Innovative financing in SSA

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About ACET

A think & do tank

Engaged in-depth research, analysis, policy advice and advocacy focused on economic transformation.

Focused

Focused on the how-to’s of policy reforms, drawing on experiences and best practice from within and outside Africa.

A policy institute

A policy institute: working to equip African countries with the knowledge and tools to pursue economic transformation.

Supporting governments

Supporting governments to design and implement good, resilient, and inclusive policies that drive economic growth.

Why innovative financing?

- The public sector will require trillions of dollars in capital and significant expertise from the private sector to meet national development objectives and SDGs.
- Coined in the build up to the Monterrey Consensus -“The value of exploring innovative sources of finances. Innovative financing mechanisms have increasingly gained popularity in the wake of declining levels of traditional official development assistance (ODA).
- Principles: **Scaling-up; Additionality; Complementarity; and Sustainability.**
- Great potential:
  - Innovative financing in development is estimated to have raised $121 billion between 2000 and 2013 (Dalberg, 2014)
  - Between 2002 and 2010 innovative finance schemes raised approximately $5.5 billion in for health and $31 billion for climate/environment (UNDP, 2012)

Innovative financing means different things to different people

- The UN discusses it in terms of taxation, “Financial transaction tax, carbon taxes… taxes on fuels used in international aviation and maritime activities, or additional tobacco taxes. E.g.. UNITAID

- USAID’s include collaboration with the private sector, not new taxes –public-private partnerships and development credit authority, among other models. E.g. GAVI, Global Fund (Product RED)

- Dalberg (2016) consultations identified two distinct dimensions:
  - source of capital that complements existing flows, particularly those from governments and philanthropies (ODA)
  - deployment (or use) of capital. redistributing risk, increasing liquidity, and matching the duration of investments with project needs

14 different types of instruments that are frequently classified as innovative financing.

	What is innovative?			How does it support development?		
	New Product	New Market	New Participants	Mobilize Resources	Financial Intermediations	Deliver Resources
Securities and Derivatives						
Bonds and Notes			X	X	X	
Guarantees		X	X		X	
Loans	X			X		
Microfinance Investment Funds		X	X		X	
Other Investment Funds		X		X	X	
Other Derivative Products	X	X		X	X	
Results-based Financing						
Advanced market commitments	X	X			X	
Awards and Prizes	X				X	
Development Impact Bonds	X					X
Performance-based contracts			X			X
Debt-swaps and buy-downs	X			X		
Voluntary contributions						
Carbon Auctions (voluntary)	X	X	X	X		
Consumer Donations			X	X		
Compulsory charges						
Taxes	X			X		

Source: Dalberg (2016)

Unlocking value from diaspora flows

- Leading Group has already indicated remittances as major potential source for innovative funding
- Diaspora Bonds are debt securities issued by governments or government agencies and are explicitly targeted to their Diasporas (see Chander (2001)) – leveraging the Diaspora's patriotic dividend that offers lower pricing.
- Attraction for issuing countries –patriotic discount; stable source of finance, esp. in bad times; support to sovereign credit rating
- Attraction for investors: Patriotism and desire to do "good" in the country of origin; Risk management – Diaspora investors are likely to view the risk of receiving debt service in local currency
- Remittances matching programs for agricultural development

Diaspora bonds –SSA Record

- In 2011, Ethiopia floated a diaspora bond $5.8 million to fund the Grand Ethiopian Renaissance Dam turned out to be a success.

- Nigeria's first ever 5 year diaspora bond issued in 2017 at 5.625% raised $300 million and had a subscription rate of 130%.
  - First African country to issue a bond targeted at retail investors in both the U.S. and UK
  - 4 years of planning, diaspora engagement and successful navigation of a complex regulatory process in host countries

- Rwanda has launched the Agaciro Development Fund (Dignity Fund), to mobilize voluntary resources to invest in the country's development from both home and abroad. it is seen as part of a strategy for Rwandans to own their own development and improve the country's financial autonomy

- Limited success in Ethiopia's first bond, Ghana and Kenya
  - Ethiopia's first diaspora bond "Millennium Corporate Bond" in 2008 collapsed over environmental concerns and mistrust of the government.
  - Ghana's $50 million "Golden Jubilee" savings bonds for both Ghanaians living in Ghana and abroad was 60 percent undersubscribed in 2007
  - in 2011, following the global financial crisis, Kenya issued a DB which proved unsuccessful, with eventual proceeds of US$141m far below the US$600 million target

Diaspora bonds –takeaways

- A number of other SSA countries have tried issuing DBs with various degrees of success–Ghana, Ethiopia, Nigeria
- Policy makers and govts should not mistake DBs as a quick and easy route to access the stockpile of diaspora savings
- Governments must learn from the mistakes of the past --theirs and others'
- Countries must establish stronger ties with their diaspora –Israel.
- Good governance, transparency and politics will always play a great role in the success of a diaspora.
- Despite the limited success, DBs remain an innovative mechanism for diverting investment toward public social service and infrastructure project

Blue Bond –Seychelles

- The issuing of Blue Bonds by the Government of Seychelles, an innovative approach to promote the country’s Blue Economy investment strategy.
- Following the country’s high income status in 2015, the Government has been proactive in rethinking its Blue Economy investment strategy, as it will no longer be eligible to some of concessional funding sources previously available.
- The fisheries sector is the second-largest contributor to the economy, ranging up to 20% of GDP.
- Seychelles has turned to innovative finance instruments, such as the debt Swap for Conservation and Climate Change Adaptation and the Seychelles Blue Bond, to attract new investors in support of its sustainable development agenda. T
- The Blue Bond issuance was possible thanks to the support of The Government of Seychelles international partners, namely a World Bank guarantee and a GEF guarantee

Stimulating private-capital flows: PPPs

- Contractual agreements formed between a public sector entity and a private sector entity to generate private sector participation particularly in infrastructure projects

- Developing countries have long used PPPs to supplement limited official budgets and other resources to accelerate infrastructure development --Brazil, China, Egypt, Malaysia, and South Africa.

- PPP and blended financing options are ramping up to fill infrastructure gaps, and to deliver much needed social services like education, health, and elderly care.

- PPP schemes are however grossly underutilized in many SSA countries
  - Lack of a relevant legal framework (an appropriate concession law, for instance)
  - Inadequate capacity of the public sector to effectively interface with the private sector
  - Economic and political instability.

- Other issues:
  - The bankers/private sector actors are almost always smarter than the government officials who are signing the contracts
  - Abuse by politicians who instant hit cash while leaving years of payments, and contract enforcement to their successors
  - How to handle sole bidder scenarios and unsolicited bids

- DP support urgently needed –drafting laws, technical assistance, guarantee instruments through **blended financing**

Stimulating private-capital flows: Blended finance

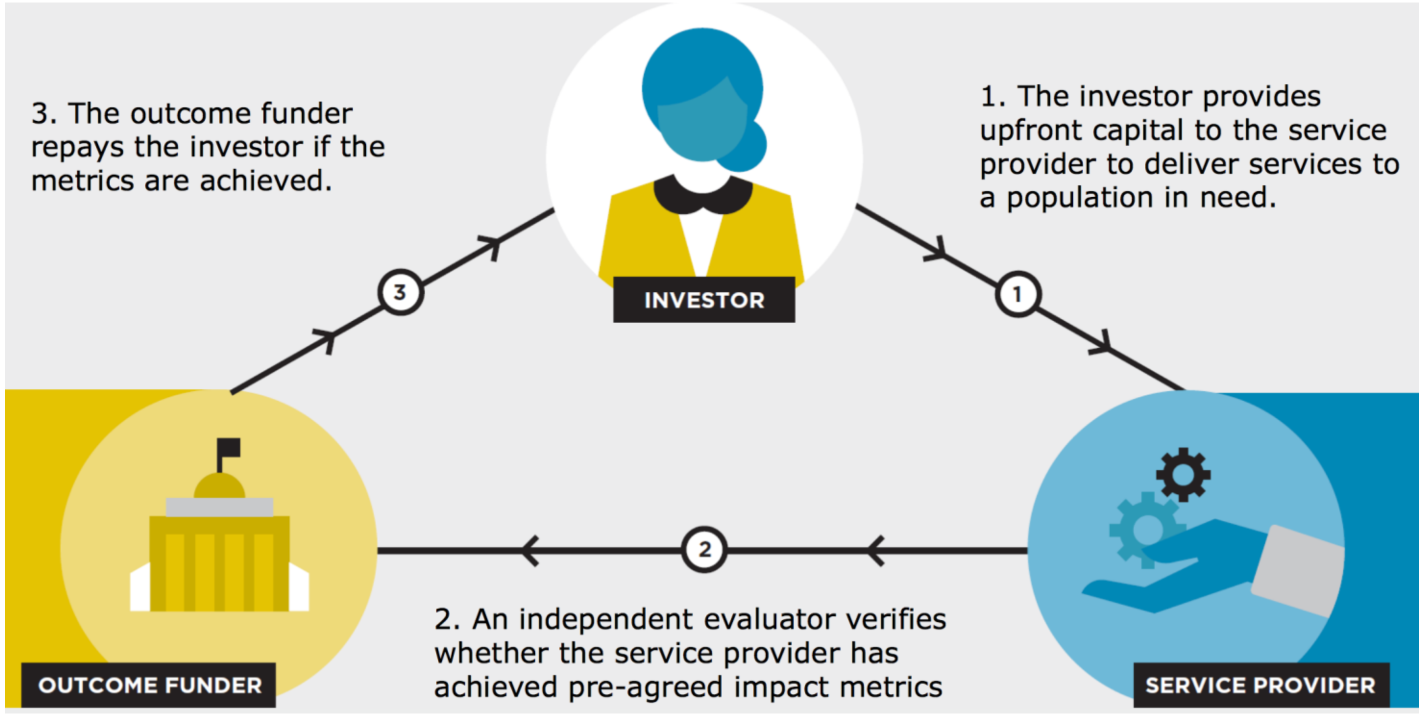
- Govts by themselves will not be able to fill the infrastructure investment gaps meanwhile private capital is constantly seeking investment opportunities

- Blended finance which involves combining public concessional funds with private capital has been recognized as part of the solution. To transform the vision of Addis and Paris into action, the private sector window (IDA 18) is obviously the most realistic approach but countries must recognize and meet the expectations (welcoming business environment, transparency, risk guarantees) to promote private sector participation.

- Following the 2030 agenda, blended finance has been trending
  - By end of 2017, more than 189 blended finance funds have been launched and US$31 bn committed
  - US$81 billion was mobilized from the private sector by official development finance in 3 years
  - major concerns how the integrity of ODA would be protected with an injection of private investment remained highly controversial.
  - IDA18 private sector window to help mobilize $500 million in private capital to expand the availability of housing finance in eight West African countries.
  - De-risking is happening e.g. AfDB private sector enhancement facility which engages private sector lending in poorer countries.

Development Impact Bonds

Development Impact Bonds provide upfront financing for development programs by private investors, who are remunerated by donors or host-country governments – and earn a return – if evidence shows that the programs achieve pre-agreed outcomes



Source: Brookings (2018)

Stimulating private-capital flows: Impact investments

- Philanthropic funders and impact investors—not governments—take on the financial risk of expanding proven social programs.

- Intended to deliver both financial returns and social return. Offers a middle way between pure philanthropy (grant-making) and pure financial investment (maximizing financial return).
  - Potential to mobilizing large pools of private capital from new sources to drive financial value and social impact simultaneously.
  - IDP Foundation–Profitable microfinance lending to low-cost private schools in Ghana that are serving populations not reached by public schools. Includes extensive training in financial literacy and school management.
  - Kiva – Non-profit mirco funds that allows individuals to directly lend money via the internet to students and low- income entrepreneurs

Sector Specific Mechanisms

- International Finance Facility for Immunization (IFFIm)
  - has raised more than US$2 billion through issuance of floating bonds; funds used to support immunization programmes
- Advance Market Commitments (AMC)
  - established contractual partnerships between donors and pharmaceutical firms - focus on research on neglected diseases and distribute drugs at affordable prices
- Debt2Health initiative
  - uses debt swaps to convert portions of their old debt claims into new domestic resources for health through the Global Fund.
- Payment for Environmental Services (PES)
  - allow consumers of public goods to compensate ffor part of the costs borne by those in carge of producing or preserving it
  - Current PES mainly aroun environmental services: water quality and quantity, carbon sequestration and biodiversity conservation

Domestic Resource Mobilization (DRM) – tackling inefficiencies

- Innovative financing should not be seen as a panacea but rather as an important complement for closing the investment gap in SSA countries.

- Impact of global economic and financial crisis on Africa reinforces the need to pay more attention to domestic resource mobilization
  - Broadening and deepening the tax base
  - Improving social contract with citizens
  - Improve compliance
  - Legislative reforms to simplify tax administration and ensure consistency in tax systems from the national to sub-national levels
  - Tackle tax exemptions and treaties
  - Building tax administrative capacity, and balance different types of taxes – real estate tax
  - Curb illicit capital flows out of Africa with increased collaboration

Stimulating private-capital flows: Sovereign-wealth Funds & Pension Funds

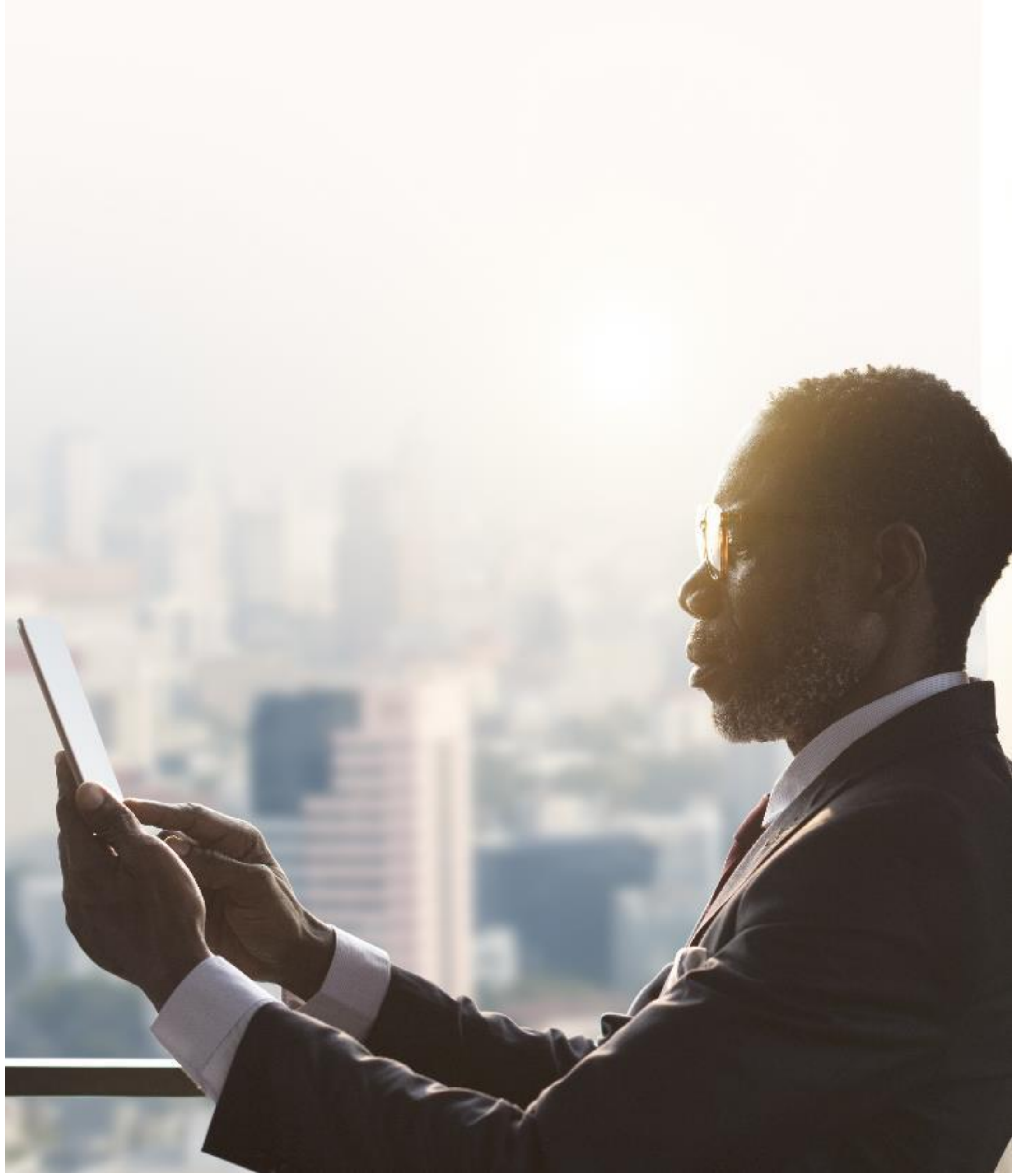
Although sovereign-wealth funds are not new, some recently have been forming innovative coalitions—bringing together such diverse players as Chinese funds, Middle Eastern funds, multinational corporations, and developing-country governments.

Conclusion

- There is a wide array of innovative financing proposals
- Challenge is to identify the most useful and realistic ones for the country
- BF has joined initiatives such as “Tax on Airline Ticket” or Chirac Tax, and “Carbon Financing”. The country participates in the collection of taxes on airline tickets and is engaged in the process that could make it access funding for environment protection.
- The government has to be at the forefront of these initiatives
  - Developing and encouraging the market for these instruments where there is clear market failure -- partial guarantees or securitization of future public financial flows etc.
  - Provide appropriate legal and policy environment that will spur financial market development and deepening and resource mobilization –INFFs
  - Ensure the new mechanisms do heighten macroeconomic and debt sustainability risks
  - Build capacity to leverage the presence of new actors –China (one belt, one road initiative), Brazil, Cyprus, Egypt, Estonia, Latvia, Singapore
- DP support needed in policy support, knowledge and experience sharing and technical support in mobilizing resources for development.

Key considerations

- How can BF and the local private sector benefit from new financial instruments and the evolving development finance landscape?
- How do can the country generate bankable projects across the line and leverage their impact?
- What capacities need to be built? What interim measures should be put in place while capacity is being built.
- How should the country promote access to sustainable finance for the private sector, in particular local finance?



ATF 2018 RMM Chapter Meeting

- Discuss and finalize Chapter objectives.
- Share action plans of priority policy areas for implementation over the next 12 to 18 months.
- Discuss emerging trends in resource mobilization and deep dive into one area of interest, determined by countries, to address key implementation challenges.

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Thank you