Chapter 2

Policies to accelerate sustainable investments for Africa

This chapter identifies policy priorities for African policy makers to mobilise more sustainable investments and better allocate existing resources towards sustainable development. First, it outlines ways in which African institutions can enhance the availability of the information and data necessary for risk and sustainability assessments. Second, the chapter discusses how African-led partnerships and institutions can unlock sustainable finance in line with development priorities. Third, it outlines how effective regional integration policies can scale up sustainable investments.

IN BRIEF

The African continent faces the twin goals of mobilising greater resources and aligning them with its sustainable development priorities. To achieve both, African governments and all groups of stakeholders must collaborate, focusing on three policy priorities to accelerate sustainable investments in Africa:

- Enhancing data availability and comparability will increase investor confidence, transparency and accountability. Improving macroeconomic data may enable many countries to align credit ratings with real risks. Public-private alliances can permit government agencies to share official and market data that inform investors' risk assessment strategies and reduce the cost of gathering information. Global sustainability disclosure and data frameworks need to be adapted to African contexts, and complemented by direct support for investors and supply chain partners.
- Strengthening African-led partnerships and financial institutions will allow for a more effective allocation of sustainable finance. The international community must deliver on existing obligations and channel resources to well-managed African financial institutions, for instance, by making climate adaptation finance available or reallocating Special Drawing Rights. Local financial institutions can orchestrate project development and risk mitigation instruments while aligning efforts with national development agendas. Innovative sustainable financing tools, such as green, social, sustainability and sustainability-linked bonds, are emerging in many countries and could be scaled up. Developing and interconnecting capital markets and stock exchanges will spur Africa's corporate growth.
- Connecting and harmonising regional markets through effective national, regional and continental policies will catalyse sustainable investments at scale. National investment policy frameworks remain essential to attract sustainable investments, while cross-border investment projects reduce trade frictions and market fragmentation. Small and medium-sized enterprises, with their specific needs, require policy support to tap into sustainable investment opportunities and integrate into regional value chains led by larger firms. The successful operationalisation of the African Continental Free Trade Area Investment Protocol requires effective monitoring and private-sector partnerships at the regional and continental scales.

Policies to accelerate sustainable investments for Africa

Information and data improve resource allocation and investor confidence

Enhance national statistical capacity to improve debt transparency

Better data transparency could reduce African sovereign bond spreads by **14.5 basis points** and decrease external debt by at least **USD 400 million**

Improve the collection of sustainability data

Top **3** barriers for tracking the sustainability of investments:

1) lack of supply chain reporting
2) unclear sustainability standards
3) difficult measurements

African-led partnerships can make sustainable finance more effective

WARNING!

Between 2019 and 2020 an estimated USD **11.4 billion** went to **climate change adaptation** in Africa - significantly less than the USD 53 billion needed annually

IPO

African-based initial public offerings (IPO) represented less than **1%** of the USD 1.5 trillion global IPOs over 2017-21

Africa is home to **102** Development finance institutions (DFIs)

That's about **20%** of the global total

Yet, African DFIs rarely manage assets worth more than **2-3%** of their country's GDP

Effective regional integration policies can scale up sustainable investments

By 2030, increased trade due to the AfCFTA will require **USD 411 billion** worth of investment in transport equipment

Investment in Africa's development corridors projects mostly comes from:

- 31% Regional development banks
- 30% National governments
- 17% International development finance providers

African governments and all groups of stakeholders must collaborate to reduce the continent's sustainable financing gap. First, effectively allocating existing African resources towards sustainability outcomes offers the largest potential: domestic government revenues amounted to USD 466 billion in 2021, equivalent to 17% of gross domestic product (GDP), and assets held by African institutional investors amounted to USD 1.8 trillion in 2020, equivalent to 73% of GDP. Second, the international community needs to shoulder its responsibilities and meet its sustainable finance obligations. Third, African governments, the private sector and civil society must work ever closer together to attract more sustainable investments into African economies.

African countries are faced with the twin challenge of mobilising greater resources and allocating them towards their sustainable development priorities. This chapter proposes three main policy approaches that would allow policy makers to work towards these goals by directly addressing the two overarching challenges presented in the previous chapter (Table 2.1). Chapter 1 identified low investor confidence and the excessive cost of capital as investment barriers that global crises have exacerbated. It also showed that more and stronger frameworks and tools are needed for African countries to make the most of their unique assets and for the significant existing financial flows – including Africa's own resources – to be allocated more directly towards sustainable development, all across the continent.

Table 2.1. **Policy actions for mobilising and allocating sustainable investments, mapped against challenges**

Challenge	Policy agenda	Policy action
Low investor confidence and high cost of capital	Informing risk assessments and sustainability measurements	Enhance national statistical capacity for country risk assessments
		Inform investor due diligence and project risk assessments with detailed data
		Support locally adapted sustainability frameworks and data collection
	African-led partnerships to deliver on frameworks and tools	Deepen regional capital markets and stock exchanges to support African corporate growth
Frameworks needed to explore African assets and steer investments towards sustainable development		Increase the capacity of local financial institutions to align sustainable finance with national priorities
		Adapt and expand innovative financing instruments fit for local contexts
	Regional integration to widen impacts	Harmonise policies, improve digital infrastructures and development corridors
		Provide support for small and medium-sized enterprises to integrate into regional value chains
		Ensure effective implementation of the African Continental Free Trade Area Investment Protocol

Source: Authors' compilation.

The policy recommendations in this chapter represent a menu of options, aiming to stimulate participatory policy dialogue that involves African civil society. The chapter seeks to encourage evidence-based policy dialogue by presenting policy recommendations that tackle important barriers to sustainable investments identified in the previous chapter. It seeks to inform dialogue in forums by and for African policy makers, the private sector and civil society. African actors are invited to take ownership of the recommendations by further refining and adapting them for their purposes and contexts.

Holistic national strategies can combine individual policy recommendations in line with local priorities. Chapter 1 showed the magnitude of Africa's sustainable financing gap and highlighted that filling it requires tackling complex challenges and co-ordinating different sources of finance across national, regional, continental and global scales, often through multi-stakeholder partnerships. This chapter does not attempt to provide a definitive and all-encompassing solution. Instead, it offers a blueprint for key policy actions, illustrating them with policy examples from across the continent. Ultimately, the specific policy mix that works will differ for each African country, and the effective implementation of policies will require further tailoring them to country contexts.

Increased information and data availability leads to better resource allocation and investor confidence

Better information can improve risk assessments, align risk perceptions with real risks, decrease transaction costs and support the assessment of sustainability outcomes (Table 2.2). Investors lack awareness of investment opportunities in some African countries: they require more comprehensive, granular and reliable information to assess and navigate real risks (Chapter 1). Public and private institutions can improve the reporting on their expenditures and investments to increase the allocation of existing African resources to sustainable activities. Accurate data on country risks could improve credit ratings and lower the cost of capital, especially in the sectors with high potential for sustainability. Investment project data can facilitate opportunity search and due diligence, lowering barriers to entry for new investors. Data on sustainability investments' outcomes must be collected according to frameworks harmonised at regional and continental levels.

Enhanced national statistical capacity can improve country risk and sustainability assessments and debt transparency

Strengthened statistical capacities of African countries can make country risk assessments more accurate. Macroeconomic indicators, domestic revenue mobilisation and debt data are critical inputs for sovereign risk assessments; however, they are often not available in sufficient depth and detail in African countries (Chapter 1). In 2021, less than a third of African countries (30%) had a fully funded statistical plan compared to almost half the countries in LAC (44%) and in Developing Asia (47%) (PARIS21, 2023). With additional funding, international organisations and partnerships such as the Partnership in Statistics for Development in the 21st Century (PARIS21) could increase their efforts to support the statistical capacities in ministries of finance and statistical offices through secondments, communities of practice and grants (other examples appear in Table 2.2). At the same time, they could consider focusing more directly on the timely provision of data that is relevant for country risk (especially on private debt). Additional follow-through on the decision of African heads of state to allocate 0.15% of national budgets to statistical capacities is required (AUC/AfDB/UNECA/ACBF, 2017).

Regulations and data-sharing agreements can improve the transparency and consistency of country credit ratings. In parallel to efforts to establish an African credit rating agency (AU, 2022a), regulating credit rating agencies can guarantee the integrity, responsibility, good governance and independence of credit rating activities, with a view to ensuring quality ratings and high levels of investor protection. African regulators could follow the example of the Credit Services Act in South Africa, which requires local licensing for agencies and imposes disclosure requirements for ownership structures and methodologies (Pillay and Sikochi, 2022). Credit rating agencies and international financial institutions can publish long-term credit ratings that take into account climate transition pathways, while making model-based versus discretionary components of ratings transparent (UN, 2022). Data could be consolidated across different country risk ratings, such as from credit rating agencies, export credit agencies and development banks (e.g. the African Development Bank's [AfDB] Country Portfolio Performance Reviews [AfDB, n.d.] or the World Bank's IDA Country Performance Ratings [IDA, 2022]).

Table 2.2. **Policy actions and examples for enhancing information and data availability**

Policy action	Policy measure	Policy example	Impact	Level
Enhance national statistical capacity for country risk assessments	Increasing national statistical capacity on macroeconomic, domestic revenue and sovereign risk	*Revenue Statistics in Africa* by the OECD Development Centre, OECD Centre for Tax Policy and Administration, African Tax Administration Forum and African Union Commission	The annual publication *Revenue Statistics in Africa* presents internationally comparable indicators on domestic resources mobilisation for 31 African countries to inform tax policy analysis and reforms (OECD/ATAF/AUC, 2022).	N
	Sharing sovereign risk data	African Regional Technical Assistance Centers (AFRITACs) of the International Monetary Fund	Five AFRITACs strengthen the macroeconomic statistical capacities of African ministries and statistical offices. For example, AFRITAC East has supported the harmonisation of fiscal data and GDP statistics across East Africa (IMF, n.d.).	R/C/G
	Imposing licensing and disclosure requirements for credit rating agencies	South African Credit Rating Services Act	The European Securities and Markets Authority deemed the South African Credit Rating Services Act as stringent as European Union (EU) rules, allowing EU agencies to endorse ratings issued by the six agencies registered in South Africa (FSCA, 2023; Pillay and Sikochi, 2022).	N
Inform investor due diligence and project risk assessments with detailed data	Aggregating detailed information about investment projects	*Global Emerging Markets Risk Database*	The database aggregates data from multilateral banks and financial institutions on credit defaults in emerging markets. While the database is expanding its coverage, so far, only public sector-linked entities input data, recovery rates are not provided and default data cannot be disaggregated by country, sector or type of credit instrument (Lee, Forster and Paxton, 2021).	G
	Partnering with third parties to make disaggregated, sectoral data available	African Automotive Data Network (AADN)	Through the AADN, the African Association of Automotive Manufacturers compiles detailed data on vehicle sales, demand, motorisation rates and assembly plants (AADN, n.d.).	C
	Publishing up-to-date and forward-looking technical and legal information	The African Development Bank's Electricity Regulation Index (ERI)	Regulations vary widely across African energy sectors, with only 27 out of 43 countries surveyed having conducted cost-of-service studies and implementing quality-of-service and transmission grid regulations in 2022. Nine countries do not publish any tariff methodologies (AfDB, 2021).	C
	Strengthening business-to-government dialogue, allowing for feedback about policies and investment barriers	African Union - European Union (AU-EU) Digital for Development (D4D) Hub	The AU-EU D4D Hub launched an online platform, D4D Access, aimed at facilitating experience sharing between African and European actors on inclusive and sustainable digital transformation. The D4D Hub facilitated the France-Rwanda 2023 investment deal to modernise and harmonise the network infrastructure of central and local administrations (D4D Hub, 2023).	G
Support locally adapted sustainability frameworks and data collection	Harmonising and enforcing methodologies on sustainability assessments and reporting	Egypt's reforms on environmental, social and governance (ESG) disclosure	As of 2022, the Financial Regulation Authority of Egypt requires quarterly ESG compliance reports from all companies listed on the Egyptian Stock Exchange with issued capital above EGP 100 million (over 230 companies) (Atef, 2022).	N
	Providing firms with the capacity to collect sustainable investment data	Investisseurs & Partenaires (I&P)	I&P is a social investor focusing on micro, small and medium-sized enterprises, assessing their practices through social and environmental audits and measuring sustainability impacts against a scorecard. It has carried out over 150 investments which have maintained or created nearly 9 000 direct jobs, with around 75% contributing directly to the Sustainable Development Goals (I&P, n.d.).	R

Note: N = national, R = regional, C = continental, G = global.
Source: Authors' compilation.

African governments, statistical offices and financial institutions can do more to track the allocation and impacts of sustainable finance. Chapter 1 showed that Africa's sustainable financing gap is unlikely to be filled uniquely by mobilising more investments. African stakeholders can also fill the gap by increasing the allocation of existing resources towards sustainable development; however, this requires a more granular understanding of financial flows. Sustainability assessment frameworks should be implemented for all major financial flows (government revenues, capital flows, remittances and official development assistance), drawing on benchmarks from sustainable finance (OECD/UNDP, 2021) and complementing overarching sustainable development outcome assessments (UNECA/AfDB/AU/UNDP, 2022).

African governments can share data with international institutions to enable harmonised country risk and sustainability assessments and improve debt transparency. The ongoing process of operationalising the African Union's 2nd Strategy for the Harmonisation of Statistics in Africa (AUC/AfDB/UNECA/ACBF, 2017) could focus more directly on macroeconomic and sustainability data; STATAFRIC, the pan-African statistics institute recently founded under the strategy, is well-positioned to lead such an effort over time. Organisations like the International Monetary Fund (IMF) could facilitate data collection and aggregation (Mutize, 2022). International organisations and credit rating agencies could co-ordinate their data collection exercises to regularise the flow of data and avoid duplication of the work of strained national statistical offices. Regional entities, such as the IMF's African Regional Technical Assistance Centers (IMF, n.d.), could act as focal points for macroeconomic data while African think tanks, such as Afrobarometer, could support sustainability assessments. Comprehensive data on publicly and privately held sovereign debt can also feed into better co-ordination of debt relief among traditional and emerging creditors (Box 2.1; Ekeruche, 2022). Investing in data transparency can significantly reduce the costs of debt service. Research at the World Bank shows that a large number of African countries could have improved their sovereign bond spreads by 14.5 basis points if their average level of data transparency was on par with that of better-performing countries (Kubota and Zeufack, 2020).

Box 2.1. **Debt transparency in Africa**

Improved debt transparency can improve African governments' borrowing capacity. Debt transparency contributes to higher credit ratings, lower borrowing costs and improved investment inflows. In Burkina Faso, improved capacity in the national debt management office triggered a decrease in borrowing costs across all debt instruments and extended the maturity of bonds from five to ten years (World Bank, 2022a). However, as of 2021, 40% of low-income countries had never published any debt data or had not updated their data in the previous two years (Rivetti, 2021). The latest revision of the World Bank's International Debt Statistics added almost USD 200 billion in previously unreported loan commitments, the largest increase in 50 years. In 11 African countries, the revision surpassed the initially reported debt stock by over 10% (Horn, Mihalyi and Nickol, 2022).

International partners can support African governments' debt reporting and management. Empowering African countries to report data on debt could help public and private lenders overcome their unwillingness to disclose information and facilitate risk assessments. Multilateral initiatives on debt management can assist governments in creating costed development plans and in improving project appraisals and public investment management (AfDB, 2022a; World Bank/IMF, 2017). In 2021, the OECD also launched the OECD Debt Transparency Initiative to support the voluntary disclosure of granular data on commercial loans extended to low-income countries (OECD, 2023).

Enhancing transparency in debt issuance could facilitate debt restructuring. Debt restructuring processes have been slow in the cases of Chad, Ethiopia and Zambia. Umbrella rescue packages like the Brady Plan or the Heavily Indebted Poor Countries Initiative have had limited applicability in the more fragmented contemporary debt landscape. For instance, the Debt Service Suspension

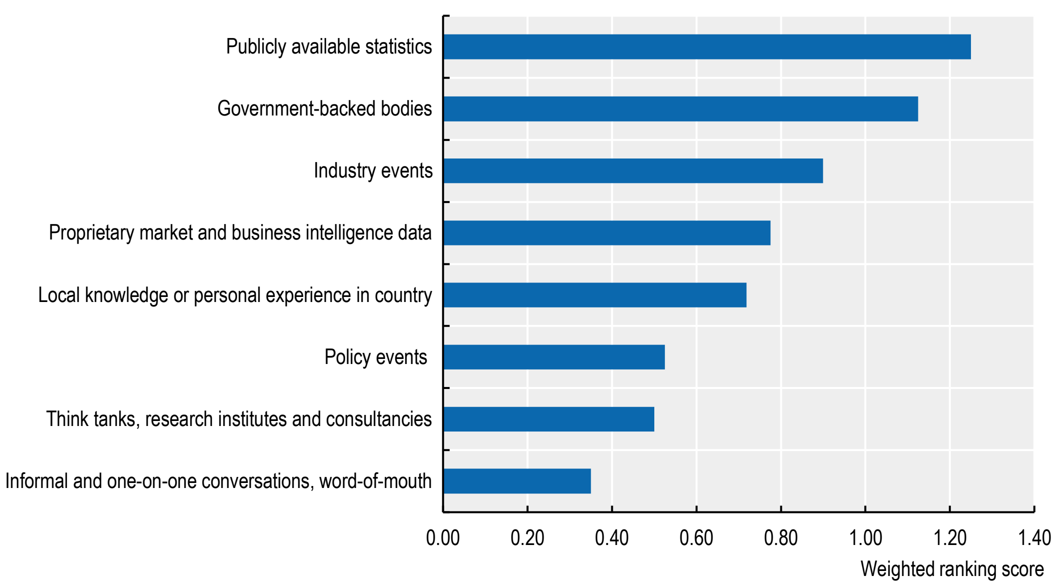
Box 2.1. **Debt transparency in Africa *(continued)***

Initiative has seen limited participation by private creditors despite their growing relevance (Ekeruche, 2022). However, responses such as including enhanced collective action clauses in sovereign bond issuances can encourage private creditor participation in debt restructuring processes (AUC/OECD, 2021). Also, an African regulator to improve tax transparency, fiscal management, and the fight against illicit financial flows could improve debt transparency and management (AU, 2022a).

Investors require detailed data to inform due diligence and risk assessments

Public entities like investment promotion agencies (IPAs), in partnership with private actors, can aggregate and publicly share information and data. Successful investments hinge on comprehensive risk assessment and mitigation strategies, before and after a decision to invest (see Box 1.4 in Chapter 1). Results from the AUC/OECD investor survey show that, in addition to first-hand experience, investors request more official and specialised information on incentives and statistical data (Figure 2.1). IPAs and other public entities should provide such information, regularly updating data and presenting them in user-friendly formats (e.g. using live dashboards). IPAs can aggregate investor surveys conducted by chambers of commerce and collaborate with business intelligence providers such as Asoko Insights. They should focus particularly on project-level data within priority sectors, anonymised and investment performance data and loan defaults, or the co-ordination of technical assistance from international organisations.

Figure 2.1. **Responses to AUC/OECD investor survey question: "Which sources of information should there be more of?"**



Note: n = 40. The survey was administered in September 2022 to the networks of African business councils and the EU-Africa Business Forum. Results show a weighted ranking score, where the top-three-ranked answers were attributed scores from three to one (i.e. higher score for highest ranked as "should there be more of"). "Government-backed bodies" were explained to participants as "investment promotion agencies, export credit and investment insurance agencies".

Source: Authors' compilation.

StatLink *https://stat.link/t9cobl*

With public and donor support, academic institutions and business associations can offer detailed sectoral and value chain data. For example, the African Market Observatory monitors prices and market dynamics in agri-food supply chains in East and Southern Africa (CCRED, n.d.), while the African Automotive Data Network compiles detailed data on the continent's automotive industry (Table 2.2).

Investors benefit from information on national policies, risks and development plans, and regulators can often provide this information. Investors evaluate not only policies and regulations currently in force but also specific technical and legal risk factors, such as their eligibility for tax incentives or the prior dependability of policy plans and regulatory decisions. Detailed infrastructure development plans and precedents of legal disputes between investors and regulators can be an important source of information in densely regulated sectors with a high potential for sustainability, like energy (RES4Africa/PwC Italy, 2021). Regulators can increase the publication of such details at the national level, while also contributing to pan-African information-gathering efforts including the African Investment Observatory, a forthcoming collaboration between the African Union Commission and the OECD.

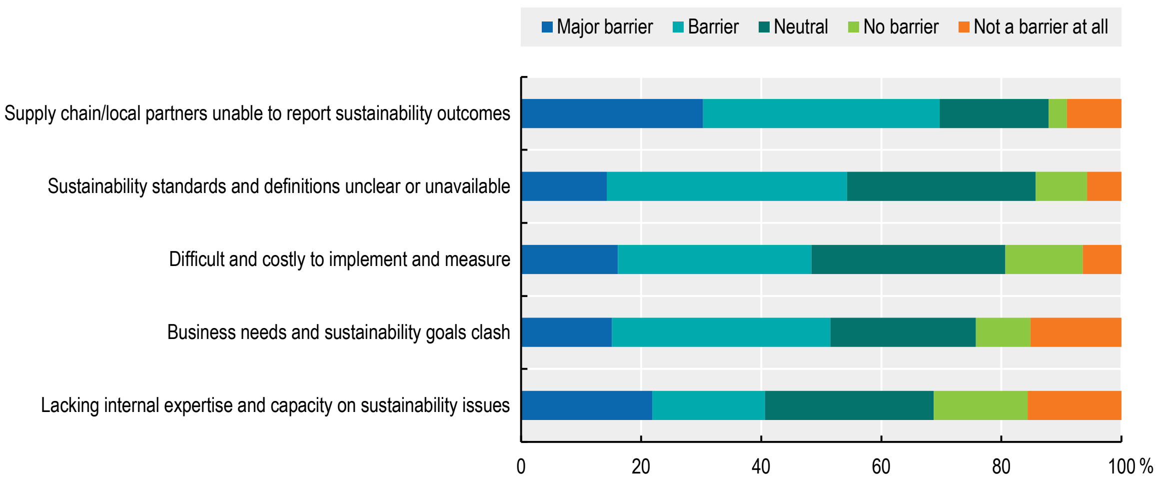
Public bodies can deepen dialogue with the private sector and institutional investors. International investors would benefit from additional channels for business-government dialogue to share their feedback about policies and investment barriers, such as accessible policy focal points, formal consultation processes and interactive events (Table 2.2). In Uganda for instance, the Presidential Investors' Round Table serves to convene foreign and Ugandan investors and facilitate business-to-government dialogue, emphasising sectors that are key within the national investment strategy.

Locally adapted frameworks and direct support for investors and supply chain partners can strengthen the collection and assessment of sustainability data

Global climate finance is mismatched with needs, risks and firm informality in African markets. International climate finance standards for compliance and reporting are fragmented and have mostly been developed outside the African continent (OECD, 2022a). While the continent is vulnerable to the impacts of climate change across sectors such as agriculture, water, tourism, fisheries and forestry, global climate finance tends to focus on mitigation (reducing greenhouse emissions) rather than adaptation (reducing the impacts of climate change) (Were, 2022a). Between 2019 and 2020, USD 11.4 billion of climate financing to Africa went to adaptation – significantly less than the USD 52.7 billion needed annually by 2030 (GCA, 2022). Climate finance providers often have limited experience in deploying solutions in African countries, leading to high risk perceptions, high cost of capital and financial products that do not account for locally specific climate risks or the large share of informal firms (Ameli et al., 2021; Mullan and Ranger, 2022; see also Chapters 1 and 6).

African governments can encourage the collection of sustainability data through national frameworks that can become the groundwork for a continental sustainability finance architecture. Results of the AUC/OECD investor survey suggest that measurement standards and partners' lacking capacity represent major barriers to the systematic collection and assessment of sustainability data (Figure 2.2). African policy makers can facilitate sustainability assessments through disclosure requirements for insurers and multinational enterprises (in particular, for climate risks and impacts which are relatively easy to measure) while providing small and informal firms with the capacity to collect sustainable investment data through training, incentives and accessible databases (Table 2.2). Governments could also subsidise risk data collection for the most vulnerable communities, as they are the least likely to be the focus of private risk management products (Mullan and Ranger, 2022). Over time, nationally collected data can feed into shared sustainable finance architectures, especially for climate finance, where growing international commitments require co-ordination and targeted allocation at the national and regional levels (Were, 2022b; Chapter 7).

Figure 2.2. **Responses to AUC/OECD investor survey question: "What major barriers did you face in ensuring the sustainability of your investments in African countries?"**



Note: n = 31 to 35. The survey was administered in September 2022 to the networks of African business councils and the EU-Africa Business Forum. Risk dimensions are ranked by weighted average.
Source: Authors' compilation.

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IPAs can play a larger role in measuring the contribution of investment to sustainable development. IPAs are beginning to establish relevant metrics and key performance indicators (KPIs) that capture sustainability aspects while supporting investors and their supply chain partners to collect and assess data. This is an emerging area for IPAs around the world, not only in Africa. In a recent survey of IPAs in OECD countries, on average, only 16% said they track their contributions to the Sustainable Development Goals through specific indicators. According to the survey, the most often used KPIs on sustainability and inclusiveness to orient investment projects are those relating to productivity and innovation, followed by those on jobs. About half of the surveyed IPAs use KPIs related to low carbon transitions, while other KPIs are rare (OECD, 2021a).

Strengthened African-led partnerships can make sustainable finance more effective

African-led financial institutions and partnerships offer viable ways to better pool sustainable finance and allocate it in line with development priorities (Table 2.3). Assets held by African institutional investors can be channelled into sustainable investment finance while capital markets in many African countries inhibit cross-border investments (Chapter 1). The linkages between and capacity of existing African financial institutions can be strengthened to strategically channel finance in alignment with policy agendas. Innovative financing instruments can help monetise untapped assets and improve domestic resource mobilisation. The further development of African capital markets can unlock finance to support Africa's corporate growth and broaden the availability of financial products for local and foreign investors.

Table 2.3. **Policy actions and examples for strengthening African-led institutions and partnerships for sustainable finance**

Policy action	Policy measure	Policy example	Impact	Level
Deepen regional capital markets and stock exchanges to support African corporate growth	Interconnecting stock markets to reduce transaction costs and increase trading activity and liquidity of domestic markets	African Exchanges Linkage Project (AELP)	The AELP Trading Link, launched in 2022, enables seamless cross-border securities trading across seven African stock exchanges representing about USD 1.5 trillion in capitalisation (AfDB, 2022b).	R
	Facilitating listings to unlock finance for local firms	ELITE programme of the Casablanca stock exchange	In Morocco, the ELITE programme certified 20 local companies, enabling them to raise capital on domestic stock exchanges by the end of 2018 (UNECA, 2020).	N
Increase the capacity of local financial institutions to align sustainable finance with national priorities	Enhancing governance and capitalisation of domestic financial institutions	Seychelles' blue bond allocation	The Development Bank of Seychelles, together with a conservation trust and technical support from the World Bank, co-managed the allocation of a USD 15 million blue bond to support marine conservation and fishery projects (World Bank, 2019).	N
	Providing early-stage project development, technical assistance and risk mitigation instruments aligned with national development priorities	Africa50 project preparation facility (PPF)	Africa50's PPF managed to bring a 400-megawatt solar plant in Egypt to financial close twice as fast as is typical for such projects (Nassiry et al., 2018).	C
Adapt and expand innovative financing instruments fit for local contexts	Pooling of assets from large and small investors to de-risk investment projects	Kenya Pension Funds Investment Consortium (KPFIC)	The KPFIC aims to pool at least USD 250 million from the 1 300 pension funds operating in the country. In 2022, it had already mobilised KES 16 billion (Kenyan shilling) (USD 124 million) to finance road infrastructure (Taarifa News, 2022).	N
	Promoting local currency financing solutions to reduce foreign exchange risk and attract local investors	InfraCredit Nigeria	InfraCredit provides local currency guarantees to finance infrastructure assets in Nigeria. Since 2017, it has mobilised close to NGN 110 billion (Nigerian naira) (USD 240 million) from domestic pension funds, brought 9 infrastructure projects to financial close and created an estimated 2 300 jobs (InfraCredit, 2023).	N
	Valuing Africa's natural resources to mobilise climate financing	Central African Forest Initiative (CAFI)	In 2021, Gabon became the first African country to receive funds (USD 17 million) from CAFI for its efforts in reducing deforestation over 2016-17 (CAFI, 2021).	R
	Devising tailored regulatory frameworks to support the uptake of innovative tools	Namibia's Regulation 29	Namibia's Regulation 29 facilitates investments from domestic pension funds into unlisted companies via regulated special-purpose investment vehicles. Following its introduction in 2018, investments in private equity increased by nearly 50% over 2017-18 (World Bank, 2020).	N

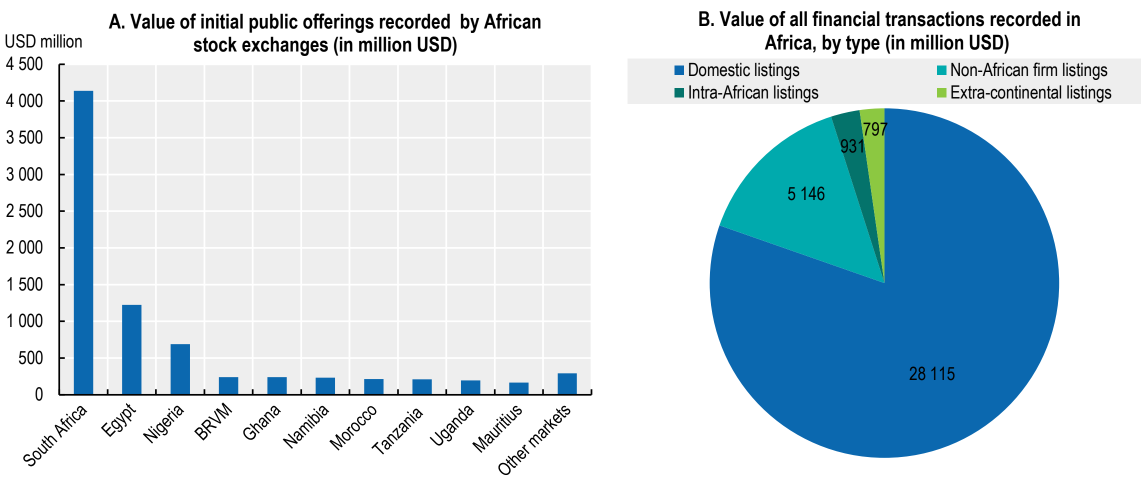
Notes: N = national, R = regional, C = continental, G = global.
Source: Authors' compilation.

Deeper capital markets will support African corporate growth and broaden the availability of financial products for investors

Deepening local capital markets could improve the availability of formal investable products. Currently, most institutional investors target relatively risk-free and liquid assets such as fixed-income securities, equities or government bonds, largely due to the dearth of alternative investment instruments. For example, Kenya's pension industry holds about 75% of its assets in fixed-income securities. In contrast, countries with more developed capital markets, such as Mauritius and Nigeria, allocate less than a third to government securities (IFC, 2021). Regional initiatives implemented together with African industry stakeholders, including the Africa Private Equity and Debt Programme, can support the development of local capital markets and help diversify domestic investors' portfolios (FSD Africa, 2022).

If activity on African stock exchanges was comparable to other developing countries, additional finance for African firms would become available. So far, the market capitalisation of the 28 national and 2 regional stock exchanges in Africa remains far below comparable developing economies. Over the 2017-21 period, African initial public offerings (IPO) represented less than 1% of the USD 1.5 trillion global value of IPOs. During the same period, 77% of all capital raised through Africa-based IPOs originated from only three markets (Egypt, Nigeria and South Africa), raising a combined USD 6 billion, mostly in the services and information and communications technology sectors. Across all capital raising activities recorded on stock exchanges in Africa, 80% were African firm listings on national exchanges, 15% were non-African firm listings on African exchanges, and the rest consisted of intra-African and extra-continental listings (5% and 3% respectively) (Figure 2.3).

Figure 2.3. **Activity on African stock exchanges, 2017-21**



Note: BRVM (Bourse Régionale des Valeurs Mobilières) is a stock exchange serving these West African countries: Burkina Faso, Côte d'Ivoire, Mali, Niger, Senegal and Togo. "Other markets" include ten African capital markets registering a total IPO value of less than USD 100 million over the 2017-21 period – namely Botswana, Malawi, Tunisia, Mozambique, Zambia, Rwanda, Algeria, BVMAC (Central African Stock Exchange), Kenya and Zimbabwe (ranked from highest to lowest value). "Financial transactions" refer to both initial public offerings and further offers (i.e. issuance of additional shares to existing shareholders or new investors) recorded on stock exchanges. Four types of financial transactions are recorded: i) "domestic listings": African companies listing on a domestic exchange; ii) "intra-African listings": African companies listing on any African exchange other than their local exchange; iii) "extra-continental listings": African companies listing on an exchange outside of Africa; and iv) "non-African firm listings": non-African companies listing on an African exchange.

Source: PwC (2021), *African Capital Markets Watch 2021*, www.pwc.co.za/en/assets/pdf/africa-capital-markets-watch-2021.pdf.

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Interconnecting stock exchanges can reduce transaction costs, increase trading activity and allow for greater integration of capital markets. Linking domestic stock exchanges could create opportunities for diversification and greater efficiency while reducing costs for cross-border investments (Soumaré et al., 2021). The national stock exchange in Mauritius has introduced automated trading systems allowing for assets trading via web browsers and a mobile application called mySEM (AfDB, 2022c). At the regional level, the East African Community (EAC) connected four domestic stock exchanges (Tanzania, Rwanda, Burundi and Uganda) through the EAC Capital Markets Infrastructure platform, reducing the time needed to trade cross-listed shares from over one month to three days. These efforts for interconnection can also lay the groundwork for further integration of capital markets, for instance, through the co-listing of African enterprises on different stock exchanges or the designation of some exchanges as regional hubs (Cercle des Économistes, 2022).

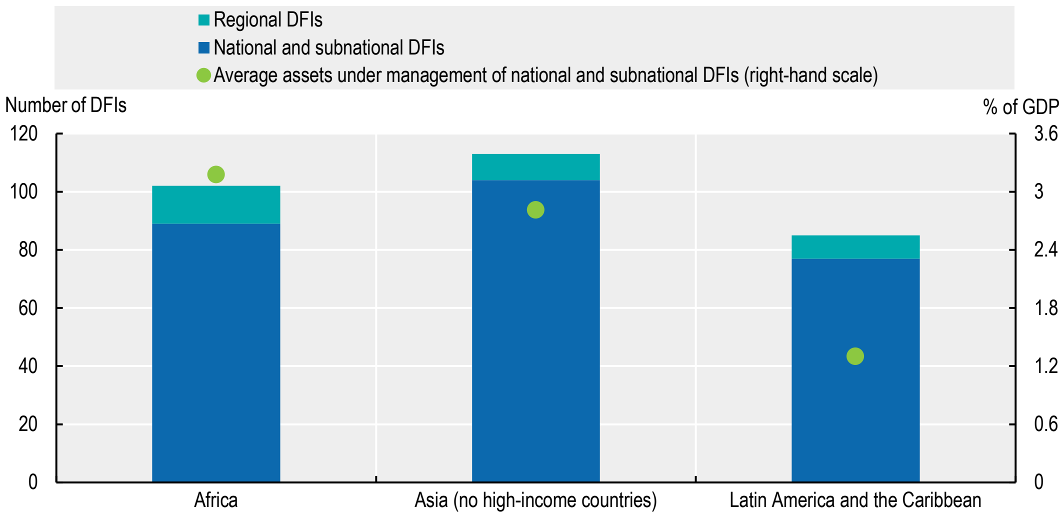
Improving the transparency of listing requirements on African stock exchanges could unlock finance for smaller firms. Lengthy administrative procedures for listing, lack of training and knowledge about capital markets, as well as the broader lack of transparency limit domestic firms' ability to access African capital markets. Stock markets could establish targeted programmes to facilitate the listing of small and medium-sized enterprises (SMEs) or sector-specific firms. Since the early 2000s, 15 African countries created alternative markets to help SMEs access long-term capital (Johnson and Kotey, 2018). In 2018, the London Stock Exchange partnered with Morocco and the West African Monetary and Economic Union's stock exchanges to implement the ELITE programme offering mentoring and advice and enabling local SMEs to enter capital markets (UNECA, 2020).

With the right governance and partnerships, African institutions can effectively channel sustainable finance towards national priorities

Improving the capitalisation of African development finance institutions (DFIs) can allow them to support national development objectives, including via the reallocation of Special Drawing Rights (SDRs). African DFIs rarely manage assets worth more than 2-3% of GDP (Figure 2.4). Given African governments' constrained fiscal positions, diversifying African DFIs' capitalisation would strengthen their ability to channel investment. The international community could consider reallocating part of the IMF's SDRs to well-managed African financial institutions to ensure alignment with regional priorities (AfDB, 2022d). In 2021, African countries received only 5% (USD 33 billion) of the one-time USD 650 billion global allocation of SDRs for COVID-19 recovery. While G20 economies pledged to re-channel USD 100 billion in SDRs to developing economies, most of the funds would flow through the IMF's Poverty Reduction and Growth Trust or the Resiliency and Sustainability Trust in the form of concessional loans with restrictive eligibility criteria (CEPR, 2022).

African DFIs are well positioned to act as intermediaries between international finance and local projects, in line with national sustainability priorities. Currently, Africa is home to 102 DFIs, representing about 20% of the global total (Figure 2.4). Given their knowledge of local markets, African regional and national DFIs are well placed to strategically channel international finance towards viable projects responding to national development priorities (see the example in Box 2.2 and Chapter 7). Since 2011, the AfDB and other multilateral lenders issued USD 1.1 billion of guarantees through the African Guarantee Fund to 161 local DFIs across 40 African countries; they supported lending to SMEs, women and youth and to projects related to climate adaptation and mitigation of value chains (AGF, 2022). While most African DFIs are multi-sectoral (41%), some hold mandates to target specific sectors or groups such as micro enterprises and SMEs (26%), rural development (10%), housing (8%) or infrastructure (6%) (Xu et al., 2021). For example, the efforts of the Development Bank of Nigeria to alleviate financing constraints faced by micro enterprises and SMEs led to the Impact Credit Guarantee, a mechanism for domestic commercial banks to provide guarantees for loans to SMEs (Fitch, 2021). During the COVID-19 pandemic, African public development banks demonstrated a high level of adaptability, implementing counter-cyclical responses to help sustain investments and shifting focus to new sectors (e.g. health and the green transition) (Attridge, Chen and Getzel, 2022). Major new sustainable investment initiatives, such as the European Union's EUR 150 billion Global Gateway Investment Package,[1] will benefit from steering and co-ordination through national DFIs.

Figure 2.4. **Number and capitalisation of operational development finance institutions in developing regions**



Source: Xu et al. (2021), "What are public development banks and development financing institutions? – Qualification criteria, stylized facts and development trends", *China Economic Quarterly International*, Vol. 1/4, https://doi.org/10.1016/j.ceqi.2021.10.001.

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Box 2.2. **Creating investment opportunities in Portuguese-speaking African countries**

Portuguese-speaking African (PALOP) countries – Angola, Cabo Verde, Guinea-Bissau, Mozambique, and São Tomé and Príncipe – are looking to attract more sustainable investments. Private investments remain highly volatile in PALOP countries, with foreign direct investment (FDI) inflows ranging from 10.7% of GDP in 2015 to 0.8% in 2021. Over 2015-21, more than 90% of greenfield FDI targeted only two countries, Angola and Mozambique, mostly in manufacturing and extractive industries. More than three-quarters of FDI originated from the People's Republic of China (hereafter "China"), European countries and the United States. PALOP countries are seeking to develop new sustainable investment opportunities, notably in green sectors. For instance, the paper producer Portucel invested over USD 2.3 billion in sustainable forestry activities in Mozambique, planting over 20 million trees – a carbon stock of 1.7 million tonnes. The investment also aims to support food security and income generation across 7 000 rural households through its USD 40 million Community Development Program.

Co-operation between African DFIs and international partners offers opportunities to overcome obstacles and diversify project portfolios in PALOP countries. The Lusophone Development Compact, an investment platform created with the support of the AfDB and the Portuguese government, aims to drive private sector growth in PALOP countries. It does so through three core mechanisms: lowered financing cost, risk mitigation instruments and capacity building to improve project bankability (AfDB, 2019). Compact members have developed country-specific agreements in line with PALOP countries' development priorities. For instance, in São Tomé and Príncipe, the Zuntámon Compact Initiative aims to stimulate the agriculture and tourism industries, particularly for women and youth-led businesses. It is expected to improve market access for 60 SMEs through technical and business development training and finance, yielding an average of 10% growth in business sales by 2025 (AfDB, 2023). On September 2022, the Portuguese government and the AfDB signed an agreement under which Portugal will provide guarantees of up to EUR 400 million exclusively to bank-financed projects approved under the Lusophone Compact.

African project preparation facilities (PPFs) can create pipelines of financially viable projects through early-stage project development and continued assistance. Scaling up African PPFs with successful track records can facilitate the pathway from project feasibility studies to financial closing. For instance, Africa50's PPF managed to bring a 400 MW solar plant in Egypt to financial close twice as fast as is typical for such projects (Nassiry et al., 2018). National PPFs could also streamline project preparation, handing projects over to global facilities that often support projects only from the pre-feasibility stage (CEPA, 2015). In South Africa, the National Treasury together with South Africa's Development Bank provided early-stage project preparatory financing to kick-start the Renewable Energy IPP Procurement (REIPPP) Programme, which later mobilised USD 14 billion of private sector investment (GIH, 2019).

Improvements in corporate governance, transparency and risk management enhance local DFI performance. Governance reforms can help African DFIs implement results-oriented models and shelter them from political interference (UNECA, 2022a). The Ugandan Development Bank's corporate governance reforms helped better integrate development priorities and reduced non-performing loan ratios from 60% to less than 10% over 2014-19 (Griffith-Jones, Attridge and Gouett, 2020). The Prudential Standards, Guidelines and Rating System, developed by the Association of African Development Finance Institutions with inputs from central, commercial and multilateral banks, can assist African DFIs in monitoring performances. Reviews over the 2011-18 period across more than 30 African DFIs highlighted significant improvements in management independence, transparency and liquidity (AADFI, 2017).

Co-operation between African DFIs and international stakeholders can increase information sharing, transparency and capacity building. The Infrastructure Consortium for Africa's PPF Network gathers 15 global and regional PPFs to enhance information and data sharing on projects, governance practices and cross-funding opportunities (ICA, 2017). Multilateral co-operation can help ensure that international finance providers and African DFIs operate under transparent rules to improve the allocation of sustainable finance (Box 2.3). Initiatives include the Global Climate Fund's (GFC) Readiness Programme; it provides grants of up to USD 1 million per year and technical assistance to local institutions across 35 African countries to receive the accreditations necessary to secure GCF funding (GCF, n.d.). Another such initiative is Africa's first co-guarantee platform (CGP), which aims at scaling up risk mitigation capacity by improving co-operation across African DFIs including export credit agencies. The current CGP project pipeline, co-developed with the African Union Development Agency-New Partnership for Africa's Development, includes 20 projects, worth more than USD 12 billion, in sectors such as energy, infrastructure, agribusiness and regional trade (AfDB, 2022e).

Box 2.3. **Strengthening information sharing and financial allocation between export credit agencies**

Export credit agencies (ECAs) benefit African countries by providing finance and mitigating risks. ECAs represent a significant source of finance for African countries' development. ECAs are financial institutions with a public mandate, providing financial instruments such as interest rate support, guarantees, insurance or refinancing. These instruments mitigate risks for exporters from ECAs' home countries that seek to finance projects in foreign markets.

ECAs from OECD member countries differ from others:

- ECAs from OECD member countries – except for Chile, Costa Rica and Iceland – adhere to the 1978 Arrangement on Officially Supported Export Credit. This framework sets common financing terms and considerations around anti-corruption, debt sustainability, and environmental and social due diligence. According to the OECD Export Credits Group, Box 2.3. **Strengthening information sharing and financial allocation between export credit agencies *(continued)***

Africa indirectly received an annual average of USD 5.9 billion[2] in export credit finance over the 2012-21 period, mostly in the energy, transport and storage, mineral resources and mining, and the industry sectors.

- In recent years, ECAs falling outside of the OECD agreement gained in importance. By 2018, arrangement-regulated activities accounted for only 36% of global trade-related support, while the role of ECAs from China and India has been growing (EBF/BIAC/ICC, 2019). In Africa, ten countries[3] have operational ECAs providing trade finance to local exporters along with two regional ECAs (the African Export-Import Bank and the African Trade Insurance Agency) promoting regional trade and investment.

Multilateral co-operation can increase information sharing and financial allocation between ECAs, including for considerations related to climate change and sustainability. International platforms such as the OECD Export Credits Group or the Berne Union offer opportunities to increase collaboration, information gathering and knowledge sharing between African and non-African ECAs operating on the continent. Multilateral co-operation can also encourage better allocation of ECA finance. A recent survey across 32 international ECAs highlighted that climate- and sustainability-related considerations are still limited but growing in importance (OECD, 2021b). Commitments include both the creation of the "Export Finance for Future" coalition from seven European countries in 2021, seeking to align export finance with the Paris Climate Agreement, and China's pledge to stop financing coal projects, leading to the cancellation of coal power plants in South Africa, Tanzania and Zimbabwe (CREA, 2022).

African governments' voices in international negotiations are necessary to ensure that climate and energy finance commitments are met. The African Group of Negotiators on Climate Change played a key role in COP27 negotiations; it led to the adoption of the Global Shield, a loss and damage insurance system that is set to receive an initial USD 200 million of financial aid to the countries that are most vulnerable to climate change (Werners and Okunola, 2023). Strengthening co-ordination with international partners will be crucial to ensure that high-income countries deliver on and scale up climate adaptation finance beyond the USD 25 billion committed by 2025 (Kabukura, 2022). International climate finance should also align with African priorities to balance support for the just energy transition and universal energy access while delivering on job creation and industrialisation goals (AU, 2022b).

Innovative financing instruments need to adapt to local contexts to expand sustainable financing

Pooling financial assets from large and small investors provides opportunities for risk mitigation. At the national level, the Kenya Pension Fund Investment Consortium pools finance from the 1 300 domestic pension funds. It has potentially unlocked over USD 1 billion of investment following a revision of pension investment rules enabling the funds to invest up to 10% of their assets in infrastructure. The initiative has received support from multilateral partners, attracting investments from international pension funds alongside domestic ones (Davis et al., 2022). Regional initiatives such as Africa50 Infrastructure Fund and AfDB's Pan African Infrastructure Development Fund also provide one-stop shops, including for risk mitigation mechanisms, to facilitate joint investments in the infrastructure sector. Pooled financial products can also reach smaller investor bases such as diaspora investors. For example, Ethiopia's Diaspora Trust Fund raised over USD 5 million from 25 000 people across 93 countries over the 2018-20 period (EDTF, 2022).

Local currency financing can be used to mobilise finance from domestic investors. Local currency financing solutions offset the risk of asset-liability mismatches at terms and can make projects more viable and affordable for local investors. For instance, the Nigerian Sovereign Investment Authority partnered with GuarantCo to establish the Nigerian Infrastructure Credit Enhancement Facility (InfraCredit), providing local currency guarantees to finance infrastructure assets (Halland et al., 2021). Since 2017, InfraCredit has mobilised NGN 110 billion from domestic pension funds, bringing 9 infrastructure projects to financial close and creating an estimated 2 300 jobs in the country. Similarly, a partnership between the West African Development Bank and BPI France (the French export credit agency) facilitated access to both international and local currencies to cover costs of La Mé River's water purification plant, which is expected to deliver about a third of the drinking water for Abidjan by 2025.

Leveraging Africa's natural capital could help scale up climate financing. In most African countries, natural capital (e.g. land, forest, solar energy capacity and water) accounts for 30% to 50% of total national wealth (UNEP, 2016). To protect and generate economic value from this wealth, African governments are increasingly leveraging innovative instruments such as green, social, sustainability and sustainability-linked bonds or carbon credits (Dembele, Schwarz and Horrocks, 2021; Chapters 4, 5 and 6). For instance, Gabon became the first African country to receive funds (USD 17 million) for its efforts in reducing deforestation over 2016-17 (CAFI, 2021). The issuance of green bonds across nine African countries mobilised USD 4.5 billion over 2014-21, while implementing carbon credit trading systems could mobilise up to USD 245 billion (Wambui, 2022; Yu et al., 2021). The Africa Carbon Markets Initiative launched at COP27 and regional initiatives such as the West African and Eastern African Alliances on Carbon Markets and Climate Finance are examples of institutional frameworks that can help scale up sustainable finance (BAFU, 2022).

Co-operation between regulators and investors can support the emergence of innovative financial assets. Regulatory bodies can engage with institutional investors via public-private platforms and forums to improve the clarity of regulations and raise awareness of new financial instruments (AfDB/IFC/MFW4A, 2022). For instance, regulators and close to 50 institutional investors engaged in consultations in the design phase of a new inclusive bond product (Box 2.4). In Namibia, context-specific regulations in the form of a revised governance framework, Regulation 29, have helped overcome underdeveloped capital markets and governance issues. It facilitates local direct investment from domestic pension funds via regulated special-purpose investment vehicles and more than doubled equity investments in unlisted firms just one year after implementation (Gratcheva and Stewart, 2020).

Box 2.4. **Designing innovative investment products: Insights from inclusive bonds**

UNECA and its partners' inclusive bond programme aims to provide affordable and sustainable finance to SMEs and to informal and micro businesses. The bond will tap a large range of investment sources including domestic and international institutional investors as well as national and diaspora savings. The state, DFIs and beneficiaries will provide guarantees to reassure investors and reduce interest rates while local microfinance institutions will manage loans to selected businesses with limited default risks, engaging in consultations with business groups and co-operatives.

Box 2.4. **Designing innovative investment products: Insights from inclusive bonds** ***(continued)***

Multi-stakeholder consultations are conducted to ensure the adequacy of the programme in local contexts:

- **Setting development priorities with governments:** The first issuances of the bond target two pilot countries in Central and West Africa. Relevant sectors have been identified with governments to identify relevant sectors based on national development priorities in the context of the African Continental Free Trade Area (AfCFTA), including agriculture, transport and cross-border trade.
- **Ensuring feasibility and risk mitigation with regulators.** Given the lack of a track record in dealing with such a bond, feasibility studies will be conducted with local regulators to ensure local authorities and investors of the project's viability.
- **Raising awareness among beneficiaries and investors.** Technical workshops will be delivered to set up monitoring practices (including due diligence and impact reporting) and educate entrepreneurs and investors on the benefits of the bond.

Source: Authors' compilation based on an interview with UNECA.

Effective regional integration policies can catalyse sustainable investments at scale

Regional integration projects and harmonised investment policies at the national, regional and continental levels can accelerate sustainable investment and improve its allocation (Table 2.4). FDI should be better integrated into local economies, and sustainable investments from Africa's lead firms and institutional investors should be increased, given their unique potential, as suggested in Chapter 1. To achieve these goals, harmonised national investment policy frameworks must be complemented with effective regional projects that reduce non-tariff barriers and enhance market integration. SMEs are key economic actors within Africa's regional value chains but need policy support to tap into sustainable investment opportunities. The AfCFTA Investment Protocol has the potential to catalyse sustainable investments at continental scale but requires effective monitoring mechanisms and partnerships with the private sector.

Table 2.4. **Policy actions and examples for regional integration and harmonisation**

Policy action	Policy measure	Policy example	Impact	Level
Harmonise policies, improve digital infrastructures and development corridors	Adopting policy frameworks for sustainable investments	Rwanda's 2021 Law on investment promotion and facilitation	In January 2021, Rwanda enacted an Investment Promotion and Facilitation Law, which introduces new priority sectors and tax incentives aimed at improving the competitiveness and productivity of the economy and making Kigali a hub for innovative investors and startups (ALN, 2021).	N
	Reducing barriers to regional investment projects	Pan-African Payment and Settlement System (PAPSS)	PAPSS seeks to simplify cross-border transactions and ease instant payments across Africa's 42 local currencies. As of June 2022, the PAPSS network consists of 8 central banks, 28 commercial banks and 6 payment services providers (Annex 2.C).	C
	Improving cross-border development corridors and special economic zones	Northern Economic Corridor	Between 2014 and 2015, following the operationalisation of several One-Stop Border Posts, the turnaround time for trucks driving along the Northern Economic Corridor between Mombasa and Kampala was reduced from 18 to 4 days (Nugent and Soi, 2020).	R
Provide support for small and medium-sized enterprises to integrate into regional value chains	Increasing linkages between multinational enterprises and local SMEs	Ghana Supply Chain Development Program	The USAID-funded Ghana Supply Chain Development Program trained 650 employees from 254 SMEs in 96 training workshops. The Program led to 78 contracts, worth USD 18.5 million, being awarded (PYXERA Global, 2018).	N
	Supporting local SMEs to meet international standards and certifications	Alliance for Product Quality in Africa	In Ghana, the project supported fairafric, an organic chocolate producer, to obtain two quality certifications by providing training and financial support. The certifications boosted the company's sales by about 20%, including through exports to France, Japan and the United States, allowing for the creation of 20 direct and 5 indirect jobs (Alliance for Product Quality in Africa, 2022).	N
Ensure effective implementation of the AfCFTA Investment Protocol	Monitoring progress at the national level through regional co-operation	ECOWAS (Economic Community of West African States) Investment Climate Monitoring Scorecard	The ECOWAS Investment Climate Monitoring Scorecard was developed within the Improved Business and Investment Climate in West Africa Project as a tool for benchmarking member states' investment-related reforms (ECOWAS, 2020).	R
	Engaging regional private sector networks to catalyse investments at the continental scale	Trillion Dollar Investment Framework for Africa	Through the AfroChampions initiative, the African Union aims to promote the AfCFTA via a private-sector blended finance vehicle that will fund investments in strategic projects (Sasi, 2022).	C

Notes: N = national, R = regional, C = continental, G = global.
Source: Authors' compilation.

Harmonised policies, better digital infrastructures and development corridors can increase cross-border sustainable investments

Harmonising national investment policies and productive transformation strategies can help African countries increase sustainable development opportunities. Small domestic markets, high macroeconomic risks, weak regulatory environments, and frail licensing and incorporation regimes increase risks and the cost of searching for investment opportunities to prohibitive levels in many African countries (Chapter 1). Investment policy frameworks (Annex 2.A) and productive transformation strategies can work in tandem to address such issues. In addition to identifying investment priorities and clarifying how they contribute to advancing sustainable development objectives, productive transformation strategies cover a range of enabling policies – from regulatory frameworks to logistics and trade costs, from digital payments to tariffs and from human resource development to sectoral industrialisation strategies (AUC, 2019; AUC/OECD, 2019; OECD et al., 2021). African governments can increase the sustainability aspects of investment policy frameworks and productive transformation strategies by focusing, for instance, on FDI or the regulation of sectors such as energy (Annex 2.A and Annex 2.B).

Tax incentives to attract sustainable investments need careful design and systematic evaluation. Tax incentives have the potential to increase output, employment, productivity and other sustainability objectives. Yet, poorly designed incentives may reduce revenue-raising capacity, create economic distortions, erode equity, increase administrative and compliance costs, and potentially trigger harmful tax competition. Redundancy rates – the percentage of investors who claim that they would have invested even without tax incentives – exceeded 70% in 10 out of the 14 surveys on developing and emerging economies in a 2015 study (IMF/OECD/UN/World Bank, 2015). Research across seven African countries found that tax incentives reduce effective corporate tax rates by 30% on average, while detailed contextualised mappings of existing incentives can support the design of a coherent incentive framework (Celani, Dressler and Wermelinger, 2022).

Digital infrastructure represents an important path towards increasing market integration. Expanding digital infrastructures such as the Pan-African Payment and Settlement System (Annex 2.C) could further enhance regional integration (AUC/OECD, 2021, 2022). The upcoming AfCFTA protocol on e-commerce could take inspiration from existing agreements like the Singapore-New Zealand-Chile Digital Economy Partnership Agreement by including provisions on digital payments and adopting international standards on anti-money laundering and combating the financing of terrorism (AML/CFT) and on electronic data exchange (Elms, 2021).

Upgrading transport infrastructure and logistics remains key for cross-border investments. Limited transport infrastructure, fragmented regulations and delays at border posts continue to weigh on investment projects that rely on imports and exports. Programmes such as the Programme for Infrastructure Development in Africa (PIDA) can mobilise investments and contribute to the upgrading of current infrastructure networks. A recent UNECA study shows that, by 2030, USD 411 billion will be required for all transport equipment – trucks, railway vehicles, aircraft and ships – to accommodate increased trade due to the AfCFTA. Of the 69 projects to be implemented under the second PIDA Priority Action Plan, one-third targets transport infrastructures across 44 countries (11 projects in road, 6 in rail, 5 in maritime transports/ports and 1 in a border post) (UNECA, 2022b).

Regional development corridors and cross-border special economic zones (SEZs) can offer "quick wins" to attract regional sustainable investments. Development corridors represent important ways of addressing the infrastructure deficits on the continent, but they should undergo detailed multi-dimensional assessments to provide fully sustainable outcomes (Box 2.5). Similarly, cross-border SEZs are emerging as means to catalyse private investment. For instance, the Musina-Makhado SEZ is located near the Beitbridge Border Post between South Africa and Zimbabwe, a gateway to Southern African Development Community (SADC) countries and a critical location on the region's North-South trade corridor. The SEZ is intended to boost regional trade in energy and manufacturing, especially in the metal industry, while creating at least 50 000 job opportunities over the next ten years (UNCTAD, 2021).

Box 2.5. **Africa's regional development corridors**

Within Africa's development agenda, cross-border development corridors represent established solutions to accelerate regional integration. Development corridors comprise large hard and soft infrastructure projects in extensive, often transnational geographical areas that seek sustainable investments (Juffe-Bignoli et al., 2021). As part of PIDA, the African Union has placed development corridors high on Africa's regional integration agenda (AU, 2017, 2020). According to the African Development Corridor Database, which collects information on 79 corridors on the continent, the predominant form of infrastructure in Africa's development corridors is roads (35%), followed by wet ports (21%), passenger and freight railways (18%), and airports (8%). Most projects are based in Kenya (19%), followed by Tanzania (10%), South Africa and the Democratic Republic of the Congo (9% each). The average cost of a corridor ranges between USD 3.5 billion and USD 4 billion. Regional development banks and national governments respectively invested in 31% and 30% of all development corridors' projects, followed by multilateral banks (11%), the

Box 2.5. **Africa's regional development corridors *(continued)***

international development community (6%) and regional economic communities (5%). Private companies and national banks invest in a small percentage of development corridors' projects (4% and 3%, respectively) (Thorn et al., 2022).

Development corridors can facilitate cross-border trade, but comprehensive assessments of environmental pressures must guide current and future projects. For example, between 2014 and 2015, following the operationalisation of several One-Stop Border Posts, the turnaround time for trucks driving along the Northern Economic Corridor between Mombasa and Kampala was reduced from 18 to 4 days (Nugent and Soi, 2020). Yet, corridors also open extensive areas of land to new environmental pressures. A 2015 study on 33 planned and existing corridors in Africa showed that, collectively, the corridors would bisect over 400 existing protected areas and could degrade a further 1 800 by advancing habitat disruption near or inside the reserves (Laurance et al., 2015).

Small and medium-sized enterprises require policy support to access sustainable investments along regional value chains

Establishing linkages between multinational enterprises and local SMEs takes time and requires policy support but can have sustainable outcomes. The impact of linkages with SMEs can take up to 15 years to materialise, as lead firms need time to invest financial, staff and technological resources in business partnerships (Jenkins et al., 2007). Since direct linkages to multinational enterprises require high standards that can be challenging to attain for SMEs, large national local firms can play an intermediary role. Policy makers can deploy complementary support services to foster the creation of value chain linkages (AUC/OECD, 2022; OECD, 2021c), depending on objectives and implementation settings (Table 2.5). Once linkages are established, support services can leverage the position of lead firms in value chains to channel investments towards SMEs and guide them towards sustainable outcomes (see Chapter 7 for examples from West Africa's agri-food industry).

Table 2.5. **Examples of policy tools to promote linkages between multinational enterprises and local SMEs**

Policy tool	Description	Implementation challenges	Example
Supplier development programmes	Improve the quality of the supplier base in strategic sectors to meet foreign investors' demands	• Is complex and costly to manage and implement	USAID-funded Ghana Supply Chain Development Programme trained 650 individuals from 254 SMEs in 96 training workshops. The programme led to 78 contracts, worth USD 18.5 million, being awarded (PYXERA Global, 2018).
Matchmaking and data provision	Reduce information asymmetries between foreign and domestic firms	• Requires a suitable supplier base • Is costly to implement and update	In Tunisia, government agencies provide matchmaking services and a local supplier database including information on businesses with quality certifications (OECD, 2021c).
Targeted tax incentives	Locally integrate groups of companies	• Requires a suitable supplier base • Has fiscal and administrative costs • Can distort competition	South Africa's Strategic Investment Programme offers an initial capital allowance of 50% or 100% for foreign companies that extend linkages to domestic firms (Sabha, Liu and Willem, 2020).
Targeted non-tax incentives	Reduce regulatory and administrative barriers to facilitate linkages	• Requires a suitable supplier base • Requires institutional capacity and effective co-operation mechanisms	Egypt eased the regulatory and administrative procedures on local firms that supply businesses in zones which have duty-free regimes (OECD, 2020).
Inclusive special economic zones and industrial clusters	Favour linkages through multi-purpose industrial geographical agglomerations open to local firms	• Requires a suitable supplier base • Is complex and costly to manage and implement • Requires institutional capacity	In Kenya, the Export Business Accelerator was launched in 2013 to provide business support to SMEs that intended to establish their activities in the Athi River Export Processing Zone. The number of local firms in the zone rose from 25% in 2012 to 38% in 2018 (UNCTAD, 2021).

Source: Authors' compilation based on literature review.

Business development and supply chain partnerships by private stakeholders can help upgrade the production capacity of SMEs and facilitate linkages. For example:

- ACET Business Transform is a business accelerator and incubator programme by the African Center for Economic Transformation that aims to make selected SMEs in Ghana investment-ready for integration into global value chains. The programme includes mentorship services by executives in lead firms, providing local SMEs with access to knowledge and business networks.[4]
- In August 2021, Ethiopian Airlines and DHL signed a memorandum of understanding with the African Electronic Trade Group for establishing the East African Smart Logistics and Fulfilment Hub at Addis Ababa Bole International Airport. The partnership aims to integrate all trade and logistics activities (online e-commerce, warehouse, transportation and door-to-door delivery) within a multi-purpose platform to promote affordable services to SMEs and foster regional trade (AU, 2021).[5]

Harmonised quality standards and certifications can enable local firms to tap into regional investment opportunities. International partners can provide technical assistance to governments and directly assist local producers to meet international standards and obtain certifications (Box 2.6).

Box 2.6. **Alliance for Product Quality in Africa**

The Alliance for Product Quality in Africa seeks to assist local firms and institutions operating in export-relevant sectors from selected countries in complying with international standards or obtaining certifications. The German Agency for International Cooperation GmbH (GIZ) and the German National Metrology Institute (PTB) launched the project in 2019 as part of the Special Initiative on Training and Job Creation of the German Federal Ministry for Economic Cooperation and Development (BMZ). The programme focuses on Côte d'Ivoire, Egypt, Ethiopia, Ghana, Morocco, Rwanda, Senegal and Tunisia, offering the following:

- Facilitating local companies' adoption of international standards and certifications to establish long-term supplier relationships with European companies while creating local jobs (see example of fairafric in Table 2.4).
- Supporting governmental institutions in partner countries to strengthen national quality infrastructure. The project provides technical capacity building, peer learning and public-private dialogue, for example, to improve pesticide residue testing by the Rwanda Standards Board for agricultural produce. By adhering to international standards, Rwanda's agricultural producers are expected to improve their competitiveness.

Source: BMZ and GIZ contributions.

The effective implementation of the AfCFTA Investment Protocol is key to harmonising Africa's sustainable investment landscape

The AfCFTA Investment Protocol aims to harmonise the African investment policy landscape. Currently, 852 bilateral investment treaties exist between African countries and between African and non-African countries (UNECA/AU/AfDB/UNCTAD, 2019). Building on the Pan-African Investment Code, a non-binding instrument introduced in 2017 to guide intra-continental investments, the AfCFTA Investment Protocol aims to i) facilitate and protect sustainable investments, ii) manage investment dispute resolution and iii) enable co-operation regarding investment promotion and facilitation. The protocol also seeks to establish a Pan-African Investment Agency to provide financial resource mobilisation, business development and technical support to states, national investment promotion agencies and the private sector (Tralac, 2021). The protocol's draft was concluded in October 2022 and adopted by the AfCFTA Council of Ministers. Next, the text will be submitted to the Assembly of Heads of States for review and adoption (IISD, 2022).

Implementation of the AfCFTA could stimulate global and intra-African investments in strategic sectors and increase wages for women. Successful trade liberalisation and harmonisation of investment, competition and intellectual property rights laws under the AfCFTA could increase FDI stocks to Africa from outside the continent by 122% and from inside the continent (intra-Africa FDI) by 68%, compared to 2017 levels (Echandi, Maliszewska and Steenbergen, 2022). The realisation of these gains, however, is not automatic and depends in part on the availability of local productive capabilities. Removing barriers could also stimulate investments in value chains with high potential, such as automotives, services and pharmaceuticals. For instance, the AfCFTA Secretariat, Afreximbank and the African Association of Automotive Manufacturers have joined efforts to develop the Pan-African Auto Pact (PAAP). The ongoing PAAP strategy seeks to connect trading automotive manufacturers, ultimately increasing vehicle sales from 1 to 5 million units by 2035 (AAAM/Deloitte, 2020; AUC/OECD, 2022: Chapter 3). In addition, since in large parts of Africa more than 50% of women work in agriculture, increased agricultural investments through regional integration could raise women's wages by at least 10% compared to current levels (UNDP/AfCFTA Secretariat, 2021; World Bank, 2022b).

Experiences from African regional economic communities and other world regions show how to co-ordinate policies and monitor progress. Regional monitoring mechanisms can help effectively implement the AfCFTA Investment Protocol at the national level. Previous regional policy initiatives offer valuable insights (Table 2.6).

Table 2.6. **Examples of monitoring mechanisms of regional trade and investment policies**

Regional policy initiative	Description
Association of Southeast Asian Nations (ASEAN) free trade units	The monitoring mechanism under the ASEAN Free Trade Area (AFTA) led to the establishment of AFTA National Units in the capital cities of most ASEAN member countries. The units are responsible for ensuring that necessary enactments of tariff reductions are legislated and implemented at the national level (ASEAN, 2012).
EU foreign investment screening mechanism	In 2020, the European Union introduced a foreign investment screening mechanism, establishing formal contact points and secure channels in each member state and within the European Commission, enabling information sharing, analysis and co-ordinated actions (EC, 2020).
ECOWAS Investment Climate Monitoring Scorecard	The ECOWAS Investment Climate Scorecard was developed within the Improved Business and Investment Climate in West Africa Project as a tool for benchmarking member states' investment-related reforms. Through this tool, the project helped deepen regional integration, especially in the area of regional investment in the ECOWAS common market (ECOWAS, 2020).
SADC Investment Policy Framework	The SADC Secretariat, in collaboration with the OECD, developed a set of indicators to benchmark and monitor member states' progress in implementing the SADC Investment Policy Framework. The SADC Secretariat assumes the central monitoring responsibility while devolving specific reporting functions to dedicated national contact points in each member state (OECD/SADC, 2017).

Source: Authors' compilation.

Further exchange with private sector representatives, such as the AfroChampions initiative, would help promote investment opportunities. Through the AfroChampions initiative, the African Union aims to mobilise private sector-driven investments in key business areas. This investment and financing framework is dubbed the Trillion Dollar Investment Framework for Africa. Its goal is to establish a blended finance vehicle that will fund investments in strategic projects through collaborative efforts with project developers, investors, financiers, multinational enterprises, SMEs, business associations, governments, regional bodies and development finance institutions (Sasi, 2022).

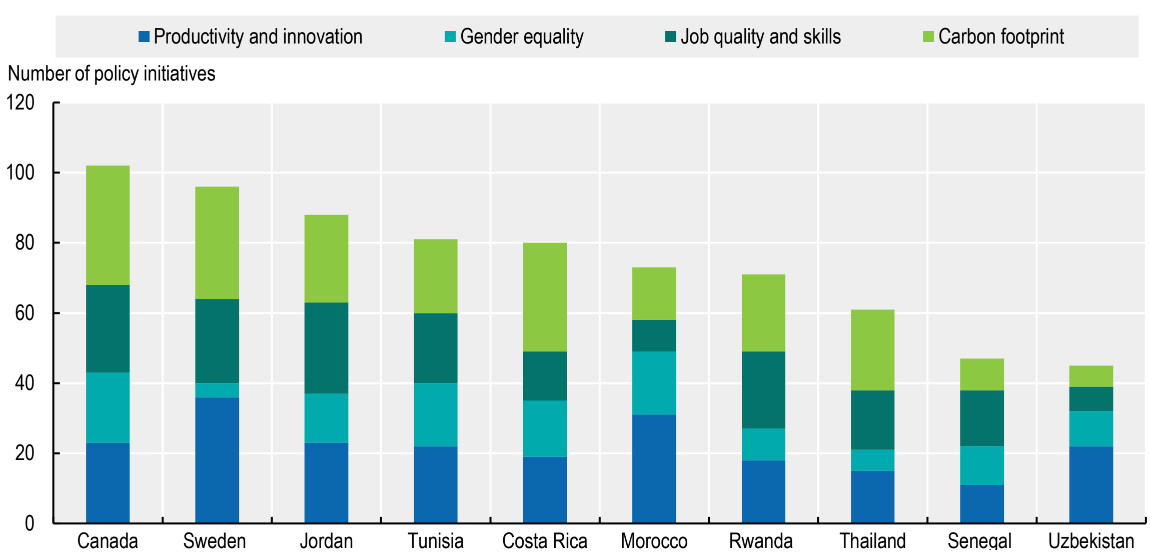
Annex 2.A. The OECD Policy Framework for Investment and FDI Qualities Policy Toolkit in African countries

The OECD has been working with many countries worldwide to promote investment climate reforms on the basis of its Policy Framework for Investment (PFI) (OECD, 2015). This comprehensive multilaterally backed instrument was developed in 2006 and updated in 2015. The PFI emphasises policy coherence, a whole-of-government approach, and the fundamental principles of rule of law, transparency, non-discrimination and the protection of property rights. Based on the PFI, almost 40 Investment Policy Reviews have been conducted, with 10 in Africa: Morocco is currently in its second Investment Policy Review, Mauritius and Zambia have requested a second review, and Rwanda has submitted a first request.

Building on the FDI Qualities Indicators (Box 1.6 in Chapter 1), the FDI Qualities Policy Toolkit (OECD, 2022b) complements the PFI by addressing the impact of foreign direct investment on jobs and skills, SMEs, innovation, and gender equality. The development of the Toolkit involved a detailed mapping of policies and institutional arrangements governing the sustainable development impacts of investment across ten countries, including Morocco, Rwanda, Senegal and Tunisia (Annex Figure 2.A.1). Within Africa, FDI Qualities Reviews are planned for Egypt and Tunisia in 2023.

An added value of Investment Policy Reviews and FDI Qualities Reviews is the engagement with an inter-ministerial taskforce and consultation with the private sector and other stakeholders. This approach ensures that recipient governments and stakeholders take ownership of reform suggestions. In addition, the FDI Qualities Guide for Development Co-operation (OECD, 2022c), launched in October 2022, seeks to strengthen the role of development co-operation for mobilising foreign direct investment and enhancing its impact.

Annex Figure 2.A.1. Targeted policy measures to promote sustainable foreign direct investment in selected countries



Source: FDI Qualities Mapping of Policies and Institutions from OECD (2022b), *FDI Qualities Policy Toolkit*, https://doi.org/10.1787/7ba74100-en.

StatLink https://stat.link/7itywf

Annex 2.B. Regulatory effectiveness in Africa's energy sector

Energy utilities' worsening financial situation has negatively impacted regulatory effectiveness (AfDB, 2021). Given limited budgets, African public agencies and regulators often struggle to overcome institutional legacies that privilege fossil fuel production and find it hard to implement technically complex, long-term-oriented regulations (Pueyo, 2018; RES4Africa, 2022; UNECA, 2016). In the eyes of private investors, energy regulators in many countries are not fulfilling essential functions such as licensing, wholesale pricing and grid management; private investors also believe countries lack independence, capacity and accountability mechanisms such as dispute resolution (AfDB, 2021; RES4Africa/PwC Italy, 2021). Accordingly, private investors in renewable energy assess regulatory risks as higher than public investors do (RES4Africa/PwC Italy, 2021).

Regulatory effectiveness in the form of detailed energy plans and other best practices is a key determinant for attracting investments in African energy systems (Falchetta et al., 2021). An immediate priority for any African energy regulators is the establishment of detailed national energy plans that set specific targets for developing renewable energy sources and new infrastructures (such as grid interconnections) and for co-ordinating power supply with bordering countries (IEA, 2022; RES4Africa, 2022; Chapters 3 and 5). Fundamental regulatory and utility best practices to attract investments include tariff restructuring, reverse auctions and standardised power purchasing agreements, while carbon markets and taxes can be explored by more advanced regulators, following the lead of Côte d'Ivoire, Senegal and South Africa (IEA, 2022; OECD/World Bank/UNEP, 2018; Chapter 3). The Moroccan Agency for Sustainable Development is a promising example of an agency that administers tenders while also functioning as a central power off-taker and hub for investor requests and queries (IEA, 2022).

Each country has its specific energy concerns and level of readiness to set targets, and policy makers need to consider these (see Chapters 3 and 5 on the renewable energy industry in Southern and Eastern Africa). Pueyo (2018) found that, in Ghana, an unreliable off-taker and macroeconomic and regulatory volatility inhibited investments in renewable energy; while in Kenya, limited demand, incomplete grids, utility governance and land rights were major barriers. Fossil fuel-producing countries should pursue the decarbonisation of extractive industries and exit strategies in parallel while leveraging traditional energy producers' commitments to renewables and carbon reductions (OECD, 2022d). Policy makers need to be flexible and prioritise carefully according to their country's and region's specific issues. They should also acknowledge different levels of country readiness. The few African countries that have already set renewable energy targets and established initial local value chains (including Egypt, Kenya, Morocco and South Africa) can now focus on different policy reforms compared to countries where such fundamentals have yet to be implemented (RES4Africa, 2022).

Annex 2.C. The Pan-African Payment and Settlement System

Africa's lack of an integrated continental payment infrastructure for cross-border transactions results in high costs. Only 20% of intra-African cross-border payments are cleared within the continent. The rest are routed through overseas banks, where African currencies are exchanged for dollars, pounds or euros before being converted back into a different African currency. When standard transfer and bank fees are included, the total costs across Africa of this process amount to USD 5 billion per year (PAPSS, 2022).

The Pan-African Payment and Settlement System (PAPSS) seeks to simplify cross-border payments between Africa's 42 local currencies. Jointly developed by the AfCFTA Secretariat and the African Export-Import Bank (Afreximbank), PAPSS aims to streamline and secure money flows across African borders. The PAPSS platform centralises validation checks, reducing the need for costly overseas intermediaries. The system aims to complete transactions in less than two minutes for a low fee.

The continental roll-out of PAPSS is underway. In 2022, the pilot phase was completed in the six countries that are part of the West Africa Monetary Zone: The Gambia, Ghana, Guinea, Liberia, Nigeria and Sierra Leone. As of June 2022, the PAPSS network consists of 8 central banks, 28 commercial banks and 6 payment service providers (Leadership, 2022).

Notes

1. https://commission.europa.eu/strategy-and-policy/priorities-2019-2024/stronger-europe-world/global-gateway/eu-africa-global-gateway-investment-package_en.
2. This average excludes ECA-backed aircraft deals that fall under specific rules and account for an average of USD 577 million annually.
3. Algeria, Egypt, Ghana, Morocco, Nigeria, Senegal, South Africa, Sudan, Tunisia and Zimbabwe.
4. According to an interview with ACET representatives.
5. Confirmed in an interview with African Electronic Group representatives.

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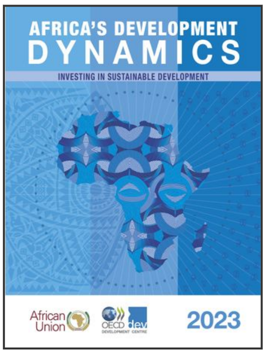

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