Mobilizing Domestic Financial Resources for Implementing NEPAD National and Regional Programmes & Projects
- Africa looks within

EXECUTIVE SUMMARY

ACKNOWLEDGEMENTS

"*Mobilizing Domestic Financial Resources for Implementing NEPAD National and Regional Programmes - Africa Looks Within*" is a knowledge piece resulting from the comprehensive study commissioned by the NEPAD Planning and Coordinating Agency (NPCA) and UN Economic Commission for Africa (ECA) in response to the request by the NEPAD Heads of State and Government Orientation Committee.

The Study report was prepared under the strategic guidance and oversight of the African leaders in the NEPAD Orientation Committee through the NEPAD Steering Committee (SC). The two lead institutions are appreciative of the supervision of the study findings and process by Dr. Ibrahim Assane Mayaki, Chief Executive Officer, NEPAD Agency and Dr. Carlos Lopes, Under Secretary General and Executive Secretary of UN Economic Commission for Africa. H.E. Nkosazana Dlamini Zuma, Chairperson of the African Union Commission provided leadership in sharpening the policy aspects of the study.

Specifically, the Study report benefitted immensely from the direct contributions of the members of the NEPAD-ECA Core Team on Domestic Resource Mobilization (DRM), namely; Dr. Maria Wanzala; Mr. Bankole Adeoye; Dr. Genevesi Ogiogio; Ms. Samira Hotobah-During; Mr. Kossi Toulassi; Mr. Abdoul Salam Bello; Mr. Elvis Mtonga (NPCA) and Professor Emmanuel Nnadozie; Dr. Yemi Dipeolu; Mr. Yinka Adeyemi; Ms. Aissatou Gaye; Mr. John Robert Sloan and Mr. Zheng Jian (ECA).

We are equally grateful for inputs provided by NEPAD Agency and ECA senior officials for the study, including Dr. Sloans Chimatiro (Fisheries), Mr. Benoit Faivre-Dupaigre (CAADP), Ms. Florence Nazare (Capacity Development), Dr. Edmund Katiti (e-Africa Programme). The lead institutions recognize the valuable support provided by Mr. Taferre Tesfachew; Mr. Patrick Osakwe; Mr. Samuel Gayi, Mr. Janvier D. Nkurunziza; (UNCTAD) and Ms. Zemenay Lakew (UNDP) as well as UNDP country offices. At the African Development Bank, the comments shared by Messrs Alex Rugamba, Ralph Olaye, Shem Simuyemba and others contributed to the finalization of the report.

The DRM team welcomes the inputs of Professor Olu Ajakaiye, Executive Chair of African Centre for Shared Development Capacity Building; Mr. Siyanga Malumo of Africana Finance and Investments; Mr. Humphrey Geseib of the Namibian Ministry of Foreign Affairs; and Mr. Anthony Sykes, Sumitomo Bank for their professional insights and contributions. The work of the DRM core team was facilitated by Mr. Kwame Ababio; Ms Nonhlanhla Thelma Dhlamini, Benita Nsabua (NPCA) and Samrawit Fikre (ECA).

At the national and regional levels, the DRM Core Team is appreciative for the valuable inputs received in response to the survey questionnaires from public and private sector stakeholders and Regional Economic Communities (RECs) as well as regional development financial institutions. Further, the NEPAD-ECA core team extensively utilized the policy recommendations evolving from the work and debate through the High Level Panels on Illicit Financial Flows and Alternative Sources of Funding the African Union, chaired by former Presidents Thabo Mbeki and Olusegun Obasanjo, respectively.

Overall, we thankfully acknowledge the direct inputs of partner institutions especially UNDP, African Development Bank, UNCTAD and UNDESA towards the findings of this Study Report. We are most grateful to all.

NEPAD Planning and Coordinating Agency
& Economic Commission for Africa
January 2014

ABBREVIATIONS AND ACRONYMS

AAP	- AU-NEPAD African Action Plan: 2010-2015
ACBF	- African Capacity Building Foundation
ACFA	- Accelerated Co-financing Facility for Africa
AEC	- African Economic Community
AFAIP	- African Fisheries and Aquaculture Investment Partnership
AfDB	- African Development Bank
AFFM	- African Fertilizer Financing Mechanism
AFOLU	- African Agricultural, Forestry and Other Land Uses
Afreximbank	- African Export-Import Bank
AGM	- Annual General Meeting
AIDF	- African Infrastructure Development Fund
AMRH	- African Medicines Regulatory Harmonization Initiative
AMU	- Arab Maghreb Union
APDev	- Africa Platform for Development Effectiveness
APRM	- African Peer Review Mechanism
ATAF	- African Tax Administrative Forum
AU	- African Union
AUC	- African Union Commission
BRICS	- Brazil, Russia, India, China and South Africa
BRVM	- Bourse Regionales des Valeurs Mobilières
CAADP	- Comprehensive Africa Agriculture Development Programme
CAFRS	- Comprehensive African Fisheries Reform Strategy
CD	- Capacity Development
CDM	- Clean Development Mechanism
CDSF	- Capacity Development Strategic Framework
CERs	- Certified Emission Reduction
COMESA	- Common Market for Eastern and Southern Africa
CPA	- Consolidated Plan of Action for Africa's Science and Technology
DAC	- OECD Development Assistance Committee
DBSA	- Development Bank of Southern Africa
DE	- Development Effectiveness
DEG	- German Investment and Development Agency
DFI	- Development finance institution
DRM	- Domestic Resource Mobilization
EAC	- East African Community
EAP	- Environment Action Plan
EBID	- ECOWAS Bank for Investment and Development
EC	- AU Executive Council
ECCAS	- Economic Community of Central African States
ECOWAS	- Economic Community of West African States
ECREEE	- ECOWAS Centre for Renewable Energy and Energy Efficiency
EIB	- European Development Bank
EPSA	- Enhanced Private Sector Assistance
FfD	- Financing for Development
FDI	- Foreign Direct Investment
GDP	- Gross Domestic Product
GEM	- Global Emerging Markets
GP	- Global Partnership for Effective Development Cooperation
HLF	- High Level Forum on Aid Effectiveness
HSGOC	- NEPAD Heads of State and Government Orientation Committee
IAIDA	- Institutional Architecture for Infrastructure Development in Africa
IATAL	- International Air Travel Adaptation Levy
ICT	- Information and Communications Technology
IDB	- Islamic Development Bank
IDF	- Innovative Development Finance
IFC	- International Finance Corporation
IFF	- Illicit Financial Flows
IGAD	- Intergovernmental Authority on Development

IPPF	- NEPAD Infrastructure Project Preparation Facility
ISPAD	- Information Society Partnership for Africa's Development
JSE	- Johannesburg Stock Exchange
KfW	- German Development Finance Bank
MDGs	- Millennium Development Goals
MDTF	- Multi-Donor Trust Fund for CAADP
M&E	- Monitoring and Evaluation
MIGA	- World Bank Multilateral Investment Guarantee Agency
MNCs	- Multinational Corporations
MoU	- Memorandum of Understanding
NAFSIPs	- National Agriculture and Food Security Investment Plans
NFIPs	- National Fisheries Investment Plans
NBF	- NEPAD Business Foundation
NEPAD	- New Partnership for Africa’s Development
NPCA	- NEPAD Planning and Coordinating Agency
NPoA	- National Programme of Action of the APRM
NRI	- Natural Resources Institute
NSE	- Nigerian Stock Exchange
NSTIH	- NEPAD Science, Technology and Innovation Hub
NYSE	- New York Stock Exchange
OAU	- Organization of African Unity
ODA	- Official Development Assistance
ODF	- Official Development Finance
OECD	- Organization for Economic Cooperation and Development
PAF	- Partnership for African Fisheries
PE	- Private Equity
PFM	- Public Financial Management
PICI	- Presidential Infrastructure Champion Initiative
PIDA	- Programme for Infrastructure Development in Africa
PIDA-PAP	- Priority Action Plan of PIDA
PPPs	- Public-Private Partnerships
PTA Bank	- Preferential Trade Area
RECs	- Regional Economic Communities
SACU	- Southern African Customs Union
SADC	- Southern African Development Community
SC	- NEPAD Steering Committee
SDSWF	- Strategic Development Sovereign Wealth Fund
SEM	- Stock Exchange of Mauritius
SIDA	- Swedish International Development Agency
SLM	- Sustainable Land Management
SME	- Small to Medium-sized Enterprises
SPVs	- Special Purpose Vehicles
SSC	- South-South Cooperation
STI	- Science, Technology and Innovation
ToR	- Terms of Reference
UEMOA	- West African Economic and Monetary Union
UNCTAD	- United Nations Conference on Trade and Development
UNDESA	- United Nations Department of Economic and Social Affairs
UNECA	- United Nations Economic Commission for Africa
UNDP	- United Nations Development Programme
UNECA	- United Nations Economic Commission for Africa
UNFCCC	- UN Framework Convention on Climate Change
UNEP	- United Nations Environment Programme
VAT	- Value Added Tax

PREFACE

The return to growth in Africa in the course of the first decade of the new millennium led to the aspiration that the continent could possibly serve as a growth pole for global prosperity and the next frontier for investors. Undoubtedly, Africa is rising partly as a result of transformative governance that has witnessed policy reforms in political and socio-economic systems and prolonged boom in commodity prices. This has, in turn, enabled many African countries to experience higher growth rates. These changes have lifted Africa out of an era of Afro-pessimism to a new epoch of Afro-enthusiasm, accompanied by an amazing shift in demographic profiles, rapid urbanization, a strong voice of the continent's civil society and broad acceptance of the urgent need for sustainable development.

However, for the continent to realise its development goals, African leaders are addressing the development finance constraint, which underlies the enormous infrastructure gaps, food insecurity and other critical sectors to boost national development and regional integration. To thrust their economies into middle-income class, Africa requires a sustained flow of significant amount of finance for the implementation of development programmes at national, regional and continental levels. NEPAD, as an African Union strategic initiative, has put forward a number of well-designed programmes but is experiencing modest implementation due to a critical shortage of financial resources. Therefore, Africa's return to the path of growth will not be sustainable, if the continent still faces the inadequacy of domestic financial resources for development.

Official Development Assistance (ODA) is falling well short of pledges and commitments and is largely unfulfilled. Indeed, prior to and in the midst of the current difficult global financial crisis, many development partners have cut back on ODA. In 2011, Aid flows declined in real terms for the first time in many years. The imperative for additional development financing in Africa has led to a concerted search for alternative, innovative and more predictable sources. A number of initiatives have been launched during the past decade but with limited effect in most cases. Hence, the availability of development finance on the continent remains scarce, leaving many attractive and potentially beneficial national and regional development programmes stunted at conception and design stages.

Thanks to its new growth trajectory, Africa has today increasingly become more attractive to new key partners in the global economy. The world may have its own particular interest in a rising Africa, but the growth that must matter for Africans is one that is primarily inclusive, equitable, balanced and anchored on their interests. On the basis of consensually identified priorities, Africans must own and drive the continental agenda utilizing their own financial resources to deliver the much-desired structural transformation. Fifty years of political independence with the establishment of the then Organization of African Unity (OAU) and its successor, the African Union (AU) ten years on, some African countries are still largely dependent on external resources for public finance and domestic investment. A fully sovereign Africa should exude self-reliance and value-driven partnership, not dependence. Therefore, the effective mobilization of requisite domestic resources to finance African-owned programmes and projects is most urgent and paramount.

Africa must now look more purposefully and decisively inwards to raise extra resources for stable growth and effective development. There is a dire need for a break with the past. NEPAD has long concentrated on traditional public investment schemes to finance its programmes and projects, a trend which is creating dependency on partner funding. However, the new financial landscape has changed radically in Africa over the last decade, which offers more opportunities to reduce this financial dependency. In furtherance of the AU core principles, Africa should regain the full ownership and leadership in the implementation of NEPAD programmes and projects to impact on the realization of the continent's development agenda.

This should be achieved by better engaging all stakeholders at national, regional and continental levels to mobilize more domestic resources as well as significantly improve the partnership with African private sector. From now, the success of NEPAD will depend on a well-articulated results-based strategy for

Africa's transformation. Thus, policy and institutional reforms remain the fulcrum and cornerstone for a re-orientation of development by AU Member States and Regional Economic Communities that foster savings and other sources of domestic resources for investment.

The study is a collaborative effort by the NEPAD Agency and the United Nations Economic Commission for Africa (UNECA) in collaboration with UNDP, African Development Bank, UNCTAD and other key partner institutions, under the guidance of the NEPAD Heads of State and Government Orientation Committee (HSGOC) through the NEPAD Steering Committee. It provides an overview of the recent developments and trends in Africa in the effort to mobilize domestic financial resources and recommends carefully thought-through instruments to foster the implementation of NEPAD national and regional programmes.

The thrust of the study is that Africa has enormous domestic financial resource potentials and should take advantage of its development opportunities, by looking within. This is doable and we therefore urge African leaders to give consideration to the recommendations put forth and to take appropriate and additional policy measures in order to attain Africa's development aspirations and effectively fund national and regional programmes through NEPAD.

The defining factor in the evolving African Union Agenda 2063 and the design of the African Development Goals (ADGs) Framework is the pivotal role of domestic development finance in implementing the continent's transformative priorities for the next half Century.

The NEPAD Agency and UNECA as well as partner institutions, which effectively cooperated in the conduct of this study, are poised to support the technical processes of translating the core recommendations into concrete and measurable results.

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I. INTRODUCTION

Africa is today the fastest growing region globally and is on the threshold of sustained transformation required to move its economies from the current status to middle income level. To achieve this goal, three factors must come into play. These are quality and effectiveness of governance and institutions, effectiveness of development policies and availability of technical and financial resources to implement development programmes and projects. Statistics point to remarkable success in improvement in governance, institutions and development policies over the past decade. This achievement has been sustained and there is continuing improvement.

The availability of resources however remains a significant constraint. The continent must now break with the past. Africa must look within for sustainable solution to its development finance needs. This is the thrust of this study that was mandated by NEPAD Heads of State and Government Orientation Committee (HSGOC) and conducted by NEPAD Agency and the United Nations Economic Commission for Africa (ECA). The study, which had a continental coverage and drew on country case studies[1] identified instruments and measures for domestic resource mobilization, as well as facilities and special purpose vehicles that could facilitate the implementation of specific NEPAD programmes and projects. It also put forward imperatives for operationalizing the recommended instruments and policy measures.

II. FUNDAMENTALS AND POTENTIALS IN THE MOBILIZATION OF DOMESTIC RESOURCES IN AFRICA

Based on the assessment of the sources its financial resources and enabling environment, there is sufficient evidence that the fundamentals exist for the continent to raise more financial resources domestically to implement its development programmes and projects. In addition to the fundamentals, Africa's resource potential is enormous and strongly confirms that the continent has the means to finance its own development. Elements of this evidence include the following:

a) **Africa**:

- generates more than US$520 billion annually from domestic taxes;
- has public pension fund assets that are growing impressively;
- earns more than US$168 billion annually from minerals and mineral fuels; and
- has more than US$400 billion in international reserves held by its Central/Reserve Banks.
- The continent's Diaspora remittances climbed to US$40 billion in 2012 and have the potential to raise up to US$10 billion annually through securitization.
- Stock Market Capitalisation in Africa rose from US$300 billion in 1996 to US$1.2trillion in 2007.
- Banking revenues are estimated at about US$60 billion and there is high liquidity in the banking sector.
- About ten (10) African countries today have established Sovereign Wealth and Stabilization Funds. Africa's Private Equity Market is worth about US$30 billion.

b) Illicit financial flows from the continent reached US$854 billion over the period between 1970 and 2008. If curtailed, such flows are financial resources that will be available for the implementation of national and regional development programmes and projects.

[1] Some of the country case studies were ongoing at the time this report was prepared. The case studies were contributions by UNDP to the study.

All these point to resources that could support development programmes and projects, if appropriate instruments and vehicles are deployed.

The key imperatives for the implementation of recommendations put forward in this study consist of *Sustained Progress in Regional Integration; Policy, Governance and Institutional Reforms; and Capacity Development*. The evidence is strong that there is significant progress on all three fronts, just as much as there are daunting constraints and challenges. There is however a strong sense of optimism that Africa's path is defined by the progress being achieved, and this needs to be scaled up.

III. FINDINGS, CONCLUSIONS AND RECOMMENDATIONS

This study reached the following main conclusions and recommendations:

III.1 Main Findings

a) Official Development Assistance (ODA) has helped, but will not deliver sustainable growth and development in Africa. The continent has the resource base to support the development and implementation of the domestic finance instruments proposed in this study.
b) The private sector needs to step up its participation in infrastructure development. New models of public-private partnerships will be helpful just as much as high-level platforms for public-private sector interaction and regular consultations.
c) Domestic savings should be promoted, the large informal sector encouraged to function more within formal banking system and a sub-regional approach to capital markets development vigorously promoted.
d) Improved tax administration is required and tax base expanded. Increases in tax rates should be avoided. If properly managed and empowered, autonomous revenue agencies, as amply demonstrated by the South African Revenues Service (SARS), could generate remarkable results.
e) A common framework for reform of laws governing investment of public pension funds is required and ongoing efforts to address illicit financial flows should be encouraged as Africa lost about US$854billion over the period between 1970 and 2008.
f) Effective financing of specific NEPAD programmes and projects should draw on special financing instruments and special purpose vehicles. Also required is the need for adequate financing of the NEPAD Agency in order to enhance its operational effectiveness.

III.2 Conclusions and Recommendations

Based on the foregoing, this report expresses the view that Africa can finance its development from its own domestic financial resources, if innovative instruments are deployed and supported by appropriate means of implementation. In fact, a number of African countries have taken this route of intensifying policy reforms in raising additional domestic financial resources for development projects.

With strong and sustained commitment to good governance, effective institutions and a responsive policy framework, enhanced awareness and involvement of the continent's stakeholders, especially the private sector, and heightened consciousness of the need among Africans for Africa to own its development, the continent will define a new robust threshold for domestic resources that will enable the implementation of at least 70-80% of its development programmes and projects based on domestic resources. The resource potential exists and concrete results are within reach even within a short term period. To take Africa's efforts to the next level in the mobilization of domestic resources, this report recommends the following:

III.2 (a) Impetus and Instruments for Mobilizing Domestic Financial Resources

Africa should set itself a bold target to move away over the next two decades from Development Aid. The following instruments and financial intermediary arrangements are recommended to step up the mobilization of domestic financial resources on the continent:

1. Support initiatives to establish new specialized Funds to finance the development of Africa's infrastructure, notably the ***Africa 50 Investment Vehicle*** *under the auspices of AfDB*
2. Development of an African Credit Guarantee Facility (ACGF) as a credit enhancement mechanism to support financing of projects
3. Promotion of Africa-owned Private Equity Funds
4. Deepening of Bond Markets in Africa
    - Promotion of Infrastructure Bonds
    - Issuance of Diaspora Bonds
5. Promotion of Regional Stock Exchanges
6. Securitization of Remittances
7. Establishment of Strategic Development Sovereign Wealth Funds
8. Strengthen the use of existing Sovereign-backed Pension Funds for development projects;
9. Exploration of new Public-Private Partnerships (PPPs) financing model

The Specialized Infrastructure Funds (notably the Africa50) and the ACGF should be set up as co-institutions and partly resourced by existing African financial institutions as proposed with the Africa 50 launched by the AfDB with the endorsement of major regional and continental bodies, including the African Union. To make these Fund Facilities fully functional, there is need to develop a new operational culture and system of innovations from the onset.

Continued support for the African Financial Markets Initiative (AFMI), an initiative of the African Development Bank (AfDB) that was launched in 2008 is paramount to strengthening DRM efforts in the operational direction of private equity funds and bond markets. AFMI is aimed at contributing to the development and deepening of domestic financial markets in Africa, and, through that, contribute to DRM by increasing the availability of financing options. The AFMI is made up of the African Financial Markets Database (AFMD) and the African Domestic Bond Fund (ADBF).

NEPAD Agency, AfDB and UNECA should be mandated to work out the technical and operational details of the proposed instruments, subject the frameworks to regional consultation processes and submit appropriate recommendations for the consideration of the African Union Assembly through the NEPAD HSGOC.

Countries should explore new models of PPPs. Where possible, they could consider the establishment of well-staffed and financed institution(s) and networks to manage PPP projects, such as the Africa PPPs Network (AP3N) as a peer-learning continental platform to strengthen the role of PPPs in infrastructure development.

The National Agricultural and Food Security Investment Plans (NAFSIPs) resulting from the CAADP Compact process should form one of the basis for mobilizing finance for the agricultural sector in African countries. Financing arrangements and facilities amenable to this are recommended by the study, including specific funds like the African Fisheries Impact Investment Fund.

The Programme for Infrastructure Development in Africa (PIDA) provides the framework for regional level investment in infrastructure development on the continent with the Presidential Infrastructure Champion Initiative (PICI) as a key implementation model. This study puts forward appropriate financing mechanisms, including specific facilities and the issuance of project bonds for PIDA projects

III.2 High Level Policy Initiatives Promoting DRM in Africa

(a) Evolving Outcomes of the High Level Panel on Illicit Financial Flows (IFF)[2]

Africa's domestic resource mobilization efforts will receive a significant boost, if Illicit Financial Flows (IFF) from the continent are curtailed. These constitute all money illegally earned, transferred, or utilized. It is estimated that that laundered commercial money through multinational companies constitutes the largest component of Illicit Financial Flows followed by proceeds from criminal activities, and lastly corruption. Estimates from recent studies show that, between 1970 and 2008, Africa was compromised of about US$854 billion in illicit financial flows, which amounts to a yearly average of about US$22 billion in lost financial resources.

In this respect, the DRM study draws on the work of the High Level Panel on Illicit Financial Flows from Africa, chaired by former President of the Republic of South Africa, H.E. Thabo Mbeki. The Panel is a key initiative of the AUC/ECA Joint Conference of African Union Ministers of Finance, Economy and Planning. The Panel is presently considering several policy options to stem IFF from Africa, which include the following:

- Need to raise awareness among African policy makers and other stakeholders on the magnitude and development impact of IFF activities on the continent, while welcoming several other regional initiatives, like the African Regional Anti-Corruption Programme (2011-2016) and the African Tax Administrative Forum (ATAF) to share best practices for tackling IFF;

- Develop and improve institutional frameworks that encourage greater levels of transparency and accountability in both private and public sectors. At the regional level, the establishment of an African Convention on Transparency is being proposed to support existing global transparency legislative frameworks. At a global level, this could also entail requiring all multinational corporations, whether listed on the securities/stock exchange or not, to file reports to relevant national authorities on their operations, including staffing, sales, financing, tax obligations on a country-by-country basis;

- Necessity for African policy makers to engage their international counterparts to cooperate and strengthen the global regulatory and institutional frameworks to combat IFF. In this respect, several initiatives already exist, like the United Nations Resolution 55/188 on the illegal transfer of assets and the World Bank Stolen Asset Recovery Initiative, with stronger political will and cooperation from advanced economies for effective implementation.

(b) Outcomes of the High Level Panel on Alternative Sources of Financing the African Union

In recognition of the imperative to address the challenge of inadequate funding of AU development programmes and projects, whereby about 90% of funds for continental projects come from external development partners, the AU Assembly established the High Level Panel, tasked to consider alternative sources for financing the African Union. Chaired by H.E. Olusegun Obasanjo, former President of the Federal Republic of Nigeria, the Panel presented its final draft report in May 2013 to the 21st African Union Anniversary Summit in Addis Ababa, Ethiopia.

Key recommendations of the High Level Panel are also included in this report as part of the proposed instruments of domestic resource mobilisation. Specifically, the Panel proposed to the African Union the following five options to mobilize African-owned funds for the sector-priority programmes of the Union:

(i) Private sector and other contributions

[2] The Mbeki High Level Panel on Illicit Financial Flows (IFF) from Africa operates with the technical support of UNECA & AUC. The Panel's final report is expected in March 2014

A certain percentage of the revenue derived from activities carried out by the private sector and non-governmental organizations under the guidance of the African Union could be allocated for financing specific social welfare projects such as combating pandemics (HIV/AIDS etc.) or allocated to some large-scale humanitarian actions within the framework of the African Union.

(ii) Levy on insurance premiums

Impose a minimum levy of 0.2% on any insurance policy taken by an African citizen or enterprise operating in Africa, which is to be collected by insurance companies on behalf of the African Union.

(iii) Levy on imports

To impose a 0.2% tax on consumable goods imported outside the continent, excluding donations and exempted goods. The accruing amounts will be collected by Member States' Customs Services on behalf of the African Union.

(iv) Levy on international travel

Impose a tax US$5 per ticket on flights to and from Africa. The accrued funds are to be collected with the help of IATA from its affiliated. In the case of companies not affiliated to IATA, the countries would have to collect the accruing funds and transfer them into AU's account.

(v) Tourism and hospitality

Collect between US$1-US$10 for each stay in African hotels. Accrued funds would be collected on behalf of the AU by hotels in collaboration with the revenue agencies of Member States.

The High Level Panel observed that implementing each proposal would have minimal impact on the economies of Member States of the African Union and that the proposed instruments are viable and sustainable as an alternative source of income for the African Union

The report of the Panel further demonstrates that implementing options (ii) to (v) would generate revenues of US$1.4 billion as follows. Furthermore, if the levy on air tickets were to be increased to US$10 per ticket and hospitality levy increased to US$1, additional revenue of US$762 million would be raised without repercussions on the economies of the member states.

III.2 (c) Means of Implementation and Immediate Follow-up Actions

African Leaders are invited to consider the following:

a) *Designate Lead Regional Institutions to* coordinate the process of implementing the recommendations of this study. To this end, a NEPAD Cooperating Partners Committee comprising AUC, NPCA, ECA, AfDB and other regional development banks is proposed. Further, Institutional Architecture for Infrastructure Development in Africa (IAIDA) mechanism can be considered as model for promoting active partnership amongst relevant agencies on regional programmes and other sectors.

b) *Mandate Stakeholders Consultation to* subject the recommended arrangements and instruments as well as the policy and institutional reforms to regional consultations. Led by NPCA, ECA and AfDB.

c) *Support the establishment of a High-Level African Union Business Council (AUBC)* to raise the participation of the private sector in the implementation of regional projects, encourage the development of private sector consortia for the implementation of specific regional projects under the auspices of the AU and its NEPAD Programme and the emergence of a private sector counterpart to champion key PIDA projects.

d) *Authorize the Design and Implementation of a Special DRM Capacity Development Programme* to strengthen the human and institutional capacity of key implementers especially NEPAD Agency and RECs and assist countries in the implementation of appropriate policy and institutional reforms.

Both the proposals suggested by the study and recommendations of the High Level Panels on IFF and Alternative Sources of Funding for the African Union are implementable. Africa has the institutions and capacity to turn them into concrete results. What is now required is directive from African Leaders for NEPAD Agency with technical support from ECA and AfDB to proceed.

Diagram 1: MOBILIZING SUSTAINABLE DOMESTIC FINANCIAL RESOURCES – KEY ELEMENTS OF THE PROPOSAL