Improving public finance, boosting infrastructure

Three priority actions for Africa’s sustainable development after COVID-19

In the run-up to the Summit on Financing African economies of 18 May 2021
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Abstract

This paper proposes three actions to address Africa’s persistent under-investment in infrastructure, a major obstacle to job creation and firm-level productivity. First, deepening governments’ engagement with their peers and the private sector will help them identify better policies to improve their public finances. This includes the continued production of comparable statistics on public revenues, the exchange of knowledge and the strengthening of administrative capacity, with the support of international organisations. Second, governments can strengthen institutions to attract more private investment. Where economic governance rests on solid systems, investment promotion agencies can monitor the implementation of business-friendly policies, acting as interlocutors between governments and foreign businesses, and improving investor confidence. Co-ordinating policies more effectively at regional level, by identifying investment priorities and marketing African countries to investors, can generate substantial advantages of scale. Third, governments must grow pipelines of bankable quality infrastructure projects. Rigorous standards of quality, such as the AUDA-NEPAD’s PIDA Quality Label, can both enhance the quality of project preparation, and reassure investors as to the likelihood of success. Building capacity within an African community of practice of infrastructure experts, e.g. through the African Infrastructure Knowledge and Learning Platform, can also improve design and implementation.
Foreword

The OECD Development Centre drafted this policy paper at the request of the French Treasury, in the run-up to the Summit on Financing African economies of 18th May 2021. This paper focuses on targeted policies discussed in the preparation to the summit. Among various policies, the strategic interventions proposed here aim to strengthen Africa’s sustainable recovery following the COVID-19 pandemic, which triggered the first recession the continent has known in the last 25 years.
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Executive Summary

Improving public finance, boosting infrastructure: 3 priority actions for Africa’s sustainable development after COVID-19

This paper focuses on three actions that can help African policy makers mobilise more and better investment to advance their development goals and embark on a more sustainable growth path, as economies recover from the crises linked to the pandemic. The first two actions focus on gathering public and private finances for development, while the third involves accelerating infrastructure projects with dynamic impacts identified by the Priority Action Plan (PAP) for the African Union’s (AU) Programme for Infrastructure Development in Africa (PIDA). Each action includes two policy recommendations.

I. Increase domestic resource mobilisation through peer learning and exchange of information

Public revenues per person have been trending downwards, but peer learning can help African policy makers find their own solutions to improving collection.

1. Strengthen the Pan-African policy dialogue on taxation, the joint production of up-to-date and comparable statistics on domestic revenue mobilisation, and cross-border tax information sharing.

   International co-operation to improve tax data allows governments and tax authorities to improve policies for domestic revenue mobilisation. Recent initiatives bringing African countries together to gather and harmonise data on tax systems include:

   - the African Tax Outlook (ATAF, 2020[9]), compiling and analysing indicators on African tax administrations, tax policy and tax revenues;
   - Revenue Statistics in Africa (OECD/AUC/ATAF, 2020[10]), producing detailed and comparable data on levels and structures of tax and non-tax revenues in African countries, also enabling detailed comparison with the other world regions; and

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II. Strengthen institutions to attract private investment and enhance the effectiveness of public investment and services

For a sustainable recovery, African governments need to increase investment in high-value sectors. Public investment and efficient public institutions have a crucial role to play, including encouraging private investment.

1. Empower national investment promotion agencies, as part of productive transformation strategies

Investment promotion agencies (IPAs) must co-ordinate effectively with governments in the context of national productive transformation agendas. They can encourage foreign investors to transfer knowledge to local companies by employing, training, and subcontracting locally: the Tangier automobile cluster in Morocco is a case in point (AUC/OECD, 2018[12]). By providing financial assistance, market intelligence, branding, investor aftercare, and assisting with overseas expansion, they help develop local business ecosystems. Their action can be supported by policies for industrial clusters and value-chain development.

2. Develop international platforms to identify priorities and co-ordinate investment

The implementation of the African Continental Free Trade Area (AfCFTA) is a new opportunity but calls for greater continental co-ordination. Most African economies are too small to attract significant investment unless they become parts of integrated economic corridors. The AUC-OECD Development Centre Platform on Investment and Productive Transformation can facilitate dialogue between African governments, Regional Economic Communities (RECs), development partners and the private sector to better attract and co-ordinate investment.

III. Create an African infrastructure ecosystem and grow pipelines of bankable quality infrastructure projects

At the African Union summit in February 2021, leaders agreed to prioritise 69 cross-border projects as part of the PIDA-PAP 2 Process (2021-2030). Although in principle these are aligned with the goals of the AU’s Agenda 2063 and selected based on positive prospects for financing and implementation, the AU considers that they need extra nudging to advance past the planning stage (AUC, 2020[13]).

1. Fast-track the application of AUDA-NEPAD’s PIDA Quality Label

By providing screening and appraisal tools to fast-track early-stage advisory work, the PIDA Quality Label (PQL) of the African Union Development Agency (AUDA-NEPAD) holds the promise of making infrastructure development projects more attractive for private investors. Applied to projects emerging from the PIDA 2021-30 selection process, the PQL can become an internationally
recognised African brand for infrastructure projects (OECD/ACET, 2020[14]). Expanding the use of the PQL will help align them with AU members’ strategic development objectives. Global appraisal tools such as the Blue Dot network, SOURCE or the IMF’s Public Investment Management Assessment (PIMA) could support the successful implementation of such African instruments.

2. **Develop the African Infrastructure Knowledge and Learning Platform as a base for an expanding community of African infrastructure professionals.**

In order to help create a healthy African infrastructure ecosystem, the AU-NEPAD, the African Centre for Economic Transformation (ACET) and the OECD launched together an *African Infrastructure Knowledge and Learning Platform*. By bringing together existing, fragmented initiatives, the *Platform* aims to facilitate real-time information, knowledge sharing and capacity building at continental level (OECD/ACET, 2020[14]). It can also strengthen data collection and provide infrastructure benchmarking to improve transparency and monitor progress.

Encouraging public-private dialogue can also reduce risk perceptions and unlock additional finance, especially from the private sector. In this context, the Continental Business Network (AUCBN) launched by AU-NEPAD in 2015 to crowd-in financing for infrastructure project already facilitates partnerships between the public and private sectors (AU-PIDA, 2015[15]). The AUCBN can assist in achieving the AU-NEPAD’s “5% Agenda”, which aims to increase to 5% the contributions of institutional investors and pension funds to infrastructure financing, from its current level of approximately 1.5% (AU-NEPAD, 2017[16]).

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3 Several other instruments exist to mobilise private investment and weather associated risks, such as blended finance mechanisms or credit guarantees. However, a comprehensive analysis goes beyond this paper’s focus.
INTRODUCTION

Africa’s rapidly increasing population is driving up Africa’s development needs. Africa’s young, entrepreneurial and increasingly educated population is amongst the continent’s greatest assets. Turning the fast pace of demographic growth into a development dividend requires significant investment to cater for a growing needs and aspirations. Job creation stand out as a key priority as 29 million youth joins the labour force every year. Africa has a lower rate of food supply than elsewhere in the world, with calories per capita 11% lower than in the world as a whole, and 25% lower than in high-income countries. Securing food over the coming decades will need to contend with Africa’s projected population increase of 55% over the next 20 years and 146% over the next 50 years (UN, 2019[17]). The coming decades will see Africa, already a net food importer, grow its agricultural trade deficit (OECD/FAO, 2019[18]). Housing the growing population will also be a challenge. African cities are growing fast: 39% of the growth in urban world’s population between 2020 and 2040 will be in Africa, requiring investments in new urban infrastructure and housing, particularly in smaller towns and intermediary cities (AfDB/OECD/UNDP, 2016[19]). Africans will need to find the resources to protect the future population from falling into poverty all while 75% of the world’s population in extreme poverty and 27.7% of the world’s population living under USD 5.50 a day is already in Africa.

African economies will need to scale up their efforts at productive transformation in order to generate the economic growth required to meet increasing development needs. Over the past two decades, Africa has achieved rapid economic growth, but insufficient to keep up with the increase in its population. Average annual real GDP growth for Africa in the ten years before 2020 was 3.9%, slightly higher than the global average of 3.7%. Nevertheless, adjusting for population growth, Africa’s per capita real GDP growth over the same period was 1.3% per year, or half the global average of 2.5%. At that rate of growth, it will take Africa 23 years to reach a real GDP per capita at the current level of lower middle-income countries, and 94 years to reach the current level of upper middle-income countries. The COVID-19 crisis caused African GDP to drop 2.6% in 2020, hindering African governments’ ability to achieve their long-term development goals. However, the COVID-19 pandemic has only heightened African vulnerabilities, and increased the need for long-term structural changes to the economy required to achieve productive transformation.

African growth has been held back by slow productivity growth, and a lack of quality infrastructure. Most African firms are less productive than their global competitors, and do not create enough jobs. Africa will account for 69% of the increase in the global labour force by 2050 – but this will only be advantageous to Africans if these new labour force entrants are able to find work. According to Afrobarometer, Africans cited unemployment by far as their most important problem (Chingwete, Felton and Carolyn, 2019[20]), followed by lack of basic infrastructure. While SMEs make up 41% of net job creation, the added value per worker in firms with 100 employees is over 3 times higher than that of firms with 5 employees (AUC/OECD, 2019[21]; AfDB/OECD/UNDP, 2017[22]).

A key factor hampering productive transformation and private sector development is a persistent infrastructure gap in African countries. The infrastructure-financing gap - the difference between investment needs and actual investment- is estimated at between USD 130 and USD 170 billion per year (ICA, 2018[23]). In sub-Saharan Africa, the poor state of infrastructure reduces firm-level productivity by as

4 According to medium demographic projections, Africa will account for 47% of the increase in the world’s population by 2050 and 75% of the increase by 2070.

5 Estimates of infrastructure gaps, and of the implied financing needs, are widely reported but should be taken with caution. They are used in this paper just as an illustration of possible orders of magnitude and not to guide policy action. (Rozenberg and Fay, 2019[24]) stress the importance of not focusing exclusively on greater spending but considering spending efficiency and the link to the development needs that infrastructure investment is meant to address: “how much is needed depends on the objective pursued, and the objective pursued lies with the contexts,
much as 40% (Kappeler et al., 2018[1]). According to the World Bank Enterprise Survey, 40.5% of African firms consider insufficient access to energy to be a major constraint to their growth and competitiveness, while 24% of firms point to connectivity and transportation as main barrier (World Bank, 2019[24]).

With so much as yet unbuilt infrastructure, Africans have an opportunity to build their energy system using modern green technologies, without the costly task of dismantling existing fossil fuel infrastructure. A green energy transition also fits African resource endowments: Africa has 17.7% of the world’s population, but has an estimated 28% of the world’s solar electric potential, and despite its large deserts, 18% of the world’s hydroelectric potential. On the other hand, it only has 7% of the world’s proven oil and gas reserves, and 1.4% of the world’s proven coal reserves (BP, 2020[6]). Distributed energy through renewable generation is also well adapted to serving Africa’s rural majority, especially when there is a lack of long-distance power transmission. Only 44% of Africa’s rural population has access to electricity, compared to 92% in urban areas (Chingwete, Felton and Carolyn, 2019[20]). However, the need for sustainable investments in cities remains as crucial. Due to high path dependency of urban development, and the persistence of city layouts over centuries, it is crucial for Africans to invest resources now so that they can get their urban plans and urban infrastructure right (AfDB/OECD/UNDP, 2016[19]).

Harnessing Africa’s digital transformation - notably through the creation of a Digital Single Market – can also accelerate Africa’s recovery from COVID-19 provided certain conditions are in place (AUC/OECD, 2021[9]). Digital technologies are introducing new dynamics into development, and have brought solutions that are well adapted to African conditions. Mobile payments and fintech have developed more rapidly in parts of Africa than elsewhere in the world, due to the greater demand for such tools in places with a less-developed financial industry. Digitalisation has shown some self-sustaining properties since African ICT infrastructure, unlike transportation, water and sanitation, has been mostly built with private finance (private financiers provided 80% of the investment into African digital infrastructure in 2018).

The challenge for African governments may not be so much a matter of finding the resources to pay for digital infrastructure, so much as ensuring that the private-led growth of the digital economy does not create problems around the issues of privacy, data ownership, intellectual property and governance, which could undermine other long-term development goals.

This paper will focus on three actions that can help African policy makers mobilise the necessary investments in order to improve their development. The first two actions refer to securing the resources for investment in development, the first action referring to improving public finances, and the second on encouraging private investments. The third action focuses on designing and planning good infrastructure projects that are bankable and reach financial close (OECD/ACET, 2020[14]).
I. INCREASE DOMESTIC RESOURCE MOBILISATION THROUGH PEER LEARNING AND EXCHANGE OF INFORMATION

African governments will need to equip policy-makers and public officials with reliable information, skills and the tools to promote domestic resource mobilisation. The COVID-19 crisis has shown the need for tax officials to have the nimbleness to adjust policies rapidly to an unfolding economic crisis. However, the longer-term improvements to tax policies required in order to achieve the African Union’s Agenda 2063 and the SDGs call for accurate data and well-prepared and well-resourced administrators and decision-makers. This is necessary in order to contend with the complexities of the reforming tax policy and improving domestic resource mobilisation, which involves economic and political interests, economic structures, tax morale, negotiations of social contracts, encouraging participation in international trade while avoiding base erosion and profit shifting, among many other issues. While enhancing the funding of African governing institutions is necessary and helpful, best policies to improve taxation in Africa would also benefit from African countries engaging in more policy dialogue in order to improve tax data, and from greater support to efforts of officials to improve their administrative capacity – especially auditing skills.

The COVID-19 pandemic has increased the need for African governments to improve their revenue collection in a fair and sustainable way, once the economic recovery is firmly underway. In 2020, African governments passed measures in response to COVID-19 amounting to USD 50.8 billion in total new spending or forgone revenue, which amounted to 2.7% of GDP on average (IMF, 2021[26]). In Lesotho and Mauritius, these measures exceeded 10% of GDP, a remarkable level of policy-making and policy-experimentation under duress. This resulted in African public expenditures increasing and revenues decreasing in 2020, putting governments deeply into deficit. Average net borrowing for African countries went from 3.2% of GDP in 2019 to a projected 8.3% in 2020, equivalent to the rate for the world as a whole (8.2%) and slightly lower than for high income countries (8.6%).

The need for African governments to increase domestic resource mobilisation predates the pandemic. According to the Agenda 2063 Financing, domestic resource mobilization and partnership strategy, domestic resources mobilisation should account for 75-90% of financing to achieve the targets while the rest should be financed through external financing mechanisms (AU, 2014[29]). Africa’s revenues (tax and non-tax) as a percentage of GDP in 2019 were on average 22.6% of GDP compared with 33.9% for countries in the rest of the world, and 38.8% for high-income countries. Among the 30 countries included in Revenue Statistics in Africa, the average tax to GDP ratio increased by 1.4 p.p. between 2010 and 2018. Since 2014, it has stagnated around 16.5% of GDP, less than half the rate for OECD countries at 34.3% (OECD/AUC/ATAF, 2020[10]). Africa’s debt in foreign currency rose to 26.8% of GDP in current US dollars in 2019, with foreign currency debt exceeding 50% of GDP in ten countries (IMF, 2020[27]). The total debt service costs for African governments in that year was over USD 100 billion in 2018, twice the amount that African governments would end up spending on COVID-19 relief in 2020.

African governments are being faced with the challenge of needing to do more with less. Low-income countries are often in a vicious cycle, with low public revenues leading to under-funded revenue collections administrations, which in turn leads to low domestic revenue mobilisation. Budget support for African governments attempting to improve their tax policy and tax administration has increased, but

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7 This global spike in public deficits has resulted in an unprecedented international mobilisation to manage debt in order to ensure national governments remain financed and do not default on their debt payments, but it is as yet unclear to what extent there will be permanent debt relief.

remains limited. African treasuries need to be able to find ways of improving their tax outcomes, often without the resources to make the kinds of capital investment or hiring that are available to high-income countries. In particular, African governments have lacked the resources to finance the construction of well-capacitated and transparent local governments. This is a significant hurdle for local authorities to participate in efforts to mobilise local communities in efforts to achieve the SDGs, notably in deploying local infrastructure and in responding to climate change given Africa’s ongoing urban and environmental transitions.

In constant US dollars per capita, Africa’s public revenues have been low compared with other developing regions, and trending downwards (see Figure 1). Between 2010 and 2019, Africa’s real general government revenues per capita decreased 6.5% while in Asia they went up 75%. In 2019, developing countries in Asia had over three times more government revenue per capita, and Latin American countries had between five and six times more.

Figure 1. General government revenues per capita, in 2019 US dollars

African policymakers looking to make informed decisions about their revenue policies can learn from sharing knowledge with their own continental peers. Fiscal policy in some African countries has a distinctiveness which makes it difficult for them to find relevant data, case studies, or lessons learned from countries outside of Africa. Most African countries have to contend with informal sectors that dominate their economies, for example, which is a major complication to their efforts to collect taxes. Informal employment in sub-Saharan Africa was 83.7% on average, compared with 56.5% in Latin American and Caribbean countries (OECD/ILO, forthcoming[28]). By contrast, an earlier ILO publication estimated that social security contributions are around 0.3% of GDP in Africa, compared with 9.2% in high-income countries while benefits are 1.7% for African countries, compared with 11.7% for high-income countries. African tax-to-GDP ratios remain half the level of high-income countries, and in order to compensate for the lower PIT, corporate

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9 Official aid flows to African governments now include about a billion USD per year directly for public sector policy and administrative management (5% of all reported official aid), of which USD 168 million are to budget support.

10 As a result, social security contributions are absent from most African countries, and most workers are not paying income tax. Social security contributions are around 0.3% of GDP in Africa, compared with 9.2% in high-income countries while benefits are 1.7% for African countries, compared with 11.7% for high-income countries. African tax-to-GDP ratios remain half the level of high-income countries, and in order to compensate for the lower PIT, corporate
Informal employment was less than 15% of total employment in 24 out of 35 European countries, with only Albania showing a rate of informality higher than 50% (ILO, 2018[29]). Formal local and property taxation, on the other hand, tends to be under-developed in Africa compared with the rest of the world, and poorly accounted for in data. The Revenue Statistics in Africa publication found only five out of 30 African countries that were able to report figures on local taxation, in each case amounting to less than 5% of total tax revenues. In OECD countries, by contrast, local taxes were more than 10% of total tax revenues on average (OECD/AUC/ATAF, 2020[10]). With these issues, among others, a more context-relevant source of information for policy makers is from peer-to-peer exchanges with other African countries.

**Recommendation 1: Strengthen the Pan-African policy dialogue on taxation, the joint production of up-to-date and comparable statistics on domestic revenue mobilisation, and cross-border tax information sharing.**

African officials can improve the data on which they rely through international dialogue and cooperation. International co-operation to improve tax data can allow tax officials to make relevant comparisons between their own tax systems and those in other countries. It will also make data analysis and consultation with researchers and experts less prone to misinterpretation when there is international agreement on definitions. Beyond quantitative data, however, other countries’ international policy successes and failures can help to inform tax policies. Deepening policy dialogue in Africa can also be helpful to develop policies that are based on African data and experiences. There is a growing body of knowledge around key issues typical of African countries, such as informality, low governing capacity, lack of resources, and fragility, but most policy analysis and research still comes from high-income countries, in which these issues are often less present.

**Dialogue on tax policy, administration and data among African governments is already growing thanks to a number of initiatives by regional and international organisations.** For instance, the African Tax Administration Forum (ATAF) now has 38 African member countries, compared with 25 at its founding in 2009. It maintains a network of contacts in African tax administrations, regularly convening them in conferences, and mobilising them in joint research and analysis projects. The African Union also regularly convenes policy makers at high and senior levels to discuss and co-ordinate efforts in the area, including via its Specialized Technical Committee on Finance, Monetary Affairs, Economic Planning and Integration as well as High-level Tax Policy Dialogues organised in collaboration with ATAF. In 2019, the African Union (AU) founded the Pan-African Institute for Statistics in Tunis, which is devoted to the promotion of harmonised quality statistical information from African governments.

**This dialogue has resulted in improved new sources of data on taxation.** One of the flagship projects of ATAF is the African Tax Outlook, which presents information on tax policy, administration and revenues gathered through surveys of tax officials (ATAF, 2020[9]). Revenue Statistics in Africa (OECD/AUC/ATAF, 2020[10]), a joint OECD, AUC, and ATAF initiative with financial support from the European Union has, since 2015, been collaborating with African governments to produce detailed and comparable data on levels and structures of tax and non-revenues in the continent. This facilitates accurate comparisons at a high level of detail of public revenues governments around the world, including 30 from Africa. More detailed breakdowns allow for the analysis not only of overall revenues, but also of shifts within African tax structure, for example between VAT revenues and excise taxes, as seen in Figure 2 below.

tax rates in Africa are among the highest in the world. For 34 out of 54 African countries, CIT rates were 30% or above (OECD/AUC/ATAF, 2020).
Figure 2. Change in tax-to-GDP ratios between 2017 and 2018 by main tax heading and by country (percentage points)

Notes: The figures include sub-national government tax revenues for Eswatini, Mauritania, Mauritius, Morocco, Nigeria (state revenues only) and South Africa for 2018. The Africa (30) average refers to the unweighted averages for 30 African countries. The LAC average refers to the unweighted averages for 25 countries in Latin America and the Caribbean. The OECD average refers to the unweighted average of 36 OECD countries. The average of African countries.

Source: Revenue Statistics in Africa 2020 (OECD/AUC/ATAF, 2020[10]).

The Africa Initiative of the Global Forum on Transparency and Exchange of Information for Tax Purposes is a way by which African tax administrations can tackle cross-border tax evasion. This initiative, now containing 32 African members is devoted to drawing political attention to the issue of transparency in African tax administrations, and increasing awareness and capacity within those administrations so they have the information they need on their taxpayers’ cross-border transactions to combat tax evasion and illicit financial flows. It led to the endorsement by 30 African countries and the African Union Commission of the Yaoundé Declaration[11], which calls for a transparency, and exchange of information agenda in Africa to fight tax evasion and illicit financial flows. As a result of the Africa initiative, between 2014 and 2019, Exchange of Information Requests sent by African tax officials has grown twelvefold and allowed eight African countries to collect USD 244 million more in revenues.

On the other hand, African participation in the global standard on automatic exchange of information on financial accounts held offshore remains low. There 116 jurisdictions that have committed to implementing these global standards by 2023.[12] Out of EUR 107 billion of additional revenue identified by jurisdictions around the world through voluntary disclosure programmes and offshore investigations, EUR 29 billion were by developing countries. However, only eight African countries are participating in this form of information sharing for tax purposes.[13]

[12] Five African countries (Ghana, Mauritius, Nigeria, Seychelles and South Africa) are already exchanging this type of information and three other countries have indicated the date of their first exchanges (Kenya, Morocco and Uganda).
Other initiatives to improve the exchange of information include the International Centre for Taxation and Development. This organisation, founded in 2010, has been funding and facilitating research on tax policies for governments around the world, and has been a valuable source of data and insights on tax policies in Africa. It has supported the establishment of research networks in African countries, such as the Nigerian Tax Research Network (NTRN)\(^\text{14}\) and the Ethiopian Tax Research Network (ETRN)\(^\text{15}\), as well as the African Property Tax Initiative (APTI)\(^\text{16}\).

*The informal sector*

A key issue facing tax officials is the high level of informality in most African countries, which not only presents a challenge for revenue collection, but for data gathering and analysis as well. Informal workers and businesses not only do not pay income taxes, but they are also absent from government administrative data. The African Tax Administration Forum surveyed African tax administrators, and the total number of registered taxpayers reported for 18 African countries was on average 10% of the size of the respective national populations (ATAF, 2020\(^\text{17}\)). This leads to gaps in officials’ knowledge of their economies, a diminished ability to target tax policies effectively, and less information flow between governments and the private sector. The presence of informality also skews tax structures, complicating cross-country comparisons. The work done by ILO and the Development Centre on quantifying the informal sector has yielded new, updated estimates (Bonnet, Vanek and Chen, 2019\(^\text{30}\)). The ILO and OECD are also collaborating on a dataset of informal employment around the world (OECD/ILO, forthcoming\(^\text{28}\)). Qualitative studies of informality are equally important, since they will be crucial in order to craft policies that can encourage workers and businesses to join the formal sector. Organisations such as the ICTD (Joshi, Prichard and Heady, 2013\(^\text{32}\)) have devoted many studies to improving understanding informal workers and businesses in different African countries and various policies that target such sectors.

**Policy makers can see formalisation as a policy to improve data, and not necessarily only to improve tax revenues.**\(^\text{18}\) There has been some pushback recently, against what Mick Moore refers to as a “registration obsession” by tax officials who focus too much on pushing businesses and individuals into the formal sector without assessing the true costs and benefits of business registration (Moore, 2020\(^\text{33}\)).\(^\text{19}\)

If revenue is no longer the only objective, however, tax policies can have more favourable cost-benefit calculations for target populations. This could mean providing incentives to registration, such as by giving some access to health coverage and social protection, or allowing individuals to register without filing taxes. For example, South Africa encouraged small and micro-enterprises to register with Business Linkage Centres where they could link with larger corporations and find business deals without being registered with tax authorities. Other experiences exist for instance in Liberia, Uganda and Senegal where

\(^{14}\) [www.ictd.ac/network/ntrn/](http://www.ictd.ac/network/ntrn/)

\(^{15}\) [www.ictd.ac/network/etrn/](http://www.ictd.ac/network/etrn/)

\(^{16}\) [www.ictd.ac/network/apti/](http://www.ictd.ac/network/apti/)


\(^{18}\) Obtaining more data on informality is worthy of study in its own right, and not necessarily only as a means to improving tax revenues. Informality is a complex phenomenon interacting with many national characteristics including quality of governance, rurality, agricultural population, and historic and cultural legacies. It has also proven persistent, with vulnerable employment having declined only 2 p.p. over the past 20 years, and should be considered an integral component of African societies (See “Is informal normal”, OECD, 2009).

\(^{19}\) Many informal workers live at a subsistence level, and therefore have no tax potential. Registration procedures can also be burdensome on destitute populations with little time or energy to spare.
local authorities have led the identification of informal street hawkers to improve their livelihoods through better urban planning (AfDB/OECD/UNDP, 2016[19]).

In addition to an informal sector, tax authorities and businesses need to contend with the existence of informal taxation20. A survey of total tax burden in the DRC found that households paid on average 16%, and in some cities 20% of their incomes in formal and informal taxation (Paler et al., 2017[34]). Such informal taxes can pose difficulties for efforts to increase compliance when it has an impact on tax morale, and when it leads authorities to under-estimate the tax pressure populations face. This could be an issue especially for local and property taxes in Africa, when efforts to raise these forms of taxes to be in line with other regions of the world run into the fact that populations are already making substantial payments to local institutions. This also can lead to lower tax certainty, as businesses and individuals need to master the system of informal payments required for them to function in society, and develop relationships with informal authorities, all without official guidance. Such studies have uncovered the high importance of African countries to obtain intelligence on the prevalence of informal taxation in their economies in order to adapt their tax systems, and in order to be able to embark in negotiations with the people and entities collecting this informal taxation.

The digital economy

Tax administrations need to adapt to a growing and quickly changing digital economy, creating varied outcomes in different countries and regions. The total volume of digital trade went from USD 8 billion in 2005 to USD 18.8 billion in 2017 (OECD/AUC, 2020[35]), which are new activities that could require changes to tax legislation and tax administrations. However, this digital trade is far from being evenly distributed across Africa. Exports of digitally deliverable services as a percentage of all exports of digital services varied from 81% in Ghana to 4.7% in The Gambia. In Morocco, 69% of businesses used their own website and 97% used email to interact with clients and supplies, compared with 7% and 29%, respectively, for businesses in Sierra Leone. African digital infrastructure is being built quickly, but it lags behind other world regions. Africa reached 50 mobile subscriptions per 100 population in 2010, 1 year after developing countries in Asia, and 4 years after Latin America and the Caribbean, and the lag has grown since then.21

The lags between different African countries in terms of the quality of digital infrastructure, digital uptake and digital taxation, and between Africa and the rest of the world can make for fruitful peer-to-peer learning. Africans are currently grappling with many issues around the digital economy from infrastructure financing, taxation, and regulation, which are already at a more advanced stage in other countries. Africa has ambitions to build a Digital Single Market, for example, which is already contained within the Digital Agenda for Europe 2020 Programme of the EU. Many of the large digital platforms and corporations enter into African markets after they have already established themselves in the large, high-income countries. As well, due to the need for global policies on digitalisation, African countries are now involved in efforts to forge an international consensus. African countries have participated in the Global Forum on VAT, developing new standards to ensure effective VAT on e-commerce.22 Many countries currently lack effective rules to capture e-commerce, sacrificing an ever-growing amount of revenue as e-commerce expands, and creating economic distortions. An African tailored toolkit is being developed by the OECD, World Bank Group and ATAF to help Africa countries with implementation of the standard. Moreover, the Inclusive Framework on BEPS, which includes 25 African members, is engaged in

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20 Informal taxes are obligatory payments to non-government organisations, or unofficial obligatory payments to government officials (e.g. bribes).

21 However, it reached 80 in 2015, 4 years after Asia, and 7 years after Latin America. Since 2015, mobile subscriptions have stagnated at 83 per 100 while Asia and Latin America both currently exceed 100.

negotiations on how to address the corporate tax challenges of the digitalising economy. The ATAF technical committee on cross border taxation provides a forum for African countries to discuss the proposals among themselves, as well as to develop shared positions.

**Recommendation 2: Support efforts to build tax administration and auditing capacity**

Good data and good policies are not sufficient to obtain good outcomes – governments need to have the capacity to implement and execute the right policies. This is often a matter of having enough resources to invest in equipment and training. This lack of capacity can be an obstacle to obtaining better revenue policies, because either they cannot be implemented as intended, or such reforms are abandoned due to lack of technical feasibility. Development assistance has been increasing in recent years, especially in light of the commitment made by OECD member signatories to the Addis Tax Initiative to collectively double their ODA support to Domestic Revenue Mobilisation between 2015 and 2020. From 2015 to 2019, DAC members had increased their ODA commitments from USD 187 million to USD 365 million or from 0.15% of all ODA to 0.28%.

An efficient way to improve the performance of tax administrations without engaging in policy changes or administrative reforms is to target the improvement of tax audits. The joint OECD/UNDP Tax Inspectors Without Borders initiative has 52 completed and ongoing programmes across 19 African countries (OECD/UNDP, 2020[11]). These programmes involve deploying tax experts into tax administrations of participating developing countries to work with local officials on conducting tax audits in international tax areas, as a form of hands-on knowledge and skill transfer. Additional tax revenues attributable to TIWB programmes in Africa, including anonymised casework conducted during ATAF/OECD/WBG workshops, amount to USD 354.1 million, and overall tax assessments in excess of USD 1.58 billion up to end 2020 (OECD/UNDP, 2020[11]). Despite the difficulties posed by COVID-19, TIWB programmes remain fully operational as a practical tool to help developing countries collect taxes. TIWB is also expanding into new areas of tax assistance to build capacity in criminal tax investigation, effective use of AEOI, joint audits, and natural resources and environmental tax issues. A comprehensive capacity-building programme to strengthen tax audits and investigation by using exchange of information tools is provided to the 32 African members of the Global Forum on Transparency and Exchange of Information for Tax Purposes. For instance, in 2020, 1,300 tax officials were trained, including through 12 trainings dedicated to the African continent, to use effectively exchange of information tools and

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23 The Inclusive Framework of the OECD has 139 member countries and is negotiating proposals on taxing the digital economy (https://www.oecd.org/tax/beps/beps-actions/action1/). These proposals consist of two pillars, Pillar One seeks to address the challenge of highly digitalised companies and other large multinationals that derive significant profits from an increasingly globalised world, including those that may operate remotely, such that current international tax rules may be inadequate; while Pillar Two seeks to establish a global minimum tax which would address remaining base erosion and profit shifting challenges and reduce the incentive to shift profits to low tax jurisdictions.


25 For example, most African countries adopted VATs during a period of tax policy modernisation in the 1990s. VATs were heavily promoted by development experts due to their perceived greater economic efficiency over than alternatives such as sales taxes. But many African countries lacked the capacity to provide full, timely VAT refunds, which would ultimately defeat the purpose of this form of taxation. Due to disputes with mining companies as to VAT refunds, Zambia was driven briefly to consider abandoning their VAT in 2020.

26 The successor ATI Declaration 2025 commits signatories to reach and then maintain the original target https://www.addistaxinitiative.net/resource/ati-declaration-2025
assistance was provided to African countries in implementing the relevant infrastructure through technical assistance, toolkits and e-learning courses.\(^{27}\)

**A number of international and international organisations have developed diagnostic toolkits to help African governments improve tax capacity.** The Platform for Collaboration on Tax (PCT)\(^{28}\) has produced toolkits to help countries with lower capacity,\(^{29}\) encouraging participation in international tax discussions, gathering and publishing data on PCT partners’ technical assistance, and providing analytical work on tax policies for the benefit of stakeholders. The Multidimensional Country Reviews (MDCR) by the OECD Development Centre is a tool available to interested countries to perform a standardised review of national social and economic policies. This contains an important component devoted to assessing existing policies in order to make recommendations for improvement. Another example is a group of international development partners and a small secretariat operated by the IMF offer the Tax Administration Diagnostic Assessment Tool (TADAT). The tool can either be used internally in a tax administration for self-assessment, or by an external partner in collaboration with the tax administration for independent and evidence-based assessment of the performance of the administration.\(^{30}\) In addition, the WBG has developed and made available the Tax Diamond toolset for assessing different aspects of a revenue administration. The nine modules include for instance core tax, core revenue, ICT, human resources and security. The toolset can be used to implement and monitor tax reforms.\(^{31}\) The Global Forum has also worked with the African Tax Administration Forum to build a toolkit to help countries set up and run effective exchange of information units.\(^{32}\)

**Other initiatives to improve African administrative capacity is to improve the education and working experience of government officials.** Africans have been building first-class learning institutions in Africa in order to train statisticians, such as the ENSAE – Senegal in Dakar, ENSEA in Abidjan and the ISSEA in Yaoundé. The IMF is also heavily involved in capacity building in Africa. The “Article IV consultations of African countries involves a team of IMF staff experts visiting the country who assess the economic policies and performance of the country and report on it. In eight African countries (Uganda,\(^{33}\) Benin, Egypt, Ethiopia, Rwanda, Senegal, Liberia and Morocco), the IMF and the World Bank Group are also supporting the development and implementation of Medium Term Revenue Strategies (MTRS). An MTRS is a multi-year and comprehensive plan for tax system reform that is nationally owned and well supported by providers of capacity development and other stakeholders.\(^{34}\) The African Tax Administration Forum (ATAF) has several programmes to improve tax capacity among African officials, including a technical assistance service, conferences, the provision of both online and classroom courses on subjects such as tax audits and transfer pricing, and the creation of a new database of experts.

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\(^{28}\) https://www.tax-platform.org/who-we-are.

\(^{29}\) https://www.tax-platform.org/publications.

\(^{30}\) https://www.tadat.org/home#overview.

\(^{31}\) https://www.taxdiamond.org/Authentication/Login.aspx.


\(^{33}\) https://finance.go.ug/sites/default/files/Publications/NEW%20DOMESTIC%20REVENUE%20MOBILISATION%20STRATEGY_FEB%202020_0.pdf for the Uganda strategy.

\(^{34}\) MTRS | Platform for Collaboration on Tax (tax-platform.org).
Land taxation

Developing land-based taxation can help build governing capacity, in particular by improving data, and improve the capacity of local governments. Land taxation brings a number of advantages in terms of growth potential, and theoretical economic efficiency. However, this form of taxation remains under-developed in Africa, since it requires significant technical capacity, detailed data, and can pose political challenges (notably owing to persisting inconsistencies between formal and customary laws). For governments that have invested in such capacities, however, the land administrations can be useful sources of information and analysis. Property taxes provide a clear incentive for governments to develop and maintain land registries and land value assessments, providing them a more detailed knowledge of their economies and prospective tax bases. Some governments have improved their data systems, with Sierra Leone and Burkina Faso introducing mapping software in order to manage their property taxes (Moore, Pritchard and Fjeldstad, 2018) and South Africa’s use of computer-assisted mass-appraisals (AfDB/OECD/UNDP, 2016[19]). Property taxes can therefore provide a boost for the development of local governing capacity and autonomy, provided that such governments have the resources, capacity and political will to implement these kinds of changes, especially with regards to building and maintaining administrative databases.

Online tax returns

Digital technologies are allowing African countries to improve both their revenue collection and the quality of their statistical data. In 2017, over 70% of VAT and corporate income tax filing was online in six African countries[36] and personal income taxes were filed on line in 50% of cases in five countries. Doing Business reported ten African countries had introduced or improved electronic billing systems (PwC/WB, 2019[38]). This has paid off for many countries. South Africa now reports that e-filings account for 62.9% of their tax returns received during filing season (SARS, 2019/20[39]). Since Rwanda introduced e-filing and e-payments in 2011, the number of registered taxpayers went from 144 000 in that year to 242 000 in 2018. Electronic Billing Machines (EBMs) have been credited with reducing fraudulent VAT claims by 25-35%. They benefitted businesses as well, reducing the time required by businesses to fill out VAT returns from 45 to 5 hours (Rosengard, 2020[40]). Rwanda now makes electronic filing compulsory. When Mauritius introduced a single joint electronic return for both PAYE taxes and social security contributions, social security returns went from being 35% filed electronically in December 2017 to 97% in 2019 (ATAF, 2020[9]).

35 Land taxes do not act as disincentives to work or to save. They are also relatively difficult to evade, since land is a form of capital that cannot be moved offshore. In the case of Africa, land taxes also have enormous growth potential for two reasons. First of all, land taxes are currently under-exploited in Africa compared to other regions in the world, so they will be growing from a low base. Second of all, population growth and urbanisation can drastically increase the land value in Africa. Africa’s urban population is projected to grow 3.2% each year between 2015 and 2050. Ethiopia and Rwanda, for example, saw agricultural productivity increase when land-owners were able to certify their land ownership with government registries. Investments in soil and water increased 20-30% in Ethiopia. In Rwanda, households were twice as likely to invest in their land when it was registered than when it was not (Moore, Pritchard and Fjeldstad, 2018).

36 The information comes from the International Survey on Revenue Administration (ISORA), a multi-organisation international survey to collect national-level information and data on tax administration. It is governed by four partner organisations: the Inter-American Center of Tax Administrations (CIAT), the Intra-European Organisation of Tax Administrations (IOTA), the IMF and the OECD. Since 2018, the Asian Development Bank (ADB) participates along the four partner organisations. Over 150 administrations participated in the 2018 ISORA survey round, data of which is only available to the partner organisations (including the ADB) and administrations that have participated in the survey. For more information please see: https://data.raft.org/. The data from the 53 members of the OECD Forum on Tax Administration are available via www.oecd.org/tax/forum-on-tax-administration/database/.
Some countries are not yet benefitting from e-taxation, either because they have yet to introduce e-taxation or because there are other obstacles to digital uptake. One quarter of African countries still do not have e-filing (AUC/OECD, 2021[3]). It will be necessary for African countries to improve digital infrastructure in order to ensure electricity and internet connections are reliable, and populations are equipped and skilled for the use of online resources (AUC/OECD, 2021[3]). Tanzania first introduced e-filing for VATs in 2007, but there has been little adoption so far within the population. Only 44% of Tanzanian businesses responding to a recent survey used electronic tax returns. Lack of access to digital tools was a factor in discouraging e-filing (only 51% of respondents had a computer with an internet connection), but analysis of the data revealed social influence to be critical too (Kimea, Chimilila and Sichone, 2019[41]). Furthermore, tax administrations operate in concert with a range of other governmental units, and the level of digitalisation in these partner organisations will have profound influence on the progress of tax administration digitalisation. For instance, introducing e-administration of property tax when the land registry is paper-based can prove quite difficult. Beyond technical issues, therefore, successful implementation of e-taxation requires social engagement through education campaigns, adapting digital tools to target populations to make them user-friendly, and the use of technical assistance and employing a whole-of-government approach to digitalisation.
II. STRENGTHEN INSTITUTIONS TO ATTRACT PRIVATE INVESTMENT AND ENHANCE THE EFFECTIVENESS OF PUBLIC INVESTMENT AND SERVICES

Prior to 2020, Africa was attracting increasing amounts of foreign direct investment (FDI), although overall FDI inflows remained much lower than in other world regions. Between 2000 and 2019, FDI flows to Africa increased fourfold, with a compound annual growth rate of 8.5% due to growing demand for specific commodities, as well as sustained investments in services. In 2019, Africa received USD 45.4 billion of FDI flows. However, these amounts remained small by international comparison. In 2017-19, Africa attracted only 2.9% of global FDI flows, compared to Asia at 31.1% and Latin America and the Caribbean (LAC) at 9.9% (see Figure 3) (AUC/OECD, 2021[3]).

Figure 3. Global foreign direct investment inflows by world region, 1990-2019 (USD billion)

The COVID-19 pandemic has been highly disruptive to foreign direct investments in Africa. COVID-19 triggered large capital outflows, totalling USD 5 billion in sub-Saharan Africa between February and March 2020 alone (IMF, 2020[42]). Overall, FDI flows to Africa dropped by 18% between 2019 and 2020 through a rebound in FDI flows in the second half of 2020. In comparison, FDI inflows contracted by 4% in developing Asia and 37% in LAC. Greenfield project announcements, an indication of future FDI trends, fell by 63%. In addition, low prices and low demand for commodities amplified COVID-19’s negative impact on FDI. Egypt remained Africa’s top recipient in FDI, despite a significant decline in inflows by 39%. More diversified economies fared better during the pandemic. For instance Ethiopia – while still facing a decline of 17% – managed to attract significant investment in the manufacturing, agriculture and hospitality sector (UNCTAD, 2021[43]).

Promoting more and better investment can accelerate Africa’s recovery, improving resilience, and creating jobs. Attracting targeted FDI must be part of recovery and productive transformation strategies. These efforts could benefit from the process of continental integration. FDI-related policies should go hand-in-hand with the development of local business ecosystems, including policies for industrial clusters, value-chain development and the provision of business development services. Without these investments, African firms risk losing out to global competitors, even in existing domestic markets. Before COVID-19 and despite strong domestic demand, African exports of consumption goods to African markets decreased.


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from USD 12.9 to 11.8 billion between 2009 and 2016, while imports from the rest of the world grew from USD 11.2 to 19.0 billion. To ensure a sustainable recovery, African governments need to formulate policies and programmes aimed at creating jobs in high-value sectors to support sustained economic growth, poverty reduction and inequality. For example, improved connectivity within countries is conducive to greater market integration and achieving the key goals enshrined in the AU’s Agenda 2063 and the African Continental Free Trade Area (AfCFTA).

**African skill levels, rather than low tax rates and low labour costs, are what will primarily attract FDI.** Investors say that talent and skills rank among the top four determinants of FDI inflows, alongside political and macroeconomic stability and good regulations (see Figure 4). Access to transportation, adequate and reliable supply of energy, facilities for vocational training of specialised workers, ideally designed in co-operation with the investor, are other important factors. In contrast, low tax rates and low cost of labour and other production inputs rank only at the seventh and eighth position of investors’ priorities.

**Figure 4. Factors affecting investment decisions (percentage share of respondents)**

<table>
<thead>
<tr>
<th>Factor</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Talent/skills</td>
<td>85</td>
</tr>
<tr>
<td>Macroeconomic stability</td>
<td>84.7</td>
</tr>
<tr>
<td>Political stability</td>
<td>84.3</td>
</tr>
<tr>
<td>Legal and regulatory environment</td>
<td>84.1</td>
</tr>
<tr>
<td>Market size</td>
<td>81.9</td>
</tr>
<tr>
<td>Physical infrastructure</td>
<td>79.4</td>
</tr>
<tr>
<td>Low taxes</td>
<td>76.8</td>
</tr>
<tr>
<td>Low labor and input costs</td>
<td>74.6</td>
</tr>
</tbody>
</table>

Note: Share of surveyed affiliates of multinational enterprises (MNEs) identifying selected factors as important or critically important to their company’s decision to invest across ten middle-income countries: Brazil, China, India, Indonesia, Malaysia, Mexico, Nigeria, Thailand, Turkey, and Viet Nam.


**Countries should refrain from implementing inappropriate tax competition by co-ordinating at a regional level, in order to target different types of FDI.** When access to domestic markets motivates investors, the leading factor driving decisions to choose an investment location is not the “fiscal incentives”. Regional co-operation, notably through regional institutions such as the RECs or the African Union and affiliated agencies, will reduce the risk of a “competitiveness race” that would lead to lower welfare for host countries. For example, the SADC has called for wide collaboration on tax incentives to reinforce regional co-ordinated actions to respond to the issue of harmful tax competition. Establishing a programme of tax regulatory convergence could gradually harmonise laws, align national regulations or create regional standards. Participation of an increasing number of African countries – 25 countries as of February 2021 – in the G20/OECD Inclusive Framework on Base Erosion and Profit Shifting (BEPS) could also be an avenue to co-operate on tax practices on a global scale. The Pillar Two proposal to establish a global minimum tax, currently under negotiation at the Inclusive Framework, would put a floor on tax competition...
on both incentives and rates, as reductions below the global minimum would result in tax being due elsewhere to effectively ‘top up’ to the minimum rate.

Recommendation 1: Empower national investment promotion agencies, as part of productive transformation strategies

Investment promotion agencies (IPAs) can play a critical role as governments’ key interlocutors with foreign businesses, notably to develop basic quality infrastructure and services for businesses. Agencies promoting FDI can entice foreign investors to transfer knowledge to local companies by employing, training, and subcontracting locally, as with the Tangier automobile cluster in Morocco (AUC/OECD, 2018[12]). These agencies can provide many services: financial assistance (credit, insurance), market intelligence, image and branding, promotion of FDI in strategic sectors, investor aftercare, and assisting with overseas expansion (see Table 1). Research shows that IPAs can help attract higher-quality FDI inflows, and even transform local economies. Each dollar spent on investment promotion yields an estimated USD 189 in FDI inflows and USD 78 in investment promotion creates one additional job in promoted sectors (World Bank, 2020[44]). An essential condition for their success, however, is their effective access to key decision-makers. For instance in Uganda, direct coordination with the President’s Office ensured policy reforms were implemented effectively, thus shaping the business environment and attracting the targeted FDI inflows (Newman et al., 2016[45]).

Table 1. Core functions of Investment Promotion Agencies (IPAs)

<table>
<thead>
<tr>
<th>Main objective</th>
<th>Image building</th>
<th>Investment generation</th>
<th>Investment facilitation</th>
<th>Policy advocacy</th>
</tr>
</thead>
<tbody>
<tr>
<td>Generate positive image of the country as investment destination</td>
<td>Convince foreign investors to locate their investment in the home country</td>
<td>Facilitate investment projects implementation</td>
<td>Monitor investors’ perception, and propose changes to improve investment policy</td>
<td></td>
</tr>
<tr>
<td>Marketing plans</td>
<td>Multilateral visits</td>
<td>Global rankings</td>
<td>Surveys of foreign investors and industry associations</td>
<td></td>
</tr>
<tr>
<td>Media campaigns</td>
<td>Site visits</td>
<td>Policy impact assessment</td>
<td>Meetings with the government</td>
<td></td>
</tr>
<tr>
<td>Website</td>
<td>Administrative support (including one-stop-shop services)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Brochures</td>
<td>MNE-SME linkage programmes</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>General communications and public relations (PR) events</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Source: (OECD, 2019[46]) mapping of investment promotion agencies: Middle East and North Africa

Effective IPAs require a clear mission with strategic objectives as well as strong leadership and high-level support. The investment promotion strategy need to be coherent with the country’s broader productive transformation strategy. Rwanda for instance set up an IPA with the clear mandate to attract and assist investors who can create jobs and foster economic activity in the country. The IPA includes a one-stop shop for investment-related procedures; sector development of two of the government’s highest-priority sectors: information and communication technology (ICT) and tourism; and the administration of special economic zones (SEZs), public-private partnerships (PPPs), and special projects with international donors and partners. The agency also benefits from a seat in cabinet, to ensure direct contact with other ministries and the president (AUC/OECD, 2019[21]). In Côte d’Ivoire, the Investment Promotion Centre substantially reduced administrative burdens to start a business (cost, minimum capital required, number
of procedures, time). The information available on the website also provide transparency on many procedures to foreign investors (OECD, 2017[47]).

**Different levels of government can provide support to local suppliers and help them make connections.** Developing regional public goods, especially in energy and transport infrastructure can be a lever to attract lead firms in targeted areas. Local governments can also play a matchmaking role between lead firms, local suppliers and other stakeholders such as research institutions, labour associations and investors. Targeted interventions can help local firms upgrade their production of intermediate goods and services for larger firms, domestically and internationally. In Ethiopia, Bole Lemi Phase-I Industrial Park organises trade shows for potential buyers and suppliers to help them understand each other’s opportunities, capacities and demands. It also provides a matching grant of up to 60% for SMEs to invest in their operation and upgrade. South Africa’s Durban government funded official industrial associations in the apparel and automotive sectors, which led to information exchanges and cost-saving synergies, for example in training workers (AUC/OECD, 2019[21]).

**IPAs need to adapt to a changing global FDI landscape.** IPAs can be effective if they align themselves with these developments, adopting a coherent institutional framework, and strengthening their investor services. In recent years, FDI inflows to the African continent increasingly shifted from the extractive sector to services, while the share in manufacturing remained stable. FDI in the extractive sectors decreased from 51.4% in 2003-05 to 12.3% in 2017-19. It increased in the services sectors from 9.8% to 41.5% over the same period (see Figure 5). The emergence of new technologies and the booming domestic consumption markets attracted new market-seeking FDI in Africa in retail, ICT, financial services and other consumer services. Several governments have actively sought these new investment opportunities with some success – take Kenya in the ICT sector; Ethiopia’s textile sector aiming FDI re-locating from Asia where unit production costs have increased; or North African countries marketing their proximity to European markets to attract FDI into sectors as diverse as energy, automotive, textile, or agribusiness (AUC/OECD, 2021[3]).

![Figure 5. Foreign direct investment capital expenditures in Africa by economic activity](https://www.fdimarkets.com)

However, IPAs need to rely on appropriate governance levels and institutional frameworks to be effective (see Box 1). Countries lacking these pre-requisites can focus policy attention on specific sectors in order to constitute a track record for future potential investments in the country. Prior to the creation of
its own IPA, Guinea’s government focused on reforming the water sector regulatory framework in cooperation with international partners to attract investors and send a positive signal on government’s capacities. These type of initiatives could be replicated in other countries lacking institutional capabilities and financial resources to run an IPA in order to acquire experience and reassure foreign investors.

**Box 1. Key success factors to high-performing investment promotion agencies in developing countries**

Lessons drawn from past experience in developing countries show that governments should focus on the following points when setting up an IPAs:

- **Championing** the needed legal, regulatory, and institutional reforms for investment.
- **Ensuring strong strategic alignment** by consulting with both the public and private sectors and developing policies in a logical sequence.
- **Establishing a clear mandate**, ideally focused on investment promotion, especially when starting or restructuring the IPA.
- **Providing support and high-quality services to investors and local suppliers**. Special economic zones and clusters can provide enabling environments enticing strong collaboration between local governments, private stakeholders, labour associations and research institutions.
- **Sufficient and sustained financial resources** to provide continuity over long investment cycles and avoiding annual financial struggles or the need to charge fees.


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**Recommendation 2: Develop international platforms to identify priorities and co-ordinate investment**

The launch of the AfCFTA in January 2021 generates new opportunities to attract investment, if its implementation leads to greater continental co-ordination and focus on productive transformation. Most individual African economies remain too small to attract significant investment and thus need to be part of integrated economic corridors. The implementation of the AfCFTA creates new opportunities to accelerate Africa’s productive transformation and attract larger investments. Higher trade integration could boost intra-regional greenfield FDI, currently at only 7% of investment flows to Africa compared to 50% in Asia and 14% in LAC (AUC/OECD, 2019[21]). By co-operating, African governments can have more bargaining power to select and monitor better deals for local economies.

The **AUC-OECD Development Centre Platform on Investment and Productive Transformation** facilitates dialogue between African governments, Regional Economic Communities (RECs), development partners and the private sector to better attract and co-ordinate investment. FDI promotion strategies need to improve their consistency at national and regional levels, and fine-tune their selling points to investors in order to attract more investments. The AUC-OECD Development Centre Platform on Investment and Productive Transformation aims to facilitate this co-ordination around three work streams: (i) Human Capital development, (ii) Continental integration and (iii) Mobilising investment in connectivity infrastructure. The Platform leverages the OECD Production Transformation Policy Reviews (PTPRs), a policy tool for assessment and guidance on strategies for economic transformation and

competitiveness. The PTPR of Egypt, for example, analyses options to make the most of the African Continental Free Trade Area (AfCFTA) for industrialisation (OECD, Forthcoming[50]).

Adapting the OECD Policy Framework for Investment (PFI) to the African context can help identify priorities at the sectoral, local, national and regional level. Drawing on international good practices, the PFI proposes guidance in policy areas critically important for improving the quality of countries' environment for investment. This includes assessments of regulatory frameworks to facilitate infrastructure investments for instance[38] (OECD, 2015[51]). As of 2021, ten African countries undertook an individual review of their investment policies at three levels of government:

- **At the sectoral level**, Burkina Faso reviewed the investment climate in the agricultural sector leading to the adoption of the Code on Agricultural Investment (OECD, 2013[52]).

- **At the local and national level**, Nigeria applied the PFI at sub-national level with a special emphasis on Lagos State, including a review of the legal and institutional framework for private sector participation in the development of infrastructure in the region (OECD, 2015[53]). Mauritius’ review led to reforms in several policy areas, including combining all investment regulations into a single legal text, updating the country’s model bilateral investment treaty and streamlining the administration of intellectual property rights (OECD, 2014[54]).

- **At the regional level**, the SADC used the PFI in 2015 to develop the SADC Regional Action Plan on Investment as a way to facilitate regional co-ordination and exploit economies of scale in improving investment frameworks and policies across member states (OECD, 2015[55]; IISD, 2019[56]).

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38 The OECD Policy Framework for Investment (PFI) reviews 12 key policy areas: Investment policy, investment promotion and facilitation, competition, trade, taxation, corporate governance, finance, infrastructure, developing human resources, policies to promote responsible business conduct and investment in support of green growth, and lastly broader issues of public governance.
III. CREATE AN AFRICAN INFRASTRUCTURE ECOSYSTEM AND GROW PIPELINES OF BANKABLE QUALITY INFRASTRUCTURE PROJECTS

Infrastructure development must be Africa-led to achieve continental development objectives and accelerate Africa's productive transformation. Scaling up and accelerating infrastructure development can boost continental integration and help achieving the objectives of the African Union's Agenda 2063. The joint Programme for Infrastructure Development in Africa (PIDA) led by the African Union Commission, the African Development Bank and the AUDA-NEPAD – respectively in charge of formulating, financing and implementing infrastructure projects – act as lever to create strategic regional corridors. In 2021, the PIDA entered in its second ten-year period, known as PIDA-Priority Action Plan II (PIDA-PAP 2). It prioritises 69 cross-border infrastructure projects in the Energy, Transport, Trans-Boundary Water, and ICT sectors that can strategically enhance continental integration ([AU/AUDA-NEPAD/AfDB, 2021][57]).

The PIDA-PAP 2 programme builds on well-established governance structure and delivery mechanism. For instance, the Presidential Infrastructure Champion Initiative (PICI) provides high-level guidance on how to develop processes for preparing and funding "public goods" to develop new value chains, and strengthen the African tax base. The PIDA-PAP 2 is grounded in the Institutional Architecture for Infrastructure Development in Africa (IAIDA), which defines the decision-making and implementation roles and responsibilities of PIDA Implementing Partners (AUC, AUDA-NEPAD, AfDB, RECs, Member States and international partners) ([AUDA-PI, 2017][58]). At the implementation-level, the Service Delivery Mechanism (SDM) also provides technical assistance for countries and agencies involved in PIDA projects to address early-stage project preparation challenges ([AUDA-PI, n.d][59]). Successful projects led by AUDA-NEPAD relying on these mechanisms, such as the North-South Corridor linking Cape Town to Cairo or the Transmission Network allowing electricity to be sold from Zambia to Ethiopia, could be scaled up going forward.

Synergising with existing initiatives and lending programmes from development partners is imperative to achieve development outcomes and develop an African infrastructure Ecosystem. International initiatives and lending programs from Multilateral Development Banks (MDBs) and Development Finance Institutions (DFIs) supporting Africa's infrastructure development are many. They include for instance: the G20 Compact with Africa, the EU External Investment Plan, the Asia-Africa Growth Corridor, the Belt and Road Initiative, the Forum on China-Africa Co-operation, the Yokohama Plan of Actions 2019 or the US Millennium Challenge Corporation. The AUDA-NEPA's PIDA programme provides an overarching framework to reconcile different approaches in infrastructure development, co-ordinate initiatives, and ensure projects' alignment with continental development objectives ([AU/AUDA-NEPAD/AfDB, 2021][57]).

The insufficiency of infrastructure provides an opportunity to leapfrog towards climate-resilient infrastructure development and embark on a just transition towards a low-carbon development model. Investments in climate-resilient infrastructure projects including renewable energies presents an opportunity for African governments to adapt to rising environmental challenges, rapid urbanisation and leverage their large renewable resources endowments. Investing in climate-resilient infrastructure now outweighs the costs involved in adapting infrastructure in the future. Between 2010-19, levelised cost of electricity from solar PV decreased by 82%, while the cost of onshore wind fell by 40% making renewable energy the cheapest option in most cases ([IRENA, 2021][61]). Furthermore, with the growing investors' attention to ESG standards, green infrastructure projects are increasingly attractive and safe assets for public and private investors that can be leveraged to reduce Africa's infrastructure financing gap. For instance, France's Sovereign Green Bond programme recently expanded the list of eligible projects – financed by bonds' issuance to international investors – to the environmental component of Official Development Assistance (ODA). This should create additional fiscal space to finance resilient infrastructure projects in ODA-recipient countries.

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African governments are considering alternative financing sources to counter public budget contraction due to COVID-19. African governments finance through public resources the largest share of infrastructure, at above one third of total commitments (USD 31.6 billion on average between 2015 and 2018). In contrast, the private sector committed USD 6 billion annually between 2015 and 2018 compared to USD 33.3 billion in East Asia (see Figure 6). ICT infrastructure represents the only category of infrastructure that was mostly privately financed (80% of ICT financing in 2018) (AUC/OECD, 2021[3]). Increased fiscal expenditure to support health and economic activities during COVID-19 risks diverting resources from government and international partner’s infrastructure development projects.

Figure 6. Infrastructure financing in Africa, by source, 2015-18 average (in USD billion)

Notes: ICA members includes all G8 countries (Canada, France, Germany, Italy, Japan, the United Kingdom, the United States and Russia), two G20 countries (Spain and South Africa). African Institutions: the African Union Commission (AUC), the African Union Development Agency the (AUDA-NEPAD); the United Nations Economic Commission for Africa (UNECA), the African Development Bank (AfDB), the AfreximBank, the European Investment Bank (EIB), the International Finance Corporation (IFC), the Islamic Development Bank (IsDB), the Africa Finance Corporation (AFC), and the World Bank. Regional Development Finance Institutions and Bilaterals: the French Development Agency (AFD), the West African Development Bank (BOAD) and the Development Bank of Southern Africa (DBSA).

Scaling up private sector investments in infrastructure projects to fill the infrastructure-financing gap requires careful planning and assessment. Attracting private financing to fill the infrastructure gaps is high on the African and international agenda. Still, to date, private finance represents a minor share of infrastructure financing and the poorest countries struggle to attract private investors (Fay, Martimort and Straub, 2021[7]). The Continental Business Network launched by AU-NEPAD in 2015 to crowd-in financing for infrastructure projects already acts as a key platform for collaboration between the public and private sectors (AU-PIDA, 2015[15]). Many arrangements for PPP, investment guarantees and other means of private participation are possible. African sources of private capital, including institutional investors are also worth considering, as they are often invested in infrastructure projects or other assets in OECD countries. The AU-NEPAD 5% Agenda aims to increase to 5% institutional investors and pension fund’s contributions to infrastructure financing from its low base of approximately 1.5% (AU-NEPAD, 2017[16]).

Involving private companies in infrastructure projects needs to account for financial, legal and governance risks of both governments and private investors. Governments need policy frameworks that carefully assess alternative sources of private finance (direct, institutional) in infrastructure and the trade-offs with publically funding the investment. For instance, Ghana engaged with private investors on an offshore gas infrastructure back in 2016. The contract included a “take or pay” clause requiring the Ghana National Petroleum Corporation (GNPC) to purchase 90% of a predetermined quantity of gas
produced, whether it is able to use it or not. According to the IMF, this agreement represents an important fiscal risk to the country as it requires Ghana to make monthly payments equivalent to 0.7% of GDP annually, due to a combination of lack of demand and delays in building associated infrastructure needed to offtake gas (EIU, 2019[65]; IMF, 2019[64]).

Successful PPPs in infrastructure projects require a strong institutional framework and capacities, close co-operation with private investors, alongside careful planning and assessment. Previous experiences can serve as important lessons learned and showcase best practices for the implementation of PPPs across the continent. For instance, South Africa presents high levels of success in facilitating private sector investments into grid-connected renewable energy (RE) generation through the Renewable Energy IPP Procurement Program alongside a comprehensive PPP framework and legislation, and an established PPP Unit to oversee co-ordination, technical assistance and capacity (Eberhard, Kolker and Leigland, 2014[69]). In Gabon, the government managed to attract private sectors investments and capacities to accelerate the Gabon’s Special Economic Zone’s project and reinforce its timber and wood sector. The project benefited from the support of the Africa Foundation Corporation to facilitate co-operation between public and private stakeholders, under the aegis of the government, which provided transparent objectives and an enabling regulatory framework.

**High risks perceptions impede private sector investments in infrastructure.** Risk perceptions towards Africa’s investment remain persistent, despite African infrastructure projects performing better than in other world regions in recent years. According to Moody’s Investors Service’s annual assessment of project finance loans, African infrastructure projects default rate averaged 5.5% between 1983 and 2017, compared to 12.9% in Latin America, 8.8% in Asia, 8.6% in Eastern Europe, 7.6% in North America, and 5.9% in Western Europe (Moody’s Investor Service, 2019[61]). While many instruments already exist for risk mitigation, such as blended finance mechanisms or credit guarantees, the co-ordination of standardised approaches remains limited. Developing harmonised performance systems to define and monitor project development processes and outcomes will help increase investor’s confidence and mobilise additional finance, especially from the private sector.

**Infrastructure financing strategies must have realistic targets for private sector participation and address information asymmetries.** While the potential for expanding private sector financing of infrastructure in Africa is real, it is important to base expectations of private investment on realistic assumptions about rates of returns. Moreover, higher rates of return are just a necessary but not a sufficient condition for developing countries to be able to attract foreign investment. Addressing asymmetries of information – for example in relation to the public sector’s capacity to design and implement projects in a way that makes private finance feasible – becomes crucial (Henry and Gardner, 2019[80]).

**Another challenge to financial attractiveness is the difficulty of bringing projects to financial close within about 18 months.** In Africa, 80% of infrastructure projects fail to reach financial close, mainly due to the lack of capabilities and budget in governments and developers for project design and implementation with commercial viability. Successful delivery of infrastructure projects requires well-planned infrastructure investment with transparent selection criteria, robust policies and regulatory frameworks with accountable public institutions. Effective early-stage preparation must ensure alignment with development priorities, compliance with legal regulations, financial viability, cost-benefit analysis, social and environmental impact assessments (Global Infrastructure Hub, 2020[87]; OECD/ACET, 2020[14]).

**Addressing capacity gaps in infrastructure project cycles can help accelerate quality infrastructure development and fulfil the continental integration agenda.** Less than half of the projects had reached

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39 (Henry and Gardner, 2019[61]) show that “adding to a given country’s stock of infrastructure capital is both economically efficient and potentially financeable through a market based allocation of foreign savings only when the return on doing so exceeds the return on all capital (infrastructure and non-infrastructure) in both the local economy and the developed world”.

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the construction or operation stage by the end of PIDA’s first phase (2012-2020). Accelerating and scaling up quality infrastructure investment will require capacity to provide an enabling environment for investment through solid regulatory frameworks and institutions while integrating quality issues - environmental, social and governance (ESG) – economic linkages, job creation, social returns, community consultations and financial modelling. Despite good practices identified, African infrastructure projects are still facing major bottlenecks at multiple stages of project cycles (see Table 2). For example, inefficiencies in procurement practices including poor value for money, inefficient administration and lack of transparency impedes Africa’s GDP growth by nearly 2.2% per year (OECD/ACET, 2020[14]).

Table 2. Impediments in infrastructure project cycles in Africa

<table>
<thead>
<tr>
<th>Project cycle</th>
<th>Bottlenecks</th>
<th>Good practices</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Overarching or transcending factors</strong></td>
<td>Political economy, structure and coordination within government, institutional capacity constraints, capabilities within government, varying standards, constrained access to finance and development partner requirements</td>
<td>Professional development, intra-governmental continuity, standardisation, digital platforms, transparent systems, insulation of regulators, project prioritisation, financial source optimisation and negotiations with development partners</td>
</tr>
<tr>
<td><strong>Early stage</strong></td>
<td>Changing political priorities and project development inadequacies</td>
<td>Peer learning mechanism and incentives to ensure commitments to projects</td>
</tr>
<tr>
<td><strong>Pre-development</strong></td>
<td>Unsatisfactory feasibility studies, delays in ESIAs and complications in land acquisition and resettlement</td>
<td>Support for feasibility studies, continuously involving key stakeholders and effective dispute resolution systems</td>
</tr>
<tr>
<td><strong>Procurement</strong></td>
<td>Inefficient procurement process, complex regulatory framework and negotiation complications</td>
<td>Sound managerial system, focus on value for money and internal controls to improve transparency and fairness</td>
</tr>
<tr>
<td><strong>Private sector investment</strong></td>
<td>Unfavourable conditions for private finance, institutional framework, lack of risk protections, complex negotiations and sub-optimal prioritisation by financing source</td>
<td>Strong project sponsor, streamlined interface with government, institutional reforms that facilitate private finance, risk protections by development partners and ESG standards</td>
</tr>
<tr>
<td><strong>Construction and operation</strong></td>
<td>Institutional procedures, logistical processes, technical capacity, sub-contractor performance, design changes and inadequate maintenance resources</td>
<td>Competent general contractor, sub-contractor co-ordination, adoption of digital technology, logistical focus and innovation-friendly environment</td>
</tr>
</tbody>
</table>

Source: (OECD/ACET, 2020[14]).

The PIDA Quality Label and the African Infrastructure Knowledge and Learning Platform can act as complementary instruments to fast-track the development of quality infrastructure projects. It built on the call from President Akufo-Addo of Ghana at the 18th International Economic Forum on Africa in 2018 to establish a platform on infrastructure and skills development to accelerate projects cycles and thereby addressing key bottlenecks such as the limited capacity within governments to develop bankable projects, fragmented capacity-building initiatives, and varying regulatory and technical standards. Two complementary instruments could be leveraged: (i) PIDA tools such as the PIDA Quality Label with a “Learning by Doing” approach and (ii) the African Infrastructure Knowledge and Learning Platform to support interaction with government agencies and regulators, universities, vocational training institutes, professional associations, and African and international infrastructure organisations (ACET/OECD/AUDA-NEPAD, 2021[88]).
**Recommendation 1: Fast-track the application of AUDA-NEPAD’s PIDA Quality Label**

The AUDA-NEPAD’s PIDA Quality Label (PQL) provides a screening and appraisal tool to fast-track early-stage advisory and make projects more attractive for private investors. The aim is to build in regional and sectorial linkages, with a rigorous analysis in terms of markets, movements and investments, so that projects selected for PIDA PAP II can be implemented rather than remaining aspirational. The mechanism helps Regional Economic Communities (RECs) and AUC member states prepare the information they submit for their applications to PPFs (see Box 2). This funding will allow project owners to carry out technical studies, to establish bankable projects that reach financial close.

**Box 2. PIDA Quality Label Methodology**

The PIDA Quality Label (PQL) is an African-led quality certification awarded by the AUDA-NEPAD Service Delivery Mechanism (SDM). The PQL recognises excellence in PIDA project’s preparation at an early stage. It is implemented through a collaborative process agreed upon by institutional and financial parties. The PQL’s goal is threefold: (i) Shortening the period needed to reach the feasibility and bankability stages; (ii) Identifying project preparation bottlenecks and advising project owners on how to bridge these; and (iii) Certifying excellence in project preparation with the recognition of relevant PIDA stakeholders.

The PQL requires projects to pass through three different stages:

1. **Quick Check Stage (PQL1)**: a first filter identifies project preparation gaps and help Regional Economic Communities and African Union Member States to structure project information and knowledge.
2. **Pre-feasibility Stage (PQL2)**: identification of Project Preparation Funds (PPFs) potentially interested in project technical support according to their submission requirements, helping the owners to be considered as eligible for the financing of technical studies.
3. **Advanced Stages (PQL3)**: facilitate support to project owner to establish bankability of project to strengthen potential financial close of project.

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Source: (AU-PIDA, 2019[69])**PIDA Quality Label**.
The PQL must strengthen its alignment with internationally recognised principles on Quality Infrastructure Investment. Infrastructure projects applying for selection under PIDA-PAP II were selected against three dimensions mirroring the African Union Vision under Agenda 2063: Regional Integration, Economic and Financial Impact, Inclusiveness and Sustainability\(^{40}\) (AUDA-NEPAD, 2020\(^{[70]}\)). Beyond the selection process, AUDA-NEPAD developed criteria in line with best practices (see Table 3). This includes the OECD Compendium on Quality Infrastructure Investment, which compiles more than 340 international good practices relevant to both developed and developing economies to pursue quality infrastructure investment in alignment with the G20 Principles for Quality Infrastructure Investment.

Table 3. PIDA Quality Label criteria’s alignment with G20 Principles for Quality Infrastructure Investment (QII)

<table>
<thead>
<tr>
<th>G20 Principles for QII</th>
<th>PIDA Quality Label</th>
</tr>
</thead>
<tbody>
<tr>
<td>Principle 1: Maximising the positive impact of infrastructure to achieve sustainable growth and development</td>
<td>PQL1: Project’s contribution to poverty reduction, promotion of employment and intra-regional trade and investment account for about 7% of the total project score.</td>
</tr>
</tbody>
</table>
| Principle 2: Raising Economic Efficiency in View of Life-Cycle Cost | PQL1: Project’s financial viability accounts for 7% of the total project score.  
PQL2: Applicants must elaborate a business plan to ensure economic viability and identify private sector opportunities and commercial structure options to ensure financial sustainability.  
PQL3: assessment of financial viability gaps and development of the commercial and legal structure, in order to attract the right mix of finance and ensure financial close. |
| Principle 5: Integrating Social Considerations in Infrastructure Investment | PQL1: Project’s alignment with Africa’s sustainability goals, as well as its technical, environmental, and social viability, account for about 17% of the total project score.  
PQL2: Applicants must carry out environmental, socio-economic impact, gender responsiveness and sustainability assessments |
| Principle 4: Building Resilience against Natural Disasters and Other Risk |  |
| Principle 3: Integrating Environmental Considerations in Infrastructure Investments |  |
| Principle 6: Strengthening Infrastructure Governance | PQL1: Relevant legal and regulatory frameworks as well as governance aspects, accounts for about 15% of the total project score.  
PQL2: Assessment of the institutional set-up, ownership, commitment, track record and capacity of the applicant |

Source: (OECD, 2020\(^{[11]}\); G20, 2019\(^{[72]}\); AUDA-NEPAD, 2020\(^{[73]}\))

An extended PQL could act as an internationally recognised African-led brand for infrastructure projects (OECD/ACET, 2020\(^{[14]}\)). So far, the PQL model is only applied to projects emerging from the PIDA 2021-30 selection process. To date, 58 projects out of 69 pre-selected in the PIDA-PAP 2 priorities are at the stage of conceptualisation or pre-feasibility. Initial assessment of 12 pilot projects has shown that 11 have weak scores in early-stage project preparation (ACET/OECD/AUDA-NEPAD, 2021\(^{[68]}\)). An

\(^{40}\) Regional Integration entailed a Pass/ Fail assessment based 2 criteria: Regional project and Clear agreement from concerned countries; Economic & Financial Impact included 5 criteria accounting for 75% of the grading: Economic Impact (25%) Financial Attractiveness for Private Sector Investment (20%) Corridor Planning (15%), Job Creation (10%), Smart/innovative technologies (5%); Inclusiveness & Sustainability included 3 criteria accounting for 25% of the grading: Gender Sensitivity (10%), Climate Friendliness (10%), Rural Connectivity (5%).

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extended use of the PQL could enhance infrastructure projects alignment with strategic development objectives recognised by African Union Members.

**Expanding the scope of the PQL as an African-led initiative serves different complementary objectives:**

- **First, extending the PQL beyond early stage preparation.** Although project preparation is a key stage that delays infrastructure development, particularly in PPPs, major bottlenecks exist in other stages of procurement, resettlement, construction and operations & maintenance. In addition, the PQL, combined with other PIDA tools could provide a close monitoring project development, assessing potential issues and keeping track of good practices.

- **Second, applying the PQL to all PIDA infrastructure projects carried out through public investment models as well as PPPs.** Indeed, PPPs usually take up a small share of total infrastructure projects in many developing countries. For instance, PPPs in PIDA’s first phase (PIDA PAP I: 2012-2020) represented only 7-11% of the total number of PIDA projects. Applying the PQL to public investment models can also help standardise project preparation, in turn facilitating and accelerating the infrastructure development process.

- **Third, facilitating the decentralisation of project cycle management to sub-national levels in Africa at the level of the Regional Economic Communities and below.** This could be accommodated especially if the 69 projects selected for PIDA’s second phase are considered as programmes for corridors and regional connectivity with multi-sectoral sub-projects subsumed – as was the case for the first phase of PIDA – leading to a prioritised holistic approach to infrastructure development.

- **Fourth, taking stock of existing international tools for tracking project preparation and monitor progress.** For instance, the IMF’s Public Investment Management Assessment (PIMA) provides a comprehensive framework for assessing infrastructure governance and measuring the effectiveness of procedures in steering public investments on which the PQL could build on. Learning opportunities are also emerging from enhanced co-ordination with the Sustainable Infrastructure Foundation’s SOURCE platform, the Blue Dot Network, the Belt and Road Initiative, Association of Southeast Asian Nations (ASEAN)’s connectivity plan and the Asia-Africa Growth Corridor.

- **Fifth, expanding the PQL mechanism will also develop capacity especially among government agencies.** The PQL can build on other PIDA tools included in the AUDA-NEPAD Service Delivery Mechanism (SDM) to identify persisting project preparation gaps, design tailored solutions, and thereby enhance institution building. Training and certification can also be used to ensure countries build a “pipeline of infrastructure projects developers”, next to the infrastructure projects pipeline developed as part of the PIDA-PAP2 priorities. In this view, facilitating capacity building through real-time peer learning as proposed by the African Infrastructure Knowledge and Learning Platform (see recommendation 2) can encourage continued political commitment and help REC's and countries structure bankable projects.

**Recommendation 2: Develop the African Infrastructure Knowledge and Learning Platform as a base for an expanding community of African infrastructure professionals.**

The launch of the African Infrastructure Knowledge and Learning Platform by the AUDA-NEPAD, ACET and the OECD will help creating synergies between existing capacity-building initiatives (OECD/ACET, 2020[14]). The aim of the platform is to facilitate real-time information, knowledge sharing and capacity building, drawing on existing fragmented initiatives, visioning the creation of an African Infrastructure Ecosystem. Among the existing initiatives it will work with are: African academic institutions and DFIs such as the African Capacity Building Foundation (ACBF), the Africa Finance Corporation (AFC).
and its affiliated Africa Infrastructure Development Association (AfIDA), which already organise professional groups or training programmes for civil servants and other infrastructure experts. Developing an interactive virtual platform gathering relevant events, courses, and successful institutional models as well as a database of experts in the different infrastructure fields will serve as a marketplace platform to match demand and supply of African expertise and strengthen local capacities.

The platform can assist in building capacity to conduct rigorous social and environmental impact assessments and mitigate potential risks associated with infrastructure development. While speeding up the development process is vital to meeting the growing infrastructure demand in Africa, ensuring quality is essential for sustainable and inclusive growth. Considerations on environment – such as climate change, water use, pollution and biological diversity – and social elements – such as gender equality, social inclusion, labour conditions, health and safety – are equally important. Improving local capacities to conduct social and environmental impact assessments in line with international donors’ requirements (e.g., multilateral organisation, development banks) could help in reducing project cycles’ length.

Peer learning needs to take stock from experiences in Africa, and other regions. African countries can learn from the ASEAN, where infrastructure played a key role in regional development over the past decades. Lessons from the EU’s Trans-European Transport Network in enhancing regional integration through cross-border infrastructure can also be considered on a case-by-case basis. Global networks such as the Global Infrastructure Hub, the Global Infrastructure Facility, the MDB-backed Sustainable Infrastructure as well as infrastructure related working groups within the G7/G20 and the United Nations can also provide critical support (ACET/OECD/AUDA-NEPAD, 2021[68]). For instance, the G20 provides important insights on principles for quality infrastructure investment, reflections to reform the global financial governance system, and actions to improve project development and the investment environment (G20, 2017[74]; G20, 2019[72]).

Strengthening data collection and providing infrastructure benchmarking will also improve transparency and help monitoring progress. Improving data collection on infrastructure projects can help countries build a track record of successful projects and showcase progress in infrastructure development’s governance and capacities. In a similar manner as capacity building initiatives, this work stream can build on existing projects and initiatives such as the Infrastructure Consortium for Africa’s Infrastructure Financing Trends in Africa report or the World Bank Private Participation in Infrastructure database to reduce fragmentation and improve coherence and transparency (ICA, 2018[23]; World Bank, 2020[75]). The platform can also engage with governments and international organisation to compile granular data and provide regularly updated and comparable indicators as a way to strengthen peer learning from past experiences.

Exchanging experience on how to enhance African governments’ co-operation with traditional and non-traditional development partners and between the public and private sectors can also be useful. These discussions can contribute to reconcile diverging approaches from OECD and non-OECD investors in project preparation and implementation. This includes sharing good practices on upstream reforms, negotiating financing arrangements, procurement, requiring conditions for local content, risk assessment, or adapting Environmental, Social and Governance (ESG) standards more flexibly (OECD/ACET, 2020[14]). In this view, the third work stream “Mobilising investment in infrastructure connectivity” of the AUC-OECD Development Centre Platform on Investment and Productive Transformation will bring together relevant stakeholders and encourage discussions, while mapping infrastructure ecosystems, and investment flows. When it comes to public-private dialogue, the Continental Business Network launched by AUDA-NEPAD in 2015 to crowd-in financing for infrastructure project already acts as a key platform for collaboration between the public and private sectors (AU-PIDA, 2015[15]).
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