.27 | 0.40 | 0.12 | - | - | - | - |
| Cabo Verde | 0.44 | 0.47 | 0.70 | 0.13 | 0.18 | 0.18 | 0.18 | 0.19 |
| Côte d'Ivoire | 0.71 | 0.66 | 1.03 | 0.37 | 0.40 | 0.37 | 0.38 | - |
| Gambia | - | 0.12 | 0.32 | 0.12 | 0.11 | 0.14 | - | - |
| Ghana | 0.13 | 0.27 | 0.56 | 0.14 | 2.13 | 2.16 | 0.89 | 2.01 |
| Guinea | 0.01 | 0.18 | 0.20 | 0.05 | 0.06 | 0.07 | 0.09 | - |
| Guinea-Bissau | 0.02 | 0.09 | 0.19 | 0.05 | 0.05 | 0.05 | 0.06 | - |
| Mali | 0.49 | 0.61 | 1.62 | 0.47 | 0.78 | 0.83 | 0.89 | - |
| Niger | 0.06 | 0.14 | 0.42 | 0.13 | 0.17 | 0.15 | 0.15 | - |
| Nigeria | 6.52 | 7.10 | 87.16 | 19.74 | 20.62 | 20.54 | 20.80 | 20.83 |
| Liberia | - | 0.06 | 0.26 | 0.03 | 0.36 | 0.52 | 0.38 | 0.50 |
| Senegal | 0.78 | 2.03 | 5.73 | 1.48 | 1.61 | - | - | - |
| Sierra Leone | 0.10 | 0.09 | 0.12 | 0.04 | 0.06 | 0.06 | 0.07 | 0.06 |
| Togo | 0.11 | 0.53 | 1.38 | 0.34 | 0.24 | 0.34 | 0.40 | - |
| ECOWAS | 10.16 | 12.98 | 101.01 | 23.35 | 26.95 | 25.61 | 24.54 | 23.59 |

*Source:* World Bank (2015).

In view of the large amount of migrant remittances and the use made of them, countries need to put in place mechanisms in order to attract more resources from migrants. One approach is to issue bonds for the diaspora. Ethiopia and Kenya introduced such an approach in 2011. Ethiopia thus obtained financing estimated at $4.8 billion. However, according to Plaza et al., 2011, these two experiences were not very successful because of institutional shortcomings. It is therefore clear that there is a need for improved governance in the mobilization and management of this type of financing.

Another option for the mobilization of the diaspora population is the implementation of securitization operations. These will allow ECOWAS countries to have access to international capital markets at a lower cost and, in particular, to reduce international exchange risks.

## 2. Public-private partnerships and infrastructure development in West Africa

According to the African Development Bank, a public-private partnership means essentially that a third party is entrusted under a long-term contract with overall responsibility for the financing, construction, maintenance, operation or management of property needed for public service. This method of financing is used by ECOWAS countries to finance development, particularly of public infrastructure. Examples include construction of the toll motorway between Dakar and Abidjan, container terminal concessions in Dakar and Abidjan, water and electricity distribution concessions, etc. Table 8 provides an overview of public-private partnership experience in West African countries.

Even though the use of public-private partnerships as a source of funding is a reality for ECOWAS countries, new forms of public-private partnership as a method of innovative financing are not yet centralized at the level of the Community. These mechanisms are similar to those of RED products. These new forms consist in the creation of partnerships with companies which introduce products with ECOWAS project-specific brand labels. Part of the profits from the sale of such products is then used to finance development.

**Table 8: Projects financed by public-private partnership in West Africa**

| Country | Projects financed by public-private partnership |
|---|---|
| Benin | • Concession for the container terminal in the autonomous port of Cotonou<br>• Establishment of one-stop management company in Benin (SEGUB)<br>• Support to the agricultural sector for the cultivation of rice, cashew nuts, shea and cotton |
| Burkina Faso | • Agricultural tractor assembly unit project<br>• Project for the establishment of a multimodal dry port in Ouagadougou<br>• Northern intersection construction project<br>• Study and construction of Bagré-aval hydroelectric power plant<br>• Recruitment of independent electricity producers for the financing, construction and operation of five solar voltaic plants in Burkina Faso |
| Côte d'Ivoire | • Construction of third bridge (Henri Konan Bédié Bridge)<br>• Extension of Félix Houphouët-Boigny airport<br>• Construction of a new container terminal in the ports of Abidjan and San-Pedro<br>• Construction of thermal power plant and inter-city station<br>• Construction and operation of the Cocody St-Jean market<br>• Construction and operation of the thermal power plant CIPREL IV<br>• Construction and operation of the AZITO 3 combined-cycle thermal power plant<br>• Operation of the Soubré hydroelectric dam (275 MW and the associated energy evacuation network<br>• Operation of 30 rice processing units |

| Country | Projects financed by public-private partnership |
|---|---|
| Ghana | • Reconstruction over the Makola bridge<br>• Extension of the Tema port<br>• Accra prison project<br>• Western railway project<br>• University housing project<br>• Accra elevated light rail mass transit commuter system<br>• Accra-Kumassi high-speed train project<br>• Accra seawater desalination plant<br>• Sogakope - Lomé transboundary drinking water supply PPP project<br>• Ghana airline project<br>• Boanka dry port and eastern railway<br>• Sports and housing infrastructure<br>• Office Accommodation Complex (administrative building)<br>• Accra irrigation project<br>• Accra-Tema railway project<br>• Accra airport project<br>• Takoradi port project<br>• Extension of the Accra-Takoradi railway |
| Guinea | • Hydroelectric development of Kaléta<br>• Garafiri hydroelectric dam (75 MW)<br>• Interim electric network consolidation project<br>• Programme of public lighting by self-operating solar lamps (30 000) country-wide<br>• Construction of solar photovoltaic plant (12 MW) as a BOT (Build, Own, Operate) project with HYUNDAI PECOS<br>• Souapiti hydroelectric dam (515 MW) in progress. |
| Senegal | • Dakar-Diamniadio toll motorway<br>• Waqf project for the modernization of modern ***daraas*** at conceptualization and operationalization stage |
| Sierra Leone | • Railway maintenance<br>• Purchase and installation of thermal power plants for Freetown district towns to supply reliable and better quality electricity<br>• Installation of solar lamps in district towns<br>• Improved access by the local population to basic water supply and sanitation services |

***Source:*** Author.

## 3. Utilization of subregional and international markets

The unpredictability of external financing sources, particularly official development assistance, has led African States to seek contributions from local financial markets and bond issues on international markets. Where borrowing in the subregion is concerned, the regional public debt market (in WAEMU) has been active over the past two years, particularly in 2014. Net issues of public securities amounted to 1,324.9 billion CFA francs as compared with 720 billion CFA francs in 2013. In 2014, gross issues amounted to 3,070.5 billion CFA francs, of which 1466.7 billion CFA

francs in treasury bills and 1603.8 billion CFA francs in bonds (BCEAO). Côte d'Ivoire accounted for 44,0 per cent of debt security issues in the area followed by Senegal (18 per cent) in 2014. Approximately one third of the securities issued were bonds over the period 2009-2014 (table 9).

**Table 9 : Evolution of public debt stock in WAEMU**

| | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 |
|---|---|---|---|---|---|---|
| Stock (billions of CFA francs) | 1 255.7 | 1 946.9 | 2 601.1 | 3 023.9 | 3 743.9 | 5 068.8 |
| (As a percentage of GDP) | 3.8 | 5.6 | 7.1 | 7.5 | 8.4 | 10.5 |
| Relative share (as a percentage) | | | | | | |
| Treasury bills | 38.3 | 51.8 | 36.7 | 39 | 36.3 | 30.5 |
| Bonds | 61.7 | 48.2 | 63.3 | 61 | 63.7 | 69.5 |

*Source:* BCEAO.

In terms of bond issues on the international market, Côte d'Ivoire issued its first dollar-denominated bonds in the first half of 2014. Subscriptions amounted to $5 billion. In the same year, Senegal (in 2009 and 2011) and Ghana issued $500 million and $1 billion of bonds respectively on the international market in 2015. Ghana, for its part, had already in 2007 raised $750 billion in Eurobonds on the international market. The funds raised should serve to finance infrastructure projects. In 2013, Nigeria issued its own Eurobonds on the international market (table 10).

**Table 10: Security issues on the international market**

| Country | Amount of resources mobilized ($) | Year of issue |
|---|---|---|
| Côte d'Ivoire | 5 billion | 2014 |
| Ghana | 750 million | 2007 |
| | 1 billion | 2014 |
| | 1 billion | 2015 |
| Nigeria | 70.6 million | 2013 |
| Senegal | 500 million | 2014 |

*Source:* Author.

## 4. Recourse to Islamic finance

In addition to the above-mentioned mechanisms, the various countries increasingly have recourse to Islamic finance, in particular the sukuk, which is the Islamic equivalent of bonds (according to the Islamic Development Bank). Unlike conventional bonds, which simply confer ownership of a debt, the sukuk gives the investor a share in an asset, along with commensurate cash flows and risk. As such, sukuk securities comply with Islamic laws, sometimes referred to as Shari'ah principles, which prohibit the charging or payment of interest.

Nigeria, Côte d'Ivoire, the Gambia and Senegal are West African countries that have already issued sukuk securities of which the amounts available by country are summarized in table 11. In the Gambia, as in the Sudan, sukuk securities have been sold to the population to facilitate their financial inclusion and give them easier access to resources. In addition to the Gambia, we shall look at the particular case of Senegal.

In July 2014, Senegal issued a sovereign sukuk of a hundred billion CFA francs. This public offering of securities was directed towards the acquisition of shares in a debt securitization pool generating an annual profit of 6.3 per cent for four years. This experience earned for Senegal the 2015 best African project award for Islamic finance. Subsequently, the Senegalese presidency asked for the experience to be renewed in order to finance the "Emergent Senegal Plan" (PSE), which provides for the implementation of strategic projects, such as for example the regional express train line between Dakar and the new Diass airport.

**Table 11: Sukuk resources mobilized in some ECOWAS countries**

| Resources | 2013 | 2014 | 2015 |
|---|---|---|---|
| Côte d'Ivoire (in billions of CFA francs) | | | 150 |
| Senegal (in billions of CFA francs) | | 100 | |
| Osun State, Nigeria (in billions of naira) | 11.3 | | |

*Source:* Compiled by author.

# 6. The need for investment funds

An investment fund is a public or private enterprise which invests capital in company projects in its own specialized field. Investment funds may form part of banks or financing agencies or belong to individuals. They often specialize in one investment area. There exist several forms of investment fund, namely, venture capital funds, development capital funds, LBO (Leveraged buyout) and turnaround funds. Such funds are set up to cover unmet needs for financing in key sectors of activity or to finance infrastructure generally. They rely on support and advice and availability of financing.

**Table 12: Some active investment funds in ECOWAS countries**

| | |
|---|---|
| Côte d'Ivoire | Fonds Améthis<br>Fonds cauris croissance limited<br>Fonds IP-dev, fonds Africinvest |
| Senegal | Fonds de garantie des investissements prioritaires (FONGIP)<br>Fonds souverain d'investissements stratégiques (FONSIS)<br>Aureos West Africa Fund |
| Sierra Leone<br>Liberia | West Africa Venture Fund LLC |
| Nigeria<br>Ghana | Aureos West Africa Fund |

*Source:* Compiled by author.

A number of investment funds are particularly active in the West African countries. Table 12 provides an overview of funds that are active in target countries. These funds finance infrastructure (Côte d'Ivoire, Senegal, Sierra Leone), but also sectors such as agriculture, small and medium-sized enterprises, etc.

Besides these, there are many other funds whose activities are not restricted to particular countries. For example, between 2010 and 2014 the European Investment Bank (EIB) loaned 1.1 billion euros for 33 projects in 16 countries to support economic development, job creation and growth in West Africa.18 It offered support to the Ecobank group for the development of its loan and microcredit activities for SMEs and other public and private local and international enterprises in Nigeria and in French-speaking countries of Central Africa and West Africa in order to advance integration in the region. The European Investment Bank also improved access to water in the Niger and developed solar energy in Burkina Faso.

18 http ://www.eib.org/attachments/country/eib_in_west_africa_fr.pdf.

# VI. Factors of success and constraints for the implementation of innovative financing

This section, starting from the experience of ECOWAS countries, focuses on factors of success and constraints for implementation of innovative financing mechanisms. Table 13 provides an overview of factors of success, constraints and particular solutions contemplated by some countries.

## 1. Factors of success

A precondition for the success of the public-private partnership financing mechanism is the existence of a detailed regulatory framework and sound human resources.

The need for human resources plays out at two levels. First, the contracting authorities must be able to call on human resources that have good knowledge of public-private partnership mechanisms. Such personnel can contribute to working out the various schemes and see to it that the associated costs are socially acceptable. Generally speaking, the rates charged for public services do not necessarily meet the requirements of a private investor. The investor would agree to be paid according to the weighted average cost of the capital plus his own profit margin. The State, however, does not leave itself any profit margin when it establishes social infrastructure. This conflict of interest may be resolved on condition that there are individuals available who have good knowledge of the various mechanisms used for this type of project. Second, the personnel available must be capable of monitoring the public-private partnerships not only technically but also from the legal and financial standpoints. Technical monitoring involves making sure that the service provided is in conformity with the terms of the contract. Financial monitoring provides a means of overseeing pricing practices and, where appropriate under the regulations, the revenue generated by infrastructure use.

Moreover, the role of regulations is to put limits on the profit margins of private investors in this type of partnership. Regulations must be at once flexible and strict. Flexible regulations allow this type of partnership to be developed for the provision of public services. The second requirement, strictness, refers to the capacity of regulations to determine the maximum profit margin that can be tolerated in the economy. Regulations should also refer explicitly to data and to data sources so as to be sure that the two parties meet their obligations. In this context, the importance of regulations springs from the fact that private funds are used for the financing of projects.

In terms of regulations, it is encouraging to note that regulatory frameworks and specific laws exist for public-private partnerships in Côte d'Ivoire, Nigeria, the Gambia and Ghana (Economist Intelligence Unit, 2015). These regulatory frameworks and laws are being extended to other sources of innovative financing. We may refer, for example, to the solidarity tax on airplane tickets, the Waqf project in Senegal and the

establishment of an institutional body dedicated to this type of project in nearly all the ECOWAS countries.

Despite the progress that is being made, the implementation of these laws or their translation into reality remains limited. For instance, Nigeria has strong legislation on such issues as transparency in tendering procedures and dispute resolution, but it is not always effective in practice. Transparency in project management, referred to by Guinea and Senegal, is a key factor in the success of projects financed by innovative mechanisms. Countries experience difficulties in following up on their regulations because of a lack of competency. For instance, Ghana has put in place strict rules concerning project preparation but does not have sufficient (domestic) capacity to manage the process, which may often be complex.

Domestic demand propelled by growth and the emergence of a middle class is a factor in the successful use of innovative financing. For instance, in Benin, there is a big rise in bus use as a large part of the population is looking for some degree of comfort and safety despite the cost of transport. The cost of this type of transport is higher than that of others (small vehicles and minibuses). The boarding tax applied to road transport companies may therefore be potentially a significant source of financing for the Government. The strong growth of Côte d'Ivoire, reflected in an increase in gross national income, is a factor that attracts multi-asset investment funds and bond issues on international and regional markets.

## 2. Constraints on the implementation of innovative financing mechanisms

Local government competency should be a factor of success. However, the lack of competency for studying and implementing certain financing mechanisms in the area thus becomes a constraint. For the Economist Intelligence Unit (EIU), public-private partnerships call for knowledge over a wide range of areas, from contract design for financing to legal expertise. Most African countries, in addition to South Africa, are faced with problems of human resources, albeit at different levels. Some countries (Ghana, Uganda, Zambia, Rwanda) lack expertise in areas such as risk assessment, contract design, project preparation and financing and economic analysis of the advantages of public-private partnerships over the alternatives. A greater number of qualified legal experts are also needed to improve legislation and ensure swift and effective legal procedures in the event of a dispute. A problem of domestic capacity-building that arises over the long term. For example, Ghana received support to the value of $20 million from the World Bank in 2012. This support is intended to improve institutional and legislative frameworks and to develop financial, fiduciary and technical capacity for the establishment of bankable public-private partnership projects.

Strong reliance on external financing may limit the success of infrastructure financing initiatives. In Africa, only South Africa is capable, through its financial markets, of ensuring domestic financing for any public-private partnership project. This country has the advantage of a well-capitalized and well-regulated banking sector with a large capacity for structuring financing. In addition to the banking sector, this country has a

dynamic local market. In the other countries, particularly in West Africa, there has been little development of local markets for the financing of private infrastructure. Countries are therefore heavily dependent on external financing. This heavy dependence on external financing results in higher mobilization costs and makes economies vulnerable to shocks affecting the external economy and, especially, variations in exchange rates. It is for this reason that the ECOWAS countries19 encourage South-South cooperation to limit external shocks, particularly from countries of the North towards countries of the South.

Countries need to improve the business climate if they want to generate more public-private partnerships. Unfavourable perception of country risk among investors is a handicap to the attraction of private investors. The EIU assessment (2015) shows that the investment climate is a constraint faced by African countries as a whole. In nearly all the ECOWAS countries, governance indicators reflect low-quality institutions. In so far as infrastructure is inadequate and financial markets are limited in Africa, countries must provide themselves with a legal and regulatory framework tailored to public-private partnerships and facilitate network formation and sharing of experience between regulatory agencies and other related organizations. They must also improve domestic governance by seeking lasting solutions to such phenomena as corruption, etc. Such an approach provides reassurance to the various investors who wish to make financial resources available to States in the area, some of which are fragile.

The weakness of the framework governing the business climate is exacerbated by the weakness of the share of African countries in international trade. The weakness of the domestic market and trade, combined with the fragility of host States, does not induce investors to go towards countries lacking in resources. A partial solution might be to maximize revenue from exports towards higher-income countries.

Besides the business climate, there are structural problems affecting infrastructure in Africa which need to be resolved (Dornel, 2014). Indeed, the solvency of entities to which countries receiving financing sell their production is an issue. For example, for electricity projects, the public services very often accumulate arrears of payment. To address the situation, a partial solution consists in selling the production to customers in a better financial situation. However, such an approach may be a source of exclusion and inequality in countries.

The fragility of most West African States may dampen the confidence of investors. For instance, Côte d'Ivoire's recent emergence from conflict limits its attractiveness for FDI, market-based financing and multi-asset investment funds.   This is also valid for Mali, Nigeria, Mauritania, the Niger and Burkina Faso, which have to contend with significant security issues. The various States must therefore build peace and domestic security in order to increase the confidence of national and international investors.

19 This point is one of the opportunities identified by the following countries and organizations at the Dakar workshop: Cabo Verde, Gambia, Ghana, Liberia, Nigeria, Sierra Leone; and the Mano River Union, the West African Economic and Monetary Union, ActionAid.

### Table 13 : Overview of factors of success, constraints and solutions identified by the participants in the Dakar workshop

| Country/ organization | Factors of success/ opportunities | Difficulties/ constraints/risks | Solutions envisaged/ recommendations |
|---|---|---|---|
| Senegal, Guinea, Togo, Guinea-Bissau and Burkina Faso, WAEMU, WADB, BRVM, AFAO | -Diversification of sources of financing<br>– Mobilization of domestic resources | – Absence or inadequacy of regulatory frameworks<br>– Lack of expertise | – Capacity-building of member States and subregional organizations for planning, negotiating, implementing, monitoring and evaluating public-private partnerships<br>– Defining the scope of public-private partnerships by identifying priority areas of activity<br>– Making sure that public-private partnerships relieve the public debt rather than adding to it<br>– Establishing a community regulatory framework for public-private partnerships<br>– Making an inventory of innovative financing mechanisms<br>– Leading discussions on the integration of financial markets |
| Ghana, Nigeria, Sierra Leone, Liberia, Gambia, Cabo Verde, the Mano River Union, ECOWAS, ActionAid | – Valuable natural resources in the region (ores, crude oil, gold, etc.)<br>– Transfer of technology and know-how<br>– Donor support | – Land management that discourages productive investment<br>– Cultural norms and issues that may inhibit innovative financing<br>– Macroeconomic imbalances<br>– Absence of regulatory framework<br>– Governance-related issues such as corruption, etc.<br>– Some sources of innovative financing may lead to unsustainable debt if not carefully implemented<br>– Levies as additional sources of financing may impose a supplementary burden on communities and enterprises | – Need to organize consultations and awareness-raising on the identification and implementation of financing mechanisms for maximum impact<br>– Need for country capacity-building<br>– Need to develop regulatory and other types of framework for the subregion to guide innovative financing<br>– Need to ensure that feasibility studies are carried out to guide the effective implementation of innovative financing<br>– Adoption of strategies to mitigate the risks associated with innovative financing<br>– Need to adopt principles of large-scale land management<br>– Improvement of the institutional environment |

| | | | |
|---|---|---|---|
| Ghana | – Ghana Infrastructure Investment Funds (GIIF Act, 2014)<br>– Public-private partnerships policy approved by Cabinet and ongoing<br>– New Directorate established in the Ministry of Finance for public-private partnership programmes<br>– The public-private partnership bill is under consideration<br>– The “Ghana EXIM” bill is being adopted by Parliament<br>– Use of surplus resources of the Ghana Stabilization Funds<br>– Energy sector levies Act<br>– Development of new debt management strategies<br>– Creation of fiscal space through rationalization of spending<br>– Centralization of income-generating agencies at the Ghana Revenue Authority<br>– Tax law review<br>– Minimization of tax exemptions | – Lack of expertise | – Capacity building<br>– Measures to combat illicit capital flight<br>– Measures to lower the price of transfers |

| | | | |
|---|---|---|---|
| Nigeria | – Development of "Treasury Single Account" bringing together all income-generating agencies<br>– Strict compliance with currency policy<br>– Establishment in 2011 of the Nigeria Sovereign Investment Authority (NSIA)<br>– Synergy between planning and budgeting to prevent waste; introduction of zero-based budgeting to monitor budget execution | | |
| Guinea | – Management transparency<br>– Involvement and motivation of all project teams by the project Directorate<br>– Support and advice from the Chinese Government to the Guinean Government<br>– Establishment of the electricity sector reform<br>– Involvement of stakeholders | – Working language (French and Chinese)<br>– Alignment of Chinese norms with Western norms<br>– Implementation of the environmental dimension of the project<br>– Ebola epidemic causing delay in the implementation of certain activities<br>– Delays in the finalization and signing of contractual documents<br>– Inadequate planning of activities and dropping of planned activities in response to urgent needs or spontaneous proposals | – Investments in electricity production, transport and distribution infrastructure<br>– Restructuring and consolidation of the energy sector<br>– Commercial turnaround of national electricity board<br>– Restructuring of national electricity board and strengthening of its management<br>– Management of electricity demand in situations of short supply |

| | | | |
|---|---|---|---|
| Senegal | Existence of a legal framework for certain mechanisms like, for example, the airport infrastructure development tax (RDIA) established by decree no. 2005-138 of 28 February 2005 | – Low rating of Senegalese companies is a factor that may limit the base for this tax<br>– Problem of allocation of the resources collected | – Improved governance<br>– Launch a feasibility study, at national or subregional level, of the main innovative financing mechanisms |
| Gambia | – Establishment of a Directorate for public-private partnerships (February 2014)<br>– Speedier development of a capital market<br>– Formalization and finalization of tax to finance agriculture<br>– A national public-private partnership policy (legal and institutional framework and guidelines) for the implementation of public-private partnership projects crafted, approved and introduced in 2015 | | – Creation of an environment conducive to private sector involvement<br>– Undertaking of viable investments in the agricultural and entrepreneurial fields |
| Côte d'Ivoire | – Improvement of business climate; business facilitation through Doing Business<br>– Establishment of one-stop investment centre (CEPICI)<br>– Country of strong economic growth, with fast-rising GNI<br>– Improved business climate<br>– Reform of public finance | – Insufficiently skilled labour force<br>– Limited size of market<br>– Low cost effectiveness and small size of companies<br>– Business structure not conducive to development and profit-making<br>– Insufficient loan allocations by donors | – Increased use of public-private partnerships (64 per cent of GDP at 20 March 2015) |

| | | | |
|---|---|---|---|
| Sierra Leone | – Easier transport of agricultural production from villages to towns facilitating trade<br>– Easier access to health centres and schools<br>– Integration of neighbouring communities<br>– Company portfolio reviews | – Significant variations in initial projects, particularly for roads: some 150 per cent to 200 per cent of variations due mainly to poor project design, poor assessment and political aspirations<br>– Some 70 per cent of markets granted to a single supplier, which may be a source of clashes and corruption<br>– Instability of prices of raw materials and outbreak of Ebola disease | – Continuation of policies to improve the business climate<br>– Privatization of majority of public companies<br>– Plan being developed to launch five-year bonds to finance infrastructure project (airport, energy) |
| Benin | – Upsurge in bus transport<br>– Effort to provide greater comfort to some passengers<br>– Higher cost of bus transport | – Difficulty in evaluating turnover of operators<br>– Lack of effective tool to combat fraud and piracy<br>– Weak response from citizens | |
| Mali | – Good governance through an appropriate legal framework<br>– Good public investment project planning and execution<br>– Resource mobilization on more favourable and less costly terms<br>– Economic stabilization and improved security in the country | – Poor control of the legal framework for the implementation of public-private partnerships and public procurement<br>– Low technical and operational capacity of entities charged with the implementation of public investment mechanisms and management<br>– Low capacity for drawing lessons from the experience of other countries ahead in the process | – Organization during the year of a high-level seminar on innovative financing<br>– Improved management of public investment projects facing difficulties at the preparation stage<br>– Review of public procurement legislation to strengthen management of public service delegations (under consideration) |

# VII. Prospects

The previous section focused on the experience of countries in the matter of innovative mechanisms. There are, however, other innovative financing mechanisms, implemented in very few countries, that may be used to finance infrastructure.

## 1. Additional mechanisms and centralization of resources

In addition to public-private partnerships, a large number of mechanisms are put into effect but the resources collected are earmarked for the financing of specific programmes. For example, the resources collected through the airline ticket tax in Mali and Niger are intended to support the International Drug Purchase Facility (UNITAID) which works to improve health conditions in developing countries. This mechanism may be extended to other member countries. Simulations show that ECOWAS can collect some 40.5 billion CFA francs (or EUR61.7 million) if this tax is applied in all countries in the area (table 14). These resources may be centralized in the ECOWAS Bank for Investment and Development (EBID) to support health infrastructure. Part of the resources will then be earmarked for projects in the region and another part will be ploughed back into the International Drug Purchase Facility. Apart from these mechanisms, ECOWAS has not yet explored the taxation of financial services, the auctioning of carbon emission quotas and the taxation of telecommunications. These three taxes may potentially serve to finance the development of economic infrastructure in the various countries.

**Table 14: Simulations of resources that may be collected through various mechanisms (in millions of CFA francs)**

| Country | Tax on airline tickets | Tax on financial services | Auctioning of carbon emission quotas | Telecom tax |
|---|---|---|---|---|
| Benin | 1 879 | 6 | 3 061 | 462 |
| Burkina Faso | 550 | 7 | 1 002 | 540 |
| Cabo Verde | 2 347 | 10 | 210 | 24 |
| Côte d'Ivoire | 847 | 96 | 4 617 | 931 |
| Gambia | 1 879 | - | 279 | 89 |
| Ghana | 1 375 | - | 5 651 | 1 345 |
| Guinea | 1 879 | - | 792 | 357 |
| Guinea-Bissau | 1 879 | 2 | 141 | 61 |
| Liberia | 1 879 | - | 472 | 123 |
| Mali | 1 114 | 5 | 368 | 948 |
| Niger | 1 879 | 12 | 833 | 336 |
| Nigeria | 17 983 | 776 | 61 771 | 6 108 |
| Senegal | 1 909 | 6 | 4 165 | 630 |
| Sierra Leone | 157 | 2 | 433 | 129 |
| Togo | 2 940 | 7 | 909 | 205 |
| Total | 40 496 | 929 | 84 702 | 12 287 |
| Estimate for ECOWAS | 40 496 | 1 267 | 84 702 | 12 287 |

*Source* : CAPEC, 2014.

## 2. Improving the quality of institutions

Taking into account criteria for choosing innovative financing mechanisms, ECOWAS can implement the airline ticket tax, diaspora contributions and diaspora bonds on a priority basis (CAPEC, 2014). However, diaspora contributions are limited by the poor quality of institutions, which cause them to be mistrusted by emigrants. Improving the quality of institutions may help to promote the channeling of resources. To this end, institutional support projects and programmes involving exchanges of experience between countries should be encouraged. Indeed, it is believed that the quality of institutions is responsible for the delay in growth in several countries and reduces the capacity for mobilizing resources at national and global level. Furthermore, political instability jeopardizes infrastructure development and imposes a need for better coordination among countries sharing electricity, for example, in order to ensure supplies (AfDB, 2015).

## 3. Learning from mechanisms already at work in various countries and adopting a gradual approach

ECOWAS could take advantage of mechanisms already being implemented by some countries in the area, such as the tax on airline tickets. In the medium term, ECOWAS could introduce a carbon tax on CO2 emissions by industrial companies in the area. Such a tax could generate additional resources of approximately 85 billion CFA francs. In the long term, the taxing of financial operations could be envisaged. That would mean, in the long term, that the financial market of the area would be more developed and the rate of use of the banking system would be higher. This gradual implementation of potential mechanisms would allow shortcomings to be corrected in order to minimize risks of failure.

## 4. Capacity-building of States in the area

A diagnosis needs to be made of competency requirements for the mobilization and monitoring of innovative financing mechanisms in ECOWAS countries. On the basis of this diagnosis, capacity-building programmes, essential for channeling the resources collected, could be designed and put into effect, without failing to implement monitoring mechanisms to effectively combat illicit financial flows, including tax evasion. The collection of migrant resources runs up against the prohibitive costs of money transfers (AfDB, 2015). Monitoring mechanisms must accordingly be put in place in public administrations. Similarly, funds could be established for studies and national counterpart financing. Efforts are beginning to be made in this direction in some countries and should be strengthened (Côte d’Ivoire and Togo).

Member States in the area are not adequately informed about the potential resources offered by public-private partnerships. The capacity-building of stakeholders involved in the exploration and negotiation of contracts is therefore crucial. Moreover, studies should be carried out to evaluate how economies benefit from the exemptions granted to foreign companies in the area, especially those engaged in public-private partnerships.

## 5. Optimizing the collection of domestic resources

We have seen that the ECOWAS countries can improve domestic resource collection by combating tax fraud and illicit capital flight. Those countries also need to regulate the level of exemptions, which erode the tax base of companies. There is therefore a pressing need to develop and implement a regional initiative in West Africa directed towards the harmonization and rationalization of tax incentives. Political will would be an essential pillar of such an initiative. Governments, in collaboration with the ECOWAS Commission, must jointly undertake budget policy reforms. As for measures to combat illicit capital flight, ECOWAS could join the initiatives already put in place by the Economic Commission for Africa.

## 6. Developing local financial markets

Financial markets in countries of the area suffer from excess liquidity and limited access by the population. They consequently contribute little to financing productive investment. However, numerous reforms have been undertaken in the past few years in ECOWAS countries both to ensure financial integration and to optimize the effects of financial activity on the growth and well-being of the population. There is therefore an urgent need to set up new financial services to mobilize savings, which calls for a transformation of the financial structures. Moreover, such a transformation should serve to direct the resources of financial institutions in the area towards long-term capital so as to build on the structural transformation of economies in the West African subregion.

# VIII. Conclusion

The purpose of this report is to identify challenges and opportunities linked to the financing of structural transformation in West Africa. It thereby serves to analyse the role that may be played by innovative financing mechanisms in that context, having regard to the slower growth seen every year in Africa because of poor infrastructure quality.

The report also highlighted some major sources of financing in West Africa and related challenges. An emerging middle class points to new consumption patterns and thereby gives added importance to the question of infrastructure financing. The country diagnostic study of infrastructure indicates that infrastructure needs in sub-Saharan Africa would amount to more than $93 billion yearly over the next 10 years with a financing shortfall of more than $50 billion. Increased weight is given to these issues by the Sustainable Development Goals.

It must be noted in this context, however, that official development assistance is declining and becoming unpredictable. In addition, foreign direct investment, which could take the place of official development assistance, is polarized and directed essentially towards natural resources, even though there is a shift towards the service and agrifood sectors. Furthermore, countries in the area are marked by a structural deficit, which shows that local resources are insufficient to finance their economies. However, several mechanisms exist for collecting resources with a view to financing infrastructure needs. Besides domestic resources, the primary source is migrant remittances and diaspora bonds, but the poor performance of institutions is an impediment to the collection of resources. To meet this challenge, States are looking to market mechanisms such as bond issues on local and international markets. Against this background, Islamic finance offers countries in the ECOWAS area a further financing mechanism. Certain States such as Senegal and Côte d'Ivoire have indeed experimented with Islamic finance by issuing sukuk bonds.

Public-private partnerships are an additional source of financing for infrastructure that is increasingly used by the various countries, as shown by the experience of Benin, Côte d'Ivoire, Ghana and Senegal. Regulatory frameworks have been in place in most of these countries since 2009. However, for this source of financing to be profitable, efforts need to be made, in particular, to improve the business climate and strengthen staff competencies in the services charged with monitoring such programmes.

# References

African Development Bank, 2011. The middle of the pyramid: dynamics of the African Middle Class, April 2016.

African Development Bank/OECD/UNDP, 2015. African Economic Outlook 2015: Regional Development and Spatial Inclusion. OECD Publications, Paris.

Africa Infrastructure Country Diagnostic 2009.

Central Bank of West African States, 2014. Annual report.

Boston Consulting Group, 2013. Africa Consumer Sentiment Survey (March).

Cellule d'analyse de politiques économiques du CIRES, 2014. Étude sur les mécanismes innovants pour le financement du développement régional de la CEDEAO. Rapport d'étude.

Dembélé, A. M. 2008. Impact des investissements directs étrangers sur la croissance économique en Côte d'Ivoire. Mémoire professionnel, GPE Côte d'Ivoire.

Dornel, A. 2014. Financement de projets d'infrastructures en Afrique.

Economist Intelligence Unit (2015), Evaluating the environment for public–private partnerships in Africa: The 2015 Infrascope. EIU, London.

Fofack, H. et Ndikumana, L. 2010. Capital Flight Repatriation: Investigation of its Potential Gains for Sub-Saharan African Countries. African Development Review, 22(1), 4–22.

International Monetary Fund, 2014. Regional Economic Outlook: Sub-Saharan Africa: Fostering Durable and Inclusive Growth, IMF Publishing.

International Monetary Fund, 2015. World Economic Outlook, Washington, D.C. ISBN: 978-1-49834-433-3.

International Monetary Fund, 2016. World Economic Outlook, Update January 2016, Washington, D.C.

Plaza Sonia et Ratha Dilip, 2011. Diaspora for development in Africa, World Bank.

Ndikumana, L. et Boyce, J. K. 2011. Capital Flight from Sub-Saharan Africa: Linkages with External Borrowing and Policy Options. International Review of Applied Economics, 25(2), 149-170.

Ngaruko, F. 2012. Size and Dynamics of the Middle Class in Africa. African Development Bank. Tunis.

Organisation for Economic Co-operation and Development, 2008. Do multinationals promote better pay and working conditions? OECD Employment Outlook, Paris: OECD.

Plaza, S., Navarrete, M. et Ratha, D. 2011. Migration and Remittances Household Surveys: Methodological Issues and New Findings from Sub-Saharan Africa. Unpublished manuscript, Africa Migration Project, World Bank, Washington, D.C.

Programme for Infrastructure Development in Africa (PIDA) : Combler le déficit en Infrastructures en Afrique pour accélérer l'intégration régionale, 14-18 July 2014, Swaziland (COMAI VII, 2014).

Standard bank and IMF, 2014. Understanding Africa's Middle Class (August), unpublished.

Van Parys and James, 2010. The effectiveness of tax incentives in attracting investment: panel data evidence from the CFA Franc zone, August 2010, Volume 17, Issue 4, pp. 400–429.

*Printed in Addis Ababa by the ECA Printing and Publishing Unit.*
*ISO 14001:2004 certified.*