Concept Note on the weak capacity of mobilization of financing and credit absorption of the African Countries.

I. Introduction

Despite the increase of the effective availability of internal resources by African states and the commitment of donors to put more external resources available to African countries, the rates of mobilization of internal and external resources by the African countries, especially in sub-Saharan Africa are still low. The average rates of project disbursement (average age of 3 to 5 years) would stand at 20% to 50% for sub-Saharan African countries and at 50% to 80% for the countries in North Africa and the Indian Ocean. Despite the availability of internal and external funding, the African countries are unable to raise funds to finance the necessary investments for their economic and social development for the benefit of their population still living in poverty and insecurity.

So, the real issue raised in this note is the low capacity of African countries to mobilize financing and their low absorption capacity of funds already mobilized. Several donors have assessed this situation through various projects portfolio performance review. The present note is a summary of these assessments. In addition, this note is prepared based on a thorough analysis of the issue raised above and is proposing effective recommendations and practices towards African policymakers in order to help addressing the issue of low funding mobilization capacity and weak absorption of funds already mobilized by African countries.

This note is articulated on three (03) chapters: (i) Diagnosis of the projects portfolio performance of the countries, (ii) Identification of generic problems common to all African countries, (iii) Proposal of solutions to the problems identified and recommendations.

II. Characteristics of the Project Portfolio Performance of African countries.

Overall, the characteristics of the project portfolio performance of the African countries are as follows:

(i) the average disbursement rates of the portfolio of projects (average age of 3 to 5 years) is low: the average rates would stand at 20% to 50% for sub-Saharan African countries and at 50% to 80% for the countries in North African countries and Indian ocean.

(ii) a relatively long average period for effectiveness of the financing agreements, with an average of 9 months against a maximum of 6 months generally required.

(iii) a relatively long average implementation duration of projects, with an average of 8 years against a maximum of 5 years generally required.

(iv) important cost overruns of projects compared to the original approved amount, with an average cost overrun of 20%.

(v) About 20-30 % of the projects in the portfolio are problematic for various reasons and eligible for cancellation.

III. Summary of advantages of African countries in resource mobilization and identified generic issues

The main benefit noted in Africa in supporting the mobilization of funding and project implementation including regional projects is the existence of regional institutions.

This includes: (i) in West Africa, the West African Economic and Monetary Union West Africa (WAEMU) and the Economic Community of West African States (ECOWAS); (ii) in Central Africa, the Central African Economic and Monetary Community of (CEMAC) and the Economic Community of Central African States (ECCAS); (iii) in East Africa, the East African Community (EAC), (iv) in Southern Africa, the Southern African Development Community (SADC), (v) for the countries of the Indian ocean, the Indian ocean Commission (IOC) and (vi) the Harmonization of Business Law in Africa (OHADA) for all of Africa.

While these organizations do not have the same performance, they promote in African countries, harmonization in (i) administrative and financial procedures in the management of budgets, (ii) procurement and business law. Moreover, they facilitate the transfer of expertise to manage projects and create the opportunity in every country of their constituency to have access to qualified companies, firms, and consultants allowing successful implementation of investments through the mobilized financial resources. Also these organizations allow that within the union, more countries can develop and operate common regional infrastructures in transport, power, telecommunication and hydraulic.

Another non-regional classification is made for fragile states and post-conflict countries in Africa. The weakness of these states and their administration affects negatively their capacity for mobilization of financial resources, leveraging partnership and successful implementation of projects.

Despite the advantages highlighted above, it results from the review of the project portfolio performance that the projects' implementation faces several types of generic problems at all stages of the project cycle. These problems are related to:

(i) Delay in the signing of financing agreements;

(ii) Delay in implementing the preconditions for effectiveness of loans and grants financing;

(iii) Insufficient knowledge of the donors procedures (mode of financing, procurement, disbursement) by the Executing Agencies and Project Management Units (PMU) ;

(iv) Slow start of projects due to delays in the preparation and approval of tender documents, bids evaluation reports, draft contracts and disbursement requests;

(v) Slow and insufficient mobilization of the counterpart funding;

(vi) Significant delays of the donors to provide non-objection to the documents submitted by the borrower countries and its implementing agencies;

(vii) Financing requests submitted to the donors, often concern low maturity projects (non-availability of feasibility studies, detailed engineering design and tender documents), this induces additional delays in revising the studies, project restructuring, frequent extensions of project closing date and cost overruns;

(viii) The objectives of the projects submitted to donors for funding are often not aligned with the needs and economic and social priorities of the countries;

(ix) Some financings are not enough concessional and this blocks or limits their mobilization by African countries which are under the International Monetary Fund (IMF) program. These countries require prior opinion of the IMF before signing agreements concerning these types of financings;

(x) The project planning cycle, is not always synchronized with the public investment program, in order to better plan and budget for counterpart resources;

(xi) Delayed start of projects due to relatively long dormant phases between approval and effectiveness. This results from weak follow up before the setting up of a dedicated project management unit;

(xii) The difficulties in procurement, resulting mainly from a confusion between the national and donors procedures as well as insufficient understanding of the national public procurement rules and the financing agreements;

(xiii) Weakness in coordination and supervision of projects by the executing agencies and projects management unit as well as insufficient involvement of deciders such as the General Directorate of Public Debt and the General Directorate of National Planning of the countries;

(xiv) Fiduciary problems linked to the slowness in signing of contracts and the effective payment of disbursement requests.

IV. Proposed solutions to the identified problems and recommendation

As measures to address the issues identified above, the following recommendations are made to the attention of African leaders and deciders and managers of international organizations:

1. For the problem of concessionality of financing, it is recommended (i) to use a blending of different modes of financing (mixing concessional financing and semi-concessional), (ii) the bonus funding by specialized organizations, (iii) the use of special exemptions or negotiating the ceiling of these non-concessional funds by the African countries that are under IMF program.

2. For the low-capacity in coordination and monitoring of projects, it is recommended to establish a monitoring unit within the Ministry in charge of Finance in each country, with the support of technical and financial partners. This unit must be operational to help ensuring a close follow-up on the implementation of projects in order to reduce the duration of dormant phases and accelerate the start of projects.

3. With regard to procurement, it is recommended that appropriate provisions will be taken to avoid the double reviews (at national level and at the level of donors) in order to reduce significantly delays related to procurement procedures.

4. Making available funds for studies and projects preparation as well as strengthening capacity of the project administration in order to validate and ensure good quality of the studies.

5. Shorten dormant phases between signature, effectiveness and inception of projects by anticipating on the procurement process.

6. As far as possible, in accordance with the Paris Declaration on development aid, to use national procedures for some activities up to a certain thresholds while ensuring the fiduciary compliance with the procurement and disbursement rules of the donors.

7. Strengthen the local representation of donors for better and close monitoring of projects. In addition, it is recommended that the donors (which are not enough represented in the field) further decentralize the procurement aspects to the field by establishing dedicated units in the countries in order to speed up the procurement process.

8. Strengthen proactive management of projects in order to timely take appropriate actions, for instance restructuration or cancellation of problematic projects.

9. For direct payments, donors (if applicable) to facilitate the access of the beneficiaries to information on the disbursements process for a better monitoring of payments by the executing agencies and concerned officials.

10. In fragile states and post conflict countries, strengthen the capacity of the public administration on mobilization of funds and project management and create efficient units/departments within the line ministries, fully dedicated to mobilization of funds and project management.

11. Undertake systematically midterm reviews and restructuring, if any, of approved projects during their implementation.

V. Conclusion and recommendation towards decision-makers

The effective implementation of the above recommendations by the deciders of African countries will contribute to improve the disbursement rates of projects portfolio and consequently on credit absorption. Unfortunately, these recommendations are not always effectively applied by the African countries. As result, the issue of weak capacity for of mobilization of funds and credit absorption by African countries remains and continues. Therefore, it becomes urgent that African policymakers and deciders take necessary and appropriate measures to address this problem, which is hindering the development and emergence of African countries.

One of these measures could be to use recognized competencies to provide advisory support to African countries for the implementation of the above recommendations.

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