

# AFRICAN ECONOMIC CONFERENCE

2021 REPORT

Financing Africa's post-COVID19- Development

2 – 4 December 2021

Cabo Verde



African Development Bank Group,  
United Nations Economic Commission for Africa,  
United Nations Development Programme



AFRICAN DEVELOPMENT BANK GROUP







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# ABBREVIATIONS

<b>AEC</b>	African Economic Conference	<b>ICT</b>	Information and Communications Technology
<b>AfCFTA</b>	African Continental Free-Trade Area	<b>IFIs</b>	International Financial Institutions
<b>AfDB</b>	African Development Bank	<b>IMF</b>	International Monetary Fund
<b>AU</b>	African Union	<b>INFF</b>	Integrated National Financing Framework
<b>AUDA-NEPAD</b>	African Union Development Agency-New Partnership for Africa's Development	<b>Km</b>	Kilometers
<b>CEMAC</b>	Central African Economic and Monetary Community ( <i>Communauté Economique et Monétaire de l'Afrique Centrale</i> )	<b>LICs</b>	Low-Income Countries
<b>COP26</b>	Conference of the Parties, 26th Session	<b>MDBs</b>	Multilateral Development Banks
<b>COVID-19</b>	CoronaVirus – 2019	<b>MDR</b>	Multilateral Debt Relief
<b>DAC</b>	Development Assistance Committee	<b>MICs</b>	Middle-Income Countries
<b>DISS</b>	Debt Service Suspension Initiative	<b>ODA</b>	Overseas Development Assistance
<b>DRM</b>	Domestic Resources Mobilization	<b>OECD</b>	Organization Economic for Commerce and Development
<b>ECA</b>	Economic Commission for Africa or <i>UNECA</i>	<b>Paris-Club</b>	Club de Paris, <i>Informal Group of creditor nations.</i>
<b>ECOWAS</b>	Economic Community of West African States	<b>PRGT</b>	Poverty Reduction and Growth Trust
<b>ESG</b>	Environmental Social Governance	<b>PGMs</b>	Platinum Group Minerals
<b>Eskom</b>	Electric Supply Commission	<b>PPP</b>	Public-Private Partnership
<b>Eurobonds</b>	<i>International bond denominated in a currency not native to the issued country, or External bonds</i>	<b>RaaS</b>	Resource-as-a-Service
<b>FDI</b>	Foreign Direct Investment	<b>RECs</b>	Regional economic Communities
<b>FinTech</b>	Financial Services through Technology	<b>SDGs</b>	Sustainable Development Goals
<b>FOCAC</b>	Forum on China-Africa Cooperation	<b>SDR</b>	Special Drawing Rights
<b>G20</b>	Group of Twenty, <i>Intergovernmental forum of 20 countries + European Union.</i>	<b>SMEs</b>	Small and Medium-sized Enterprises
<b>GDP</b>	Growth Domestic Product	<b>SOE</b>	State Owned Enterprise
<b>HIPC</b>	Highly-Indebted-Poor-Countries	<b>SSA</b>	Sub-Saharan-Africa
		<b>Tbps</b>	Tera Bytes per seconds
		<b>UNDP</b>	United Nations Development Program
		<b>UNECA</b>	United Nations Economic Commission for Africa
		<b>WAEMU</b>	West African Economic and Monetary Union
		<b>ZLECAf</b>	Zone de Libre Echange Continentale Africaine



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# EXECUTIVE SUMMARY

The African Economic Conference 2021 session (AEC 21) was held between December 2 and 4, in Sal, Cabo Verde. In a context of the Covid-19 pandemic and international travel restrictions, the UNDP, AfDB and the United Nations Economic Commission for Africa, are grateful to the Government of Cabo Verde for the warm welcome and the organizational efficiency provided.

Cabo Verde is a very symbolic location, situated at a crossroads between the African continent and other parts of the world, notably the Americas and Europe, but also as a stopover node on voyages far beyond. In this idyllic archipelago, the AEC organizers were also able to emphasize the inclusion of African countries as an integral part of the world economy. This event has highlighted the importance of both an economic terms analysis and a major forum for transformational ideas.

Indeed, as the world takes the direction of building a sustainable future, through normative frameworks, the regional experience and context-specific knowledge of the African continent offer a wealth of lessons and ideas, which must be mobilized for achieving successful development policies.

Transformative change only occurs when a sufficient number of people agree on a particular approach and consensus emerges on the best path forward. This is precisely what AEC 21 set out to achieve. It is precisely by talking to each other that we create a community based on collective action and coordination across a vast array of issues –

from financing and climate change to conflict prevention and economic exchange.

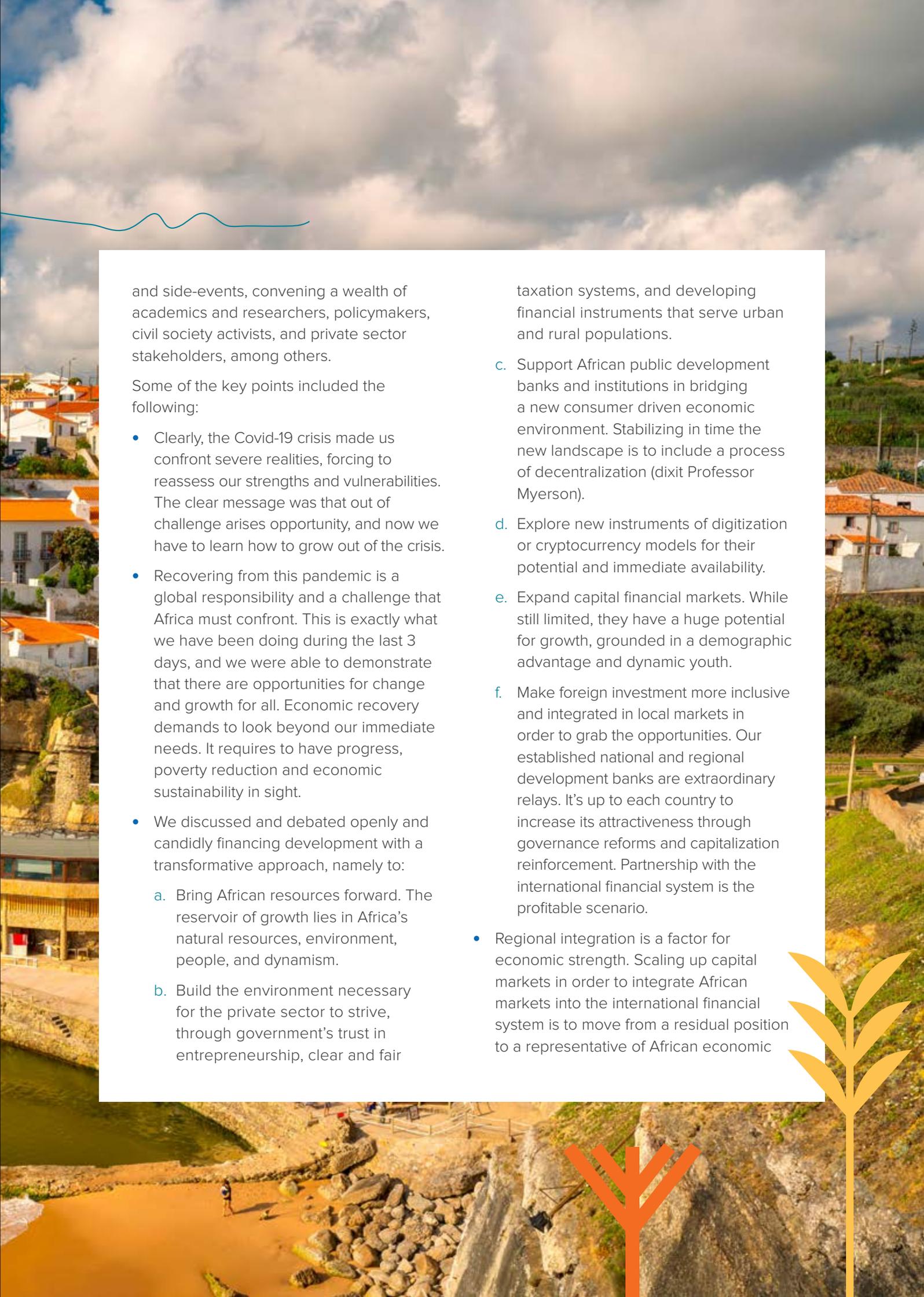
This conference was able to bring to the table a rich body of work that will amplify Africa's voice on the world stage.

Following an agenda dictated only by scientific and analytically rigorous approach, the AEC 21 brought forward ideas reaching all levels of society in addressing current economic challenges.

Under the auspices of Dr Achim Steiner, UNDP Administrator, four thematic priorities for Africa were proposed:

- 1 Financing Africa's development is a world priority.**
- 2 The risk of debt distress is an opportunity for reforming national frameworks in order to mobilize internal resources.**
- 3 Adjusting international financial institution instruments to African needs.**
- 4 Leveraging the continent's resources.**

All four of these themes were thoroughly analyzed, discussed, debated, and critiqued over the course of numerous panels



and side-events, convening a wealth of academics and researchers, policymakers, civil society activists, and private sector stakeholders, among others.

Some of the key points included the following:

- Clearly, the Covid-19 crisis made us confront severe realities, forcing to reassess our strengths and vulnerabilities. The clear message was that out of challenge arises opportunity, and now we have to learn how to grow out of the crisis.
- Recovering from this pandemic is a global responsibility and a challenge that Africa must confront. This is exactly what we have been doing during the last 3 days, and we were able to demonstrate that there are opportunities for change and growth for all. Economic recovery demands to look beyond our immediate needs. It requires to have progress, poverty reduction and economic sustainability in sight.
- We discussed and debated openly and candidly financing development with a transformative approach, namely to:
  - a. Bring African resources forward. The reservoir of growth lies in Africa's natural resources, environment, people, and dynamism.
  - b. Build the environment necessary for the private sector to thrive, through government's trust in entrepreneurship, clear and fair taxation systems, and developing financial instruments that serve urban and rural populations.
- c. Support African public development banks and institutions in bridging a new consumer driven economic environment. Stabilizing in time the new landscape is to include a process of decentralization (dixit Professor Myerson).
- d. Explore new instruments of digitization or cryptocurrency models for their potential and immediate availability.
- e. Expand capital financial markets. While still limited, they have a huge potential for growth, grounded in a demographic advantage and dynamic youth.
- f. Make foreign investment more inclusive and integrated in local markets in order to grab the opportunities. Our established national and regional development banks are extraordinary relays. It's up to each country to increase its attractiveness through governance reforms and capitalization reinforcement. Partnership with the international financial system is the profitable scenario.
- Regional integration is a factor for economic strength. Scaling up capital markets in order to integrate African markets into the international financial system is to move from a residual position to a representative of African economic



realities. It's up to Africa to raise its voice and "earn" its place on the international financial stage.

- Sustainable growth and revenue increase also goes by taxation efficiency, improvements in collection, reducing the illicit economy.
- With interest rates remaining high, and with higher ratios than pre-Covid-19, African debt is seen as a barrier. However, it can evolve through integrating new and more sustainable approaches to development financing. Some have pointed out that debt is part of development when managed responsively, with tangible achievements in infrastructure, healthcare, communications. SDRs are on everyone's mind, as they have a role to play in easing such management. It's up to us to promote African economies and increase value chains.
- Green and blue economy, still infant, has a definitive role to play in transforming finance, as we can develop bankable projects and verifiable achievements. A virtual circle that is not without difficulties, but very feasible.
- The Blu-X initiative here in Cabo Verde is a pertinent example of how UNDP can support the process of accessing capital markets for sustainable development.

Finally, these challenges of poverty, disease, climate change, and other sustainable development issues, including inclusive

growth and financing, can only be overcome if we win the battle of ideas. Behaviors, mindsets, and attitudes of everyone, ranging from Heads of State to citizens, are determined by the ideas they adopt and the visions they hold for the future based on the experiences of past and present.

Throughout this conference it has been noted that mindsets, although more intangible, are an essential factor in sustainable development. Perceptions and attitudes do not only matter, but they also shape the very world in which we live. For this reason, it is vital that we ensure that the narratives about Africa reflect its burgeoning vitality, its merits, and its future potential, not the tired narratives of the past. Narratives and discourse also play an essential role in shaping identities and giving people a sense of belonging. Along these lines, we must continue to construct a narrative of unity and of cooperation across the Africa region and beyond. It is only through concerted and united action – shaped by a common narrative – that we can reach our shared objectives.

Participants in the AEC 21 conference insisted that topics and suggestions discussed are consistent with our present time, relevant elements for change, insightful and engaging, while observing, at the same time, the acceleration of existing trends due to current health and commercial challenges. It was innovation and opportunity brought together in the equation that allowed the economic development community to be impactful.



# INTRODUCTION

## THE 16TH AFRICAN ECONOMIC CONFERENCE UNDER THE THEME OF “FINANCING AFRICA’S POST-COVID-19 DEVELOPMENT”, WAS HELD BETWEEN DECEMBER 2 AND 4, 2021 IN SAL, CABO VERDE.

Organized by the United Nations Development Programme (UNDP), the African Development Bank (AfDB), and the Economic Commission for Africa (ECA), the Conference provided a forum for more than 200 participants consisting of representatives from Governments, academia, civil society and private sector from Africa and the rest of the World, who shared their experiences and innovative ideas on economic and policy issues related to specific development financing policies, strategies and practices for Africa’s successful development transformation. Over the three days of the conference, the African Economic Conference provided a platform for valuable discussions, debate, and useful insights, in plenary sessions, special sessions, and concurrent sessions.

Six plenary sessions, with high-level panels and side events, covered reflections and perspectives on the conceptual issues as well as the practice of development financing in Africa, the role of different development stakeholders in Africa, and inclusive, innovative, and sustainable

financing as a driver of structural transformation of African countries economies. A special session with Nobel Laureate Roger Myerson highlighted the role played by institutional and political frameworks in Africa’s capacity to finance its development. He also observed that economic development is successful when people’s wellbeing improves; and individuals benefit when there is adherence to laws and local governance. Therefore, Pr. Myerson advises that *“international assistance should be shared with local entities. National assistance in development politics is helpful but can hinder only at national level [...], democratic competitiveness delivers better Governments”*. Furthermore, the University of Chicago professor said that trade disruptions caused by the Covid-19 pandemic provided an opportunity for African countries to grow local industries. The pandemic has been central to discussions at the AEC, which began on Thursday 2 December, with a call from the development community for vaccine equity.

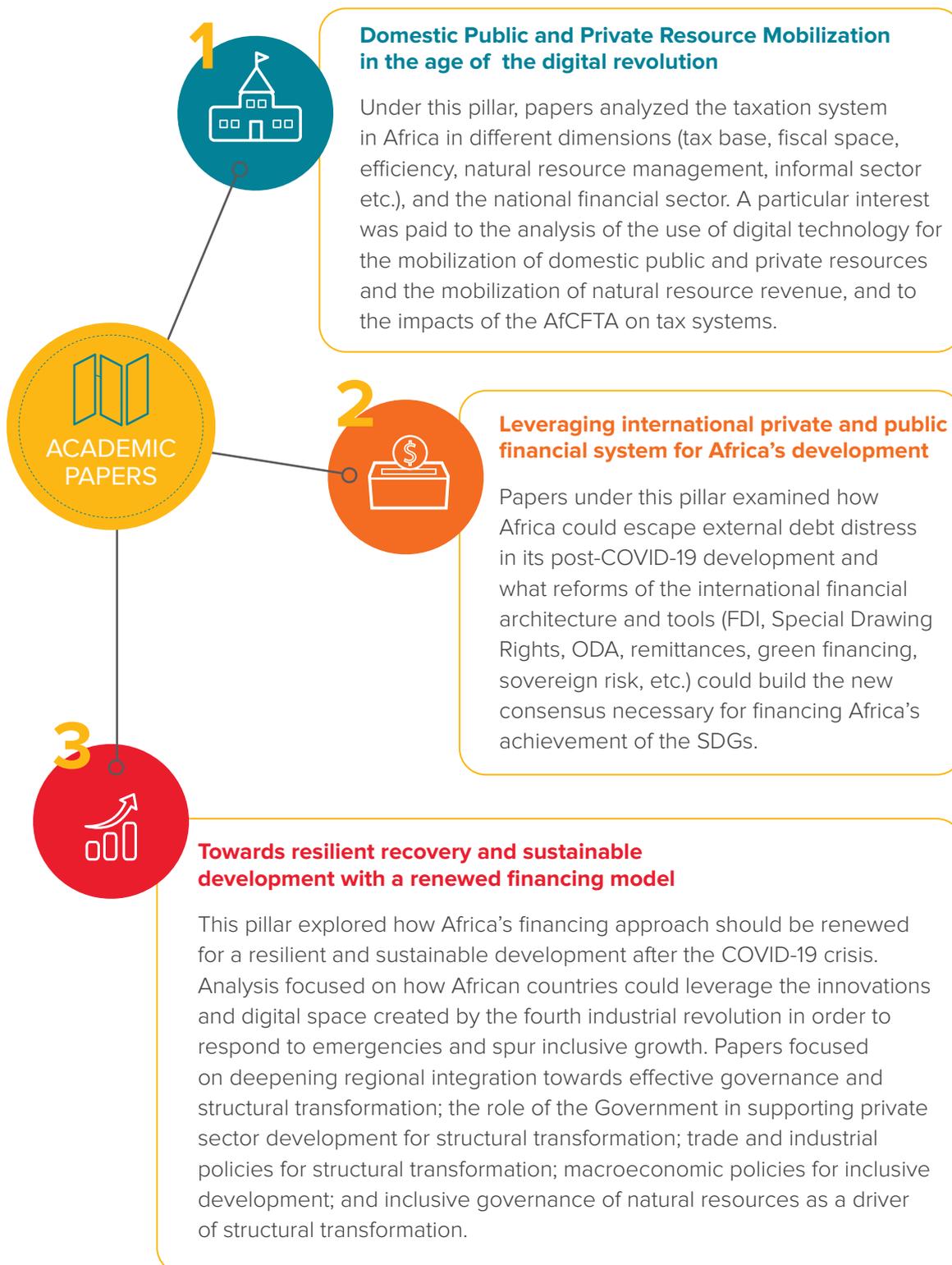
This echoes the current discourse urging African governments to expand their tax base by tackling illicit financial flows and reducing mounting debt, in order to gain fiscal space to overcome the challenges of the pandemic. *“We are defining new financial mechanisms. We need to use non-conventional models and to think outside of the box, or even without the box,”* said Nicolas Kazadi, Finance Minister of the Democratic Republic of the Congo.



**“African countries with more digital technology utilization are more likely to have a smaller shadow economy”**

A wide range of academic papers focusing on the various critical issues covered under the main theme of the Conference were

presented during the concurrent sessions. The research papers were categorized into three sub-themes:



## The 2021 AEC marked a form of crossroads in development financing thinking

Considering the multidimensional impact of the Covid-19 pandemic on Africa's development, the theme brings together various stakeholders, including policymakers, the private sector, and researchers, for the purpose of examining ways and means to expand Africa's development finance sources sustainably.

Africa's different financing frameworks were explored in order to find innovative solutions, beyond the beaten track, so that Africa does not emerge from the COVID-19 crisis with a real loss of more than a decade of efforts spent on strengthening its economy and human capital.

Indeed, the COVID-19 pandemic has exacerbated the pressure on Africa's development financing challenges as fiscal space has diminished due to rising debt levels and retrenching foreign direct investment. Africa therefore needs predictable and sustainable financing for its development as it builds back its recovery following the pandemic in a better sustainable way.

**The conference posed Development financing as a development priority for Africa** as marked by **H. E. Mr. José Maria Neves, President of the Cabo Verde**, and AEC **Leadership Dialogue**, convened around **H.E. Mr Nicholas Kazadi**, Minister of Finance of DRC, **H.E. Dr Olavo Avelino Garcia Correia**, Minister of Finance of Cabo Verde and Ms Ahunna Eziakonwa, Assistant Administrator and Director of UNDP Regional Bureau for Africa.

**External sources of funding are constrained by the COVID-19 crisis.** The pandemic has

had an adverse impact on development financial flows to Africa. Remittances, the most significant source of external financial inflows to Africa, declined by 5.7% between 2019 and 2020, from US\$ 87.6 billion to US\$ 82.6 billion. Foreign Direct Investment (FDI) flows decreased by 16% over the same period, dropping from US\$ 47.1 billion in 2019 to US\$ 39.8 billion in 2020. Overseas Development Assistance declined by 10%, from US\$ 49 billion to US\$ 44.1 billion, as Development Assistance Committee (DAC) member states prioritized national responses to the pandemic. Portfolio investments also decreased by 38.9%, from US\$ 27.1 billion in 2019 to US\$ 16.6 billion in 2020. The decline in investment flows is broad-based, affecting all sectors, including manufacturing, energy, aviation, tourism, hospitality, and leisure. This decline was also intensified by low prices and low demand for commodities, with commodities exporting economies being the worst affected compared to non-resource-based economies. Also, the mobilization of internal resources is a sine qua non condition for the success of national development agendas.

### **Leveraging the continent's natural resources is becoming an imperative.**

Africa's financial presence in the international system does not reflect its real wealth. Further opportunities arise through the better management and use of extractive industries. Stocks of extractable energy resources in Africa (oil, natural gas, coal, and uranium) are worth between US\$13-14.5 trillion and US\$17 trillion of potential wealth, implying that the resources are available. Further resources can be harnessed from potential additional production in six key sectors - agriculture, water, fisheries, forestry, tourism and human capital. The mobilization of these resources requires governments to seriously address

the deficiencies of the banking and governance systems so as to stem the illicit financial flows out of the continent. Furthermore, central banks have important roles to play in unlocking idle resources, and channeling them into productive investments remains critical. Over US\$ 1 trillion of excess reserves could be used to finance Africa's development.

## The AEC has underlined the importance of adjusting international financial instruments to Africa's needs

**Need for changes in the rules of international finance.** International financial institutions still have a leading role in the world's economic architecture. But they need to be reformed with a focus on supporting achievement of sustainable development goals, particularly for Africa. It is important that concessional financing takes into consideration the countries' multidimensional vulnerabilities beyond what is reflected in their income levels. The allocation of a record amount of \$650 billion SDR issued by the IMF to its member countries on August 23, 2021, clearly suggests that the rules governing allocation of SDRs must be changed to target countries that are most in need. This point is buttressed by the distribution of the SDRs, where low-income countries, mostly in Africa, are receiving just \$21 billion SDRs while high-income countries are allotted almost \$400 billion of the SDRs allocated, and middle-income countries \$230 billion. If this allocation is meant to support countries to deal with the extreme consequences and pressures of COVID-19 on people and economies, then the rules of the international financial system must change.

## The impact of covid-19 in Africa requires a reassessment of the structural macroeconomic trends of African economies

**Prior to COVID-19 pandemic, Africa was already on a rising debt trajectory, which increased debt vulnerabilities.** Average gross government debt, as a percentage of GDP, nearly doubled between 2008 and 2019, rising from 34 percent to 60 percent. The rapid debt accumulation has been driven by weak governance, security spending, high inflation, and weaknesses in revenue mobilization. This fast-paced debt accumulation has increased the cost of debt servicing in the continent (total debt service rose from US\$ 30.5 billion in 2008 to US\$ 85.5 billion in 2019, for a cumulative amount of about US\$ 589 billion over the period 2008-2019), constraining efforts made by governments to provide social services, such as education and health, that form the basis for sustainable and inclusive growth. Debt service payments now account for about 18 percent of total government revenue, on average.

**Rising debt levels in the past decade have negatively affected debt sustainability ratings, particularly for low-income countries (LICs) in Africa.** Out of the 38 African countries for which debt sustainability analyses are available, around 55 percent are, as of October 2021, either in or at risk of debt distress (15 are at high risk of debt distress and 6 in debt distress). Seventeen countries are at moderate risk of debt distress, and no country is classified as low risk of debt distress. With safety margins being eroded by the Covid-19 pandemic as spending rises and revenue falls, rising debt, if not properly managed,

could deplete the buffers of distressed or near distress countries before the pandemic is fully controlled.

**The risk of debt crisis in Africa has declined as a result of** current debt relief initiatives such as the G20 Debt Service Suspension Initiative (DSSI) and Paris Club and G20 “Common Framework for Debt Treatments beyond the DSSI.” However, past experiences have revealed that debt relief initiatives have not always delivered the intended effects on growth and governance. Debt relief has instead left countries unreformed and unable to grow out of debt. Growth after debt restructuring is intrinsically linked to the governance structure. This reveals the limits of the current framework for debt resolution as it fails to stimulate strong reforms of economic governance in debtor countries. It is therefore imperative that alongside debt relief African countries accelerate governance reforms and improve public financial management.

## Reforming Africa’s financial system

**The COVID-19 pandemic has highlighted the critical role that financial systems should play in supporting Africa’s development.** Improvements in the quality, quantity and efficiency of financial systems are crucial for Africa’s sustainable development. Africa’s financial system – financial markets, banks, and other financial intermediaries, has a vital role to play in mobilizing and allocating domestic savings to the real sector. A well-functioning financial system can influence the yield curve, which is a key element in pricing risks; extend debt maturities; create benchmark issuances and liquidity

of secondary markets; and diversify the investor base while enabling the development of new financial products. More effective financial systems across the continent can promote resource mobilization and better allocation of savings to productive investments, by shifting incentives for the banking system toward the core functions of payment, price discovery, information production, and intermediation. Africa’s sustainable development and growth require an efficient and participatory financial system. Reforms to Africa’s financial systems will require focus on advancing financial inclusion for individuals and microenterprises, while ensuring that financial deepening – in terms of services and product offerings, is broad-based and sustainable.

## Digital innovations as a game changer for Africa’s development financing

**Financial systems that harness digital technologies and promote free and fair competition will be fundamental in revitalizing African economies.** In 2020, mobile technologies and services generated \$130 billion of economic value-added in sub-Saharan Africa, equivalent to 8% of GDP, and contributed about \$15 billion in the form of taxes. Especially in mobile banking, low transaction costs and technological innovations play a particularly important role in bringing large shares of the population into the financial system, particularly in East and West Africa. Africa registers the world’s highest number of accounts – 300 million – within the mobile money revolution. More than 500 African companies provide

technology-enabled innovation in financial services (fintech). Some African start-ups' valuations now exceed a billion dollars. And over 640 tech hubs are active across the continent.

**Digital technologies present enormous opportunities for Africa.** Digital technologies can stimulate innovation, economic growth, and job creation in critical sectors of the economy by allowing better interconnection between African markets and the rest of the world. It can also increase market access and financing for the marginalized population usually excluded by the formal financial system.

**However, digitization also has the potential to exacerbate inequalities by accentuating capacity differentials when access is limited or uneven.**

Whether due to monetary, physical, or human capital constraints, opportunities arising from digitalization are only available to those with the requisite knowledge and equipment to access these new platforms and marketplaces. In other words, the digital pathway to global sustainable development must ensure that these means are sufficiently inclusive in order to guarantee that, in the end, no one is left behind.

## **Sustainable financing will be key to Africa's development financing solutions**

Green and blue economies, still infant, have a definitive role in transforming finance, as we can develop bankable projects and verifiable achievements. A virtual circle that is not without difficulties, but very feasible. Climate change is one of the major concerns for the continent. Africa is

the most susceptible continent in terms of climate change, while producing only 4% of global CO2 emissions. According to the Economic Commission for Africa (ECA), low levels of access to technology, reliance on rain-fed agriculture, and high poverty levels are some of the key difficulties in reacting to climate change in Africa. As a result, Africa is strongly vulnerable to the effects of climate change.

In order to address the climate emergency, overcome the COVID-19 economic shock, and assure that African economic progress is a long-term progress, growth should be green. After 2013, the worldwide market for green bonds exploded, with issuance increasing more than 300 fold between 2007 and 2019, and a 104 percent average annual growth rate over the same time. While the rapid expansion of green bond issuance indicates encouraging steps toward supporting sustainable development, Africa has been the slowest to adopt these novel financial vehicles, restricting their ability to mobilize supplemental funding for sustainable development across the continent. Africa contributed only 0.4 percent of the market share in terms of value between 2007 and 2018.

**African financial institutions have a role to play in enabling Africa to transform its natural resources assets, by taking advantage of blue-carbon markets, and green financing mechanisms.**

Furthermore, in making investment decisions, African countries need to consider environmental, social, and governance concerns when making investment decisions in the financial sector, which will lead to more long-term investments in sustainable economic activities and projects. Climate risk-sensitive

investment, de-risking, impact investment, environmentally sustainable projects, and sustainable energy investment are among the critical issues for sustainable development financing development. Thus, the financial sector has a key role to play in re-orienting investments towards more sustainable technologies and businesses, financing growth in a sustainable manner over the long term, and contributing to creating a low-carbon, climate-resilient, and circular economy.

## The AEC 2021 Momentum effect

The AEC should be a **catalyst for forward thinking** and for bringing African perspective on the continent development. To keep the discourse on African economic development, a series of follow-up meetings/workshops must be organized in order to move forward the key solutions discussed during the conference on financing Africa's development.



# I. CURRENT CHALLENGES OF THE ACTUAL DEVELOPMENT FINANCING APPROACH





# A. LIMITED MOBILIZATION OF DOMESTIC RESOURCES

## 1. Improving domestic resource mobilization systems efficiency in Africa is an imperative

The COVID-19 pandemic has highlighted the limited ability African countries have to mobilize resources in order to address economic downturn. The need to amend budgets and redirect expenditures towards health and social programs, whilst economic flows were disturbed, is an immense and on-going challenge. As a result, national budgets need to efficiently forecast expenditures and have visibility on domestic resources. Optimizing domestic resources mobilization (DRM) is critical to allow a robust development agenda. Comparatively, today's levels of DRMs through the levy of taxes, state-owned revenues, and others (i.e., royalties or rents) could equal the same amount as official development assistance. Between 2000 and 2018, average tax-to-GDP ratios in sub-Saharan Africa increased from **12 to 15% of GDP** but peaked at **16% in 2015**.

Insufficient DRM is often due to low tax capacity and can be reversed through long-term measures, which are essential to achieve fiscal stability, economic growth, and poverty reduction. However, to increase DRM, structural and institutional challenges must be overcome. For instance, solutions include conducting reforms in the existing revenue producing sectors and promoting new competitive and profitable areas. Additionally, tax policies have the potential of reflecting economic

performance realities. Considering that the COVID-19 pandemic is proactively transforming economic behaviors, it is evident that traditional DRMs are limited.

Certain structural constraints (low per capita income; large informal sector - large peasant agriculture and small manufacturing; low average revenue to GDP ratio: 23% in Africa vs. 40% in the European Union (2008-2016), 16% lower than Latin America (23.1%) and OECD countries (33%); heavy reliance on trade taxation) indicate relatively weak fiscal capacity and insufficient investment in revenue collection improvements. Traditional challenges that first need to be addressed:

- Africa's large informal sector including the prevalence of cash transactions
- Low tax-payer compliance
- Prevalence of a strong public sector and centralized Governments
- Insufficient private sector.

Domestic revenue losses are significant drains on domestic resource mobilization for many African countries. There is an estimated **\$88.6 billion per year** (3.7% of Africa's GDP) in illicit capital flight, tax and commercial practices, corruption, and theft. These outflows are nearly equivalent to the total annual inflow of official development assistance.

"The inability to mobilize domestic resources has led to African governments finding recourse in borrowing from both public and private creditors leading to high and increasing debt levels, which increased

from a **34.5% share of GDP** (2010-2017) to **58% in 2020** (IMF)<sup>1</sup>

Access to financing amid the downturn will be a significant challenge for most African countries. Since February 2020, financial outflow resulted in limited capital and remittance inflows declined by as much as 20%.

Promoting resilience might require transformative domestic reforms. Africa's investment needs are immense, with an estimated **\$93 billion to \$130-\$170 billion per year** and range from infrastructure and debt service to private sector support. Africa's infrastructure (roads, electricity, health, education) development needs alone could mobilize 20% of GDP on average by the end of the decade. Governments are facing new and unexpected pressures in an already strained environment for public finances.

DRMs require structural and institutional reforms to be able to support any economic recovery from the effects of the pandemic. Beyond economic shock response, long-term objectives will be difficult to reach (SDGs 2030).

*Developing countries in ECOWAS sub region are locked in a double constraint of low domestic revenue and donor financial support for infrastructure and social service delivery on one hand; and low private sector capital and investment capacity due to poverty on the other hand. (Also, studies show that Foreign Direct Investments did not contribute to poverty reduction) as seen in a 1990-2019. AEC paper "Political Economy and Africa's Financial Development: The Case of Eastern and West African Sub-regions", Ejemeyovwi and al."*

## 2. AEC discussions advocate for Africa to leverage its natural resources in order to strengthen domestic resource mobilization for its development financing

Amid the economic fall-out of African economies due to the COVID-19 pandemic, which highlighted a high degree of uncertainty, the sharp growth decline in 2020 forced the continent to re-assess 'actual' domestic resources. Despite signs of economic recovery for the year 2021, with GDPs growth expected to record pre-pandemic rates, there were significant disparities between countries. As the pandemic continues to spread rapidly, it is necessary to balance cautiously sustainability moving forward.

Governments are struggling to meet large and unexpected costs amid revenue decline. The need for financing economic recovery requires African economies to turn inwards: toward their own capability to leverage resources. The reservoir of growth lies in the continent's ability to tap into its own strategy in order to develop its resources to the fullest (natural resource governance and management). UNECA and UNDP have been advocating for Africa to step up its domestic resource mobilization (DRM) for economic development, thus highlighting that this sustainable source of unconditional development financing would allow Africa to determine its own priorities and thereby control its development agenda.

**Is it time for DMR to take the relay and influence the paradigm of Aid and Development:** since 1990, Africa has received \$1.2 trillion in development assistance. Even though donors have

1 See Tax Evasion activities in financially constrained firms: evidence from Africa. Amara Ekeruche, paper presented at AEC 2021.

spent more than \$1,000 per person over the past 30 years, the average income of sub-Saharan Africans has increased by just \$350 per person. The continent has very little to show for this money, some of it having been consumed by the donors themselves, and much of it by local governments and elites. Decades of spending only had a small impact on improving the lives of the poor, therefore, economic recovery policies should demonstrate that aid expenditure – humanitarian, governance, military, development – is reaching the point where aid is no longer necessary. More than two-thirds of the population lacking electricity in the world is in sub-Saharan Africa (in McKinsey study, March 6, 2020, cited in Brookings Institute.edu Feb. 24, 2021). The gaps in access to reliable electricity constitute a pressing problem due to growing reliance on technology.

Over the past 20 years, GDP per capita has doubled in Africa, showing progress in governance and convergence in institutions, which enabled the continent to gain a place in world trade. The gap with other regions of the world has narrowed, and tech hubs and successful entrepreneur stories are now flourishing. With a third of African countries gravitating towards middle-income economies, financing development successfully will address discrepancies, such as reducing the illicit economy, improving taxation and the integration of African banking systems and finance institutions. Since the turn of the century, Africa has registered a spectacular growth performance. During the period 2000-2015, Africa's average growth of 4.8% per year made it the second-fastest growing region following East and South Asia (Department of Economic and Social Affairs, UNECA). Significantly, the patterns of

*“Firms in the manufacturing sector relative to the service sector are more likely to evade tax in cases where access to finance becomes a severe obstacle. This is against the evidence/background that tax evasion is pervasive in industries that are cash-based and with low paper trail such as Africa’s manufacturing sector, as opposed to industries that rely heavily on digital transactions (Artavanis, Morse, Tsoutsoura, 2015) in Tax evasion activities in financially constrained firms, A. Ekeruche, AEC paper).*

growth observed are shared across sub-regions, except for Central and West Africa. Trends and results, which should be accompanied by an increase in the availability of domestic resources, instead reveal a gap between economic performance and state budgets.

**Accountability, transparency in governance, and engagement with integrity are needed:**

- When illicit economy undermines Governments’ ability to receive the proceeds of economic growth: The African continent transfers an estimated \$80 billion per year in illicit funds, representing a loss in financial resources necessary for its development. This is also an activity that undermines African institutions’ credibility and negatively impacts capital markets. **In weakening Africa’s financial systems, illicit economy contributes to the inability to retain savings and trust within its own young population.**
- In order to counter tax-avoidance behaviors: The use of technology in tracing remittances and securing

spending has allowed to recover up to 40% of domestic revenues. Digitalization of means within governmental institutions could limit fraud, provided political will is present.

- In liaising the world's largest and diverse natural resources deposits exploitation and fisheries with industrialization planning, leveraging environmental economic projects, allowing a favorable demographic pyramid with a growing customer base, and responding to youth dynamism, which are solid DRM's pillars.

*COVID-19 induced spending on healthcare, social safety nets and measures to preserve productivity. Expansionary fiscal spending is projected to double the continent's high fiscal deficits (4.7% of GDP in 2018 to up to 8.6% in 2020); AEC Paper: "Fiscal sustainability in Africa: accelerating the post-Covid-19 recovery through improved public finances. E. Sennoga and L.Balma".*

**Africa has the potential to be globally competitive.** For example, it was demonstrated that the cost of battery production in the DRC was three times lower than in China. (*Bloomberg study introduced by Mr. Nicolas Kazadi, Minister of Finance DRC*).

*"In these difficult times, which impact every actor from borrowers to donors, the Covid-19 crisis demonstrates that Africa has been too slow to react. The impact on our human capital and healthcare system in dire straits, is unprecedented*

*and unexpected. However, it is a challenge among others"* (N. Kazadi). Mobilizing domestic resources is a priority when responding to the economic situation and also an opportunity to demonstrate an acceleration of Africa's potential. Africa is vulnerable to multiple threats (e.g. environment, economy, trade) and the COVID-19 pandemic (i.e. healthcare) is one of them. African financial needs are estimated at \$225 billion for a cumulated GDP of \$150 billion, which exposes the urgency to modify the current situation by promoting the largest growth potential residing in the continent's natural resources and young demographics. When China, the European Union and the USA decide to promote global development projects and are ready to invest in Africa, the continent will have to organize and reform itself in order to receive them. African development banks play an essential role in channeling such investments. The private sector has the greatest growth potential, attracting FDIs at a faster rate than public investment. Local businesses and banks must request Governments to improve business conditions, thus promoting higher efficiency and better organizational practices.

The large African continent retains the attention of a limited number of sectors, mainly natural resources and extractives. Africa has immense potential for development in agricultural projects and ocean related resources. The potential for growth of untapped resources has not yet attracted sufficient interest to impact trade balance.

# B. OVERLYING DEPENDENCE TO EXTERNAL RESOURCES

## 1. Limits of ODA, FDI and remittances vulnerabilities

A singular feature of the Covid-19 pandemic, as compared to precedent economic disturbances, is its effect on both supply and demand sides of economies. Restriction on the movement of people, money, and goods across borders affects trade, both domestically and globally. The effect on import-dependent countries with a weaker capacity to address global supply chain shortages is disproportionately hindering lower income nations. This economic shock is exposing many African countries to recession scenarios as commodities enter volatile cycles.

Hence, **Foreign Direct Investments (FDI)** inflows are expected to decline, ranging from 30% to 40% and more for African countries according to global 2020 predictions (UNCTAD 2020). Moreover, emerging markets and less developed countries (LDCs) largely depending on FDI may experience long-term consequences, particularly in the construction of infrastructure and promotion of economic activity. Africa's attempts towards sector diversification and its industrialization efforts over the past decade are presently at risk, emphasizing their reliance on FDI to ensure fast recovery.

**Foreign aid**, an insurmountable element to support immediate health response and temper economic downturns on vulnerable populations, is a complicated process. The crisis has stretched operations thin and

compromised financial flows. The net effect is difficult to quantify, but it affects human development in countries that are highly dependent upon it.

**Remittance flows** to low and middle-income countries are projected to fall worldwide by 7 percent, that is to **\$508 billion in 2020**, followed by a further decline of 7.5 percent, decreasing to **\$470 billion in 2021** (World Bank Press Release Oct 29, 2021). The foremost factors driving decline in remittances include weak economic growth and employment levels in migrant-hosting countries, weak oil prices and currency depreciation against the US dollar in remittance-source countries, specifically, in the Middle East and North Africa, which registered a decrease by 8%, and in Sub-Saharan Africa by 6%-9%. All major remittance-receiving countries have likely seen a decline of remittances. As the COVID-19 pandemic affects both destination and origin countries of Sub-Saharan migrants, the fall in remittances is expected to further lead to an increase in food insecurity and poverty. The promotion of digital technology is essential to lowering remittances fees for the region.

## 2. AEC discussions recognize the need to enhance African countries capacities to better orientate external resources

In their paper, "Remittances and Economic Growth in Cameroon: The Role of Financial

Development” (2021), presented at the AEC conference, Mela and Timbi highlighted the fact that remittances are the second largest source of external financing for developing countries after FDI. By 2019, the volume of remittances to low- and middle-income countries had reached **\$548 billion**, increasing from **\$17 billion in 1980**. The impact of remittances on economic growth is well documented, considering the role played by financial development. Indeed, by reducing transaction costs, a well-functioning financial system is able to direct remittances to profitable projects and thus improve growth rate. Cameroon is the largest recipient of remittances in the CEMAC zone (\$29 million in 1980 to \$356 million in 2019). These transfers represented **0.9% of GDP in Cameroon in 2020**. Therefore, an assessment of the effect of remittances on economic growth and the effect of interaction between remittances and financial development on economic growth has shown that in the long run a 1% increase in remittances lead to an increase in the GDP per capita growth rate of 0.33% in Cameroon. The positive but insignificant interaction between remittances and financial development in Cameroon suggests that financial development does not have a significant effect on the impact of remittances on growth. Thus, the government should improve its banking system and make it more competitive with other financial institutions specializing in remittances. There is also an urgent need to drastically reduce the cost of sending remittances through banks, which unfortunately encourages the use of informal financial institutions.

**The role of FDI** in innovation is analyzed through the lens of the institutional

environment. Analysis concluded that the ability of firms to effectively use technical knowledge made available by FDI or imitate innovative activities may be limited by the quality of institutions in different countries (i.e., weak law enforcement of intellectual property rights hinders innovation). Improvement or otherwise in the quality of institutional governance can enhance or inhibit the influence of FDI. When government effectiveness is introduced, FDI continues to exhibit direct positive effect on the development of innovation practices.

**Connecting FDIs & Public-Private Partnerships (PPP)** to increase resource mobilization is approached through the same context as Uganda (*FDI & PPP for Inclusive & Sustainable Reconstruction of Uganda. U. Kabanda, C. P. Lakuma*). In spite of specific guidelines that articulate FDI and PPPs, very few countries have attracted direct foreign investors. This is problematic in countries where net inflows have declined dramatically during the year 2020. Therefore, redirecting interest seem to require the following outcomes:

- Support and better promotion of a vibrant private sector;
- Adequate improvements in the Government’s capacity for deep evaluation of potential PPPs;
- Fixing the gap and mistrust between the private and public sectors;
- Improvements in regulatory compliance;
- Improvements in and attraction of local participation.

FDI’s role in reducing poverty cannot be diminished as it is a key goal and part of the SDGs (UN 2015), however, the debate on the impacts of FDIs in the ECOWAS

sub-region remains inconclusive (Dynamic Panel Analysis of FDI inflows & Poverty reduction in ECOWAS: Implications for the Agenda 2020. T. Aderemi, O. Omitogun, H. Olayemi, A. Adeniran). Over the period 1990-2019, FDI and HDI had an insignificant negative relationship. The negative (though non-significant) value of FDI implies that FDI reduces human development. Thus, FDI inflows do not contribute to poverty reduction in the ECOWAS sub-region as seen over the long-run, in contrast to wide belief claiming the opposite effect.

Furthermore, analysis of tax policy in the extractive sector showed that infrastructure, government stability and gold and silver reserves positively affected gold and silver FDI inflows (The end of Tax incentives in Mining? Tax policy and mining FDI in Africa. C. Seydou, C. Abdramane). The document suggests that instead of granting corporate tax incentives, governments could consider improving the quality of socio-economic infrastructure and the availability of geological information and promoting political and economic stability to attract mining investments.



# C. INCREASING CONSTRAINTS ON DEBT

## 1. COVID-19 Impact on an unfavorable trend

Historically, African countries have suffered from dwindling fiscal space and delicate macroeconomic stability as occasioned by high debt-to-GDP ratios, low economic diversification, commodity-dependent export base, and poor domestic resource mobilization. In 2018, 22 African countries recorded debt-to-GDP ratios above the continental average of 61 per cent, while 18 countries were either in debt distress or at high risk before the COVID-19 crisis. At present, the average debt-to-GDP ratio for Africa is expected to climb by 10 to 15 percentage points in the short to medium term, implying serious debt challenges, disorderly defaults and lengthy resolutions that might constrain Africa's progress toward prosperity.

**Before the COVID-19 pandemic, Africa was already on a rising debt trajectory, which increased debt vulnerabilities.** Average gross government debt (as a percent of GDP) nearly doubled between 2008 and 2019, increasing from 34 percent to 60 percent. The rapid debt accumulation has been driven by weak governance, security spending, high inflation, and weaknesses in revenue mobilization. This fast-paced debt accumulation has increased the cost of debt servicing in the continent (total debt service rose from **US\$ 30.5 billion in 2008** to **US\$ 85.5 billion in 2019**, for a cumulative amount of about **US\$ 589 billion over the period 2008-2019**). Additionally, the cost of debt servicing is constraining government efforts to provide social services such as education and health that form the basis for sustainable

and inclusive growth. Debt service payments now account for about 18 percent of total government revenue, on average.

**The rising debt vulnerabilities prior to the pandemic have been accompanied by the changing structure of Africa's sovereign debt.** One of the factors driving the continent's debt accumulation over the past decade has been the changing composition of debt and the shift towards commercial non-Paris club creditors. The share of bilateral loans, mostly from Paris Club members has significantly declined, accounting for only 27 percent of Africa's external debt stock in 2019 against 52 percent in 2000. The share of multilateral debt in Africa's total external debt has remained relatively stable over the past two decades—around 30 percent. By contrast, the share of commercial creditors (bondholders and commercial banks) has increased from 17 percent in 2000 to 40 percent in 2019. More worryingly, this shift has been associated with less transparent loan terms, the “race to seniority” from debt collateralization, domestic arrears accumulation, increasing contingent liabilities from state-owned enterprises and public-private partnerships contributing to increasing debt vulnerabilities.

**The COVID-19 pandemic has further exacerbated debt vulnerability issues in Africa and raised concerns about a looming debt crisis.** The surge in fiscal spending in order to lessen the social and economic impacts of the COVID-19 pandemic, when looked at amidst declining government

revenues, has further exacerbated Africa's debt burden. In 2020, average public debt in Africa was estimated at 71 percent of total GDP, the highest level in almost two decades. Given this debt burden, many governments lack the necessary financial capacity to ramp up spending through monetary and fiscal stimulus. In view of the additional spending by governments, debt-to-GDP ratios are projected to rise by 10 to 15 percentage points to 75 percent by the end of 2021.

**Rising debt levels in the past decade have negatively affected debt sustainability ratings, particularly for low-income**

**countries (LICs) in Africa.** As of October 2021, out of the 38 African countries for which debt sustainability analyses are available, around 55 percent were either in or at risk of debt distress (15 are at high risk of debt distress and 6 in debt distress). Seventeen countries have a moderate risk of debt distress, and no country is classified as low risk of debt distress. With safety margins being eroded by the Covid-19 pandemic as spending rises and revenue falls, rising debt, if not properly managed, could deplete the buffers of distressed or near distress countries before the pandemic is fully controlled.

**The risk of debt crisis in Africa will depend on several key considerations and factors** including the scale of the current debt relief initiatives such as the G20 Debt Service Suspension Initiative (DSSI) and Paris Club and G20 "Common Framework for Debt Treatments beyond the DSSI", the behavior of commodity prices, the effective re-channeling of SDR allocations from rich countries to developing countries, and the success of economic recovery policies. As a result:

- The G20 Debt Service Suspension Initiative (DSSI), which was extended until December 2021, has provided some temporary debt service relief to over 40 eligible African countries and this has enabled them to concentrate their resources on fighting the pandemic and supporting local recovery. A combined **US\$10.08 billion** in due debt service obligations for the participating African countries was therefore suspended between January and September 2021.
- Furthermore, default concerns for most African countries have declined on the back of the recent rise in commodity prices and the recent SDR allocations. These developments have improved the outlook of liquidity conditions for frontier markets and improved market risk sentiment.
- The new G20 and Paris Club "Common Framework for Debt Treatments beyond the DSSI" broadened the scope of the DSSI by including non-Paris club creditors, especially China, who often leads loan financing.<sup>2,3</sup> In contrast to the early DSSI, the Common Framework, through the comparability of treatment principle, now requires the debtor to seek from other creditors, including private creditors, a treatment at least as favorable as the one agreed under the Common Framework.

**While debt relief and restructurings are required so that more African countries can avoid slipping into debt distress, lessons learned from recent debt resolution initiatives in Africa have not been encouraging.** The previous process of debt restructuring in Africa took

2 Chinese lending picked up from less than \$100 million per annum in 2000 to about 30 billion in 2016, a period that coincided with rapid increases in commodity prices.

3 Countries with high exposure to Chinese loan financing include Djibouti (57 percent), Angola (49 percent), Republic of Congo (45 percent) Cameroon (32 percent), Ethiopia (32 percent), Kenya (27 percent) and Zambia (26 percent).

an average of 8 to 10 years to resolve, leaving lingering scars and consequences. For example, the mid-1990s debt crisis resolution in Africa ended up in a so-called lost decade with minimal output and productivity growth. Furthermore, the completion points of the Heavily Indebted Poor Countries (HIPC) and Multilateral Debt Relief (MDR) initiatives took more than a decade to be implemented in many African countries.

**Past experiences have also revealed that debt relief initiatives have not always delivered the intended results** on growth and governance but have instead left countries unreformed and unable to grow beyond a state of debt. Growth after debt restructuring is intrinsically linked to the governance structure but also unveils the limits of the current framework for debt resolution, which fails to stimulate strong reforms of economic governance in debtor countries. This entails that governance is a pivotal element for achieving a successful implementation of any policy and reform aimed at reducing debt and promoting growth.

**Furthermore, several obstacles limit African countries from taking full advantage of the DSSI and the Common Framework.** First, many eligible countries are reluctant in accessing these programs over fears of credit rating downgrades and fears of being completely locked out of international debt markets. Second, the lack of participation by the private sector has constrained the initiative, currently limited to official government-to-government loans. Third, the initiative covers only a small fraction of Africa's total outstanding debt.

**Constraints with debt relief initiatives and external supports show that it is imperative for African countries to accelerate governance reforms and**

**improve public financial management.**

This requires building strong budget institutions to efficiently mobilize domestic resources, conduct sound public expenditure and debt management and budgeting. Moreover, strengthening the nexus between debt, growth and governance would help to maximize growth dividends of debt-financed public investments. Finally, countries need to improve debt transparency through improvement in debt statistics, reporting and SOE debt coverage.

## 2. AEC discussions highlighted the critical debt situation in some countries and the bias against Africa in credit risk assessment

Africa's economic transformation will require growth with debt. This debt should be used to serve diversification of exports, enhance productivity within economies, and use technologies effectively to achieve economic growth in order to ensure that countries are fully benefitting from their economic growth. **Africa is not transforming at the rate it should to be able to withstand economic shocks.** African countries are not always borrowing strategically. Borrowed funds on massive infrastructure projects are often lost to corruption and fraud. Funds borrowed are used on non-productive short term repayment expenditure, and overly ambitious infrastructure, which are long term projects paradoxically financed through short term bonds. Further, project implementation is usually poorly carried out, with poor governance and corruption.

For many African countries, the repeated

cycle of indebtedness after receiving debt cancellations shows that many African countries have not transformed their economies sufficiently. It is therefore no surprise that many countries today are back to where they were in the early 2000s.

**The dangers of externalizing financial development are mentioned, as debt management terms are currently set and driven outside the continent.** Rules are set externally.

Recent articles have talked about **pandemic debt**. In Africa, pandemic debt has increased, highlighting that most African economies have contracted by approximately 4.5% and domestic bond issuances in Africa have doubled. It's worth noting that emphasis should be placed on how to repay this debt without destabilizing fundamentals.

**Pandemic debt and domestic debt have both increased, which crowds out other essential spending.**

**African countries need to understand debt sustainability in a way that makes sense to Africa.** On the issue of postponing debt repayment or debt forgiveness, we need, more importantly, to think about how to stop the debt from growing. Many African countries will take more than 2-3 years to recover. And this fiscal stress will be carried on for more than a decade if we do not make bolder and more comprehensive plans and take resolute action to choose development financing options that are relevant, sustainable and development supportive.

**Growth of African countries must match the debt. Indeed, debt risks are important to consider.**

The most critical risk concerns **the capacity to borrow for the next ten years**, which has vanished compared to the last ten years. African countries must address debt servicing and refinancing. As interest rate

will be increasing in the USA and Europe, Africa will be less attractive compared to the last ten years.

Also, the treatment of debt stock should be part of the treatment to lift Africa's debt. For many African countries, debt servicing starts in 2022. Given the kind of figures and fiscal impact, there is a need to think how to sequence SDR over an extended period of time in order to cushion African countries from suddenly servicing loans.

**Debt cannot be the only solution** to finance African economies. Investment forums are looking for big projects while the bulk of the need is for small projects. Regulations put in place in advanced countries have been dumped on African countries without any tailoring to country-specific uniqueness, therefore making it too costly for African countries. Looking at the role played by the developed world, particularly the G20 commitment, we can conclude that it is a weak framework which does not address many diverse creditor issues. Hence, it is no wonder only 3 countries have signed up. We need to be honest on whether it is the right framework for financing African economies.

**China must be part of the solution.** Some of the borrowing was made in an irresponsible way, so lessons should therefore be drawn from the past. Also, there is a need for efficiency on the spending side- for instance, in South Africa, the government wage bill has been increasing above inflation in the last ten years because productivity has been declining. In many countries, the government wage bill is high. These issues need to be considered as well.

One solution is to have proper discussion on mobilizing central bank money in order to channel it to economic and financial development.

A man with a beard, wearing a pink lab coat and a green hairnet, is focused on his work in a laboratory. He is holding a pen and looking at a tray of small glass vials. The background is a blurred laboratory setting with white walls and windows.

**“Despite obvious challenges, the coming months will likely witness a convergence of fruitful outcomes of multiple moving parts.”**

G. Antonio, Senior Advisor to Secretary General  
of the AfCFTA

# D. LIMITED MONETARY POLICY SPACE?

## 1. Limited use of monetary policy on the continent

In Sub-Saharan Africa, economic growth and the rise of living standards are severely constrained by the lack of public infrastructure (see Calderon 2009 or Odongo and Kalu, 2016). Investments in human capital, through education and health, are also subpar (UN, 2019-2). In this context, public investments are limited by the difficulty to levy taxes. And foreign and international aid is also coming at a cost, due to red tape but also to strategic choices, which may not be fully tailored to each country's reality. For instance, the World Bank renounced the financing of school infrastructure decades ago, while there is clear evidence that the lack and inadequacy of buildings and school sanitation are strong impediments to participation, especially for teenage girls, but also to learning (Murtin, 2013). Because corruption is widespread, the procurement of public infrastructure has been a headache for international lenders, limiting actual investment at the scale required.

One solution advocated to solve this conundrum would be to use seigniorage income to bridge the finance gap of public infrastructure. The central bank would increase the money supply and transfer the proceeds without costs to the Treasury, or perhaps to a dedicated public investment bank, in order to finance targeted investments. Because seigniorage functions as an inflation tax, inflation rates are expected to rise when additional money printed.

Because excessive seigniorage rates can lead to very large inflation and even hyperinflation, which can be detrimental to growth, governments have been cautioned against such policy. Seigniorage was widely used in the 1970s and 1980s, resulting in high inflation rates. The practice has been drastically reduced since the end of the 1990s. Seigniorage rates should be computed using the monetary base M0, which was unfortunately not available on a consistent basis before 2000. Using the M3 aggregate instead, which tends to overestimate seigniorage, one can still observe that the share of growth in the money supply caused by inflation peaked during the 1980s then declined in most countries.

However, to face the economic shock of the 2007 financial crisis, western countries used quantitative easing operations to create money and sustain their economies. Quantitative easing operations taken to deal with the aftermath of the great recession did not unfold as planned. Despite massive injections of liquidities into banks reserves, consumer price inflation did not pick up in western economies. However, asset prices, especially housing prices, ballooned following this monetary expansion. This had destabilizing impacts on income distribution, resulting in stagnation or even decline of living standards for most of the population, while top earners saw their wealth being multiplied in a decade (Pew, 2020). The policy may have still been effective enough

to lift the economy as growth finally resumed, although it has been shown that studies by Central Banks tend to view more favourably their impact than studies by academics (see Fabo and al. 2021).

During the first stage of the covid pandemic, many western governments used quantitative easing to make direct transfers to households and businesses, in an attempt to temper the effects of lockdown and social distancing on the economy. Such a policy resembles how seigniorage was established historically. It resulted in an accumulation of savings for many households, as supply constraints were binding in 2020, and further asset prices increases. In 2021, consumer price inflation picked up sharply, even though supply chain issues have been resolved. Although it is too early to tell whether inflation will be durable after the end of these transfers, this coincidence is an indication that transferring newly created cash to the real sector may well push up inflation, while near-zero interest rates did not. These recent events are another indication that inflation targeting is not a sufficient tool to control the supply of money and that alternative measures may be needed to boost credit and capital accumulation.

Following Werner's reasoning, seigniorage aimed at financing credit for infrastructure should not lead to inflation because this would effectively accompany growth. It should not lead to asset price inflation either as money would not be transferred to financial firms and wealthy agents would not be able to speculate. But to ascertain both predictions, one needs a suited macroeconomic model.

At the same time, countries in the African continent are constrained by the small size of their economies. Common

currency options could be explored to tap into the benefits of scales. The 15-nation Economic Community of West African States (ECOWAS) is one good example. However, the community had to postpone the introduction of a single currency to 2027 due to Covid-19-related vulnerabilities. Regional monetary integration can offer economies of scale, increased investment in trade and a deepened financial system. Countries on the continent could explore these options while considering the necessity of expanding sources of financing.

## 2. The common currency debate at the core of AEC discussion

**African countries have long recognized the advantages of a common currency to reduce transaction costs, increase competitiveness and further integrate economies.** The ECOWAS integration process (which has been ongoing since 2004) understood the role of strong political commitment in facilitating monetary integration. Despite the enormous potentials and benefits of introducing a common currency on the continent, challenges remain. Multiple existing currencies, convertibility issues, inflation rates, or the lack of a full-fledged currency hedging industry are among many impediments to an efficient monetary union. Supporters of a single currency admit that the experience of the CFA zone had mixed results in terms of development achievements. Notably, monetary stability and inflationary cycles have been tampered.

Dr. Oscar Santos, Governor of the Central Bank of Cabo Verde, **observes that satisfying preconditions (development**

**needs and guarantees of political independence) for the creation of a common currency are difficult to combine.**

A common currency could provide wide-ranging benefits ranging from the free movement of capital, to impacts on labor, goods and services. However, *“challenges prevail such as the high disparity of inflation rates amongst member countries, low inter-regional trade, divergent economic structure and different responses to aggregate demand during shocks and natural disasters”*. A positive example is Cabo-Verde’s experience with “fixed-exchange rates and a legal obligation which prohibits the central bank from financing the budget deficit, as it resulted in better fiscal discipline, financial stability and high asset return” (O. Santos, Governor of Central Bank of Cabo Verde).

The experience of the CFA franc zone is cited as a reference by the participants to support both proponents and opposition to the regional common currency model. To this effect, Dr. Augustin (West African Monetary Institute), argues that regional integration and common currency policy have reduced exchange rate volatility,

protected rate fluctuations from inflation and had some efficiency against the vulnerability of financial shocks. “However, monetary union is not the only solution to ensuring macroeconomic stability” (Dr. Augustin, West African Monetary Institute).

West African countries could transcend historical links with their former colonial metropolises to build a common monetary instrument at the service of their development (T. Azeng, University Yaoundé).

There is a real opportunity to have a common currency significantly adding to the inter-states trade balances. An effective regional integration requires institutional credibility, reliable democracies and political stability. Reducing transaction and exchange costs seem to only be obtained through developing a common system of monetary union (C. Lilyblad, UNDP). Pegging the exchange rate could provide sustainable and stable finance. “Still, the trade-offs between maintaining capital markets at the global level need to be considered”.



# II. RETHINKING DEVELOPMENT FINANCING APPROACH





# A. LEVERAGING AFRICA'S NATURAL RESOURCE ENDOWMENT

## 1. A wealthy continent with natural resources

It is widely acknowledged that the African continent is endowed with a significant amount of natural resources. According to most estimates, Africa holds more than 40% of the world's reserves of minerals, is a significant source of oil, gas, and other energy. On the word of the United Nations Economic Commission for Africa (UNECA), the continent has more than 40 percent of the world's reserves of Platinum Group Minerals (PGMs), phosphate, gold, cobalt, vanadium, vermiculite, chromite, manganese, and diamonds. The continent is also the leading producer of platinum, gold, chromite, vanadium, cobalt, and diamonds. The importance of Africa as a source of oil, gas and other energy resources is growing. In 2006, gas and oil reserves accounted for approximately 7.9% and 8.6% of the world's total production. It should also be noted that Africa produces nearly 16 % of the world's uranium. Southern Africa has a high concentration of coal resources as South Africa accounts for 5% of proven global coal resources and 98% of Africa's output.

In addition to an abundance of existing and exploited natural resources, the continent has significant reserves in both traditional metals (Iron, Bauxite, Copper) and critical metals (cobalt, lithium, uranium...). Africa also has vast maritime and coastal resources that can be used and extracted.

Many African countries rely heavily on extraction and use of these natural resources, namely metals, forestry, and oil. It has been long debated whether mineral and natural resources extraction will inevitably lead to improvements in human development. With significant revenue comes a social imperative to invest in socioeconomic issues ranging from infrastructure to health and education systems, resulting in improvements in poverty reduction and job creation. Without dismissing literature on the negative consequences of exploiting this wealth, the endowment and development relationship is central to Africa's ability to finance economic policies.

Many economists argue that exploitation without processing capabilities, such as segment industrialization, has limited Africa's gain in the sector and the opportunities it provides. Africa has not built a profitable supply chain from its own riches because it has the lowest value-added ratio of extraction to manufacture. In economic terms, endowments have a pivotal role in boosting the continent's access to credit and 'creditworthy statuses as deemed by the international financing system. Financial institutions should welcome an abundance of assets with a high liquidity ratio – especially since Africa has been long regarded as a 'weak borrower'. This status emphasizes institutional and structural burdens ranging from governance and

stability issues to poor economic growth. Due to the significant disparity between physical wealth and economic strength, the continent should critically reevaluate its ability to monetize natural resources.

## 2. Broad consensus in AEC discussion on the need for transformative financial use of natural resources

### **Diverse and valuable natural resources.**

When discussing the use of natural resources and the continent's underuse, the convergence of opinions was nearly unanimous. Natural resources are Africa's most valuable asset, and their endowment and extraction should provide an adequate financial base for financing development. If extracted sustainably, the value of such resources will last for decades, providing stability and confidence in the longer run. Self-financing goals and a shift away from reliance on donors will allow the continent to re-build independently and to play a critical role in each participant's analysis during the AEC.

**“Africa should stand by itself and present its capability to finance its own development without relying on foreign donors.”**

G. Antonio, Senior Advisor to Secretary General of the AfCFTA

### **Creating a Natural Resources Endowment to elevate Africa's financial status.**

The creation of a natural resource endowment provides an opportunity for Africa to improve its financial standing, as these resources would serve as the world's largest collateral asset. Consequently, developing intra-regional cooperation, improving governance and sovereign funds would help constitute a framework that would optimize recognition.

Africa should take the lead in changing global perceptions of the development paradigm. It can do so by creatively financing its own development.

Traditional indicators are no longer adequate for this new task of rethinking and refinancing development. Bringing assets together to attract lenders will have the immediate effect of boosting the financial sector and hinting at future investment opportunities.

**A well-integrated endowment in the international financial system:** natural resources are extracted and exported to the rest of the world at the high rate of 90%. The extractive sector is key to the world economy as it reflects the dynamism of economies outside the African continent.

**A cryptocurrency endowment:** as new instruments are introduced to the international financial market, there is a window of opportunity for an African cryptocurrency, backed by natural resources. Panelists suggested that it would lower the continent's instrument risk and current volatility without impeding its high growth potential. Moreover, such innovation could leapfrog the debate over a common currency and consequently contribute to rising the continent's inequality.

# B. DIGITAL TRANSFORMATION FOR EFFECTIVE DEVELOPMENT FINANCING SYSTEM IN AFRICA

## 1. Digital innovations as a game changer for Africa's development financing

**The global COVID-19 pandemic and ensuing socioeconomic crisis reaffirmed the transformational role of digital technologies in shaping the future.** Not limited to any specific area, sector, or discipline, digitization is permeating nearly every aspect of human interaction with their environment. To quote computer scientist Sara Baase, “digitalization is a *gift of fire*”.

Indeed, as societies around the world rapidly adopt cutting-edge technologies, digitization has the potential to be a great equalizer. Knowledge and technology transfers facilitating the application of new digital tools allow societies and communities to bypass several generations of technological development. When combined with adequate financing, this has the potential to radically level the playing field between rich and poor, as many least developed and middle-income countries harness the power of digitalization to gain unprecedented access to markets and economic opportunities.

By acting as a catalyst for transformative economic behavior, the pandemic has unveiled areas of opportunity for growth in the digital sector. With ramifications in almost all economic sectors, and specifically in healthcare, transformation

is boasting successes in every sub-region. The “mobile-money revolution” has registered 300 million accounts – the world’s highest rate. Over 500 companies provide technology-enabled innovation in the financial services sector (fin-tech). It is proving that digitalization of the economy not only increases economic activity, but also provides new jobs for a young generation, and a crisis-resilient r sector.

### **A growing success relying on insufficient infrastructure.**

In the same time period, Africa’s total inbound international internet bandwidth capacity increased by more than 50 times (0.3 Tbps in 2009 vs. 15.1 Tbps in 2019, Hamilton Research, 2020), and the fiber-optic network expanded from 278000 km to 1,02 million km. Mobile cellular subscriptions have grown exponentially as well. Despite these technological advances, infrastructure investments are desperately needed. The African Union has identified 114 ICT projects to upgrade internet exchange points and build new fiber-optics upgrades (AUDA-NEPAD, 2020).

Through this process, technology not only erodes the physical barriers of time and space but, perhaps more importantly, facilitates economic exchanges by reducing transaction costs arising from limitations in terms of search and information, bargaining, certainty and trust, as well as enforcement. In addition to providing people with new tools and

capabilities, digital innovations transform the institutions and incentive structures within which individuals and organizations operate. When successfully implemented, this entails transformative effects on market governance and efficiency as well as on economic development.

Against this backdrop, **Africa offers enormous opportunities in many sectors in this era of digital technologies.**

**Using digital technologies for the financing system represents significant opportunities in terms of coverage, impact, and potential.** Digital technologies can stimulate innovation, economic growth, and job creation in critical sectors of the economy by allowing better interconnection of African markets with the rest of the world. It can also improve market access and financing for the marginalized population usually left out of the formal financial system.

**However, digitization also has the potential to exacerbate inequalities by accentuating capacity differentials when access is limited or uneven.** Whether due to monetary, physical, or human capital constraints, the opportunities arising from digitalization are only available to those who have the necessary knowledge and equipment to access these new platforms and marketplaces. In other words, the digital path to global sustainable development must ensure that these means are sufficiently inclusive to ensure that no one is left behind in the end.

Despite vast potential, access and use of digital technologies remain limited to a large segment of the African population. There are significant barriers to widespread digitalization. The adoption of digital technologies in the business sector remains low, with traditional businesses

slowly moving to automation. Furthermore, women, namely those living in poverty and remote areas, are usually left behind in the traditional financing system and become more marginalised due to exclusion from employment and empowerment opportunities.

Nevertheless, this fact should not lead us back to the downsides of development approaches that adopt a simple linear relationship between inputs and outputs, especially when it comes to sustainability and impact of development interventions. To use an exaggerated example, it is not sufficient for public programs run by governments or development agencies to distribute smartphones, tablets, computers, and other gadgets to underprivileged communities without taking into account the broader economic, social, and political systemic context within which these specific actions take place. Rather, any comprehensive approach to inclusive growth within an increasingly digital world will require an acute awareness of how digitalization interacts with, and perhaps even controls, the institutions that governs markets and societies resulting in both desirable outcomes and undesirable externalities in relation to sustainable development objectives.

These institutional frameworks must also integrate investment opportunities and financing solutions. Given that digitalization is a capital-intensive process, financing needs require exploring innovative ways of development financing. Many Integrated National Financing Frameworks across Africa have included digitalization as a key accelerator as financing and digitalization are not only mutually reinforcing, but in some cases, inextricably linked, as in the case of Fi-

Tech that uses evolving technologies to bring in new forms of payment or cash transfers to the most vulnerable. In this context, there is no better time to bring together researchers, policymakers, and other stakeholders to conduct research, learn from best practices in Africa and elsewhere, and make policy recommendations on Africa's development financing model to accomplish Agenda 2030 and 2063's goals through digital transformation. Transformative domestic resilience-building measures (such as tax mobilisation, digitalization, and improved transparency and governance) are more important than ever. Africa's digital transformation has been underway, bringing about significant improvements across all economic sectors along with much-needed social benefits. However, there remains a gap that needs to be bridged in order to leverage the full potential of digital technologies for an effective financing system in Africa.

## 2. AEC discussion highlighted the strong positive dynamic on digitization currently taking place in Africa

Panelists engaged on the topic of the digitization of the African economy with enthusiasm, noting that **digitization can create new dynamics in governance and help improve the management of existing resources, curb illicit financial flows, and potentially free up capital for more productive uses.**

The digital economy, best described as the use of digital devices for services, covers a large array of activities and facilitates trade

and services. From e-commerce, internet banking, electronic payments market transactions, it has the ability of integrating parts of traditional economy with emerging technologies. From the government perspective, and particularly regarding tax collection, digital technologies not only allow for the efficient and timely calculation of dues, but they also enhance the value chain structure. Moreover, taxation and collection are closely managed by local governments. However, **the issue of taxation remains unresolved –in terms of providers who may evade taxation because international transactions are difficult to monitor.**

The discussion about the **policy imperatives of digital transformation for the development of effective financing institutions and systems in Africa** in the aftermath of COVID-19, with an eye towards Africa's long-term development trajectory, focused on infrastructure capacity, highlighting that investment capital is not a main concern for entrepreneurs who can finance ventures through the private sector and channels.

Investigation of digital technology opportunities for the **mobilisation of innovative financing from public and private sources**, as well as existing barriers to adoption, expansion, and sustainability, would be crucial for leveraging the opportunities of digitalization. Panellists shared their insights and perspectives on emerging opportunities and challenges of digital technologies in transforming the continent's financial landscape.

Innovation generated through **digitalization of monetary exchanges** could also facilitate coordination amongst various government entities concerned with

resource mobilization, such as tax agencies, investment promotion units, central banks, and the treasury. There is an opportunity to seize through an instrument that could be used to improve efficiency at various levels.

Going digital would help **streamlining the often-cumbersome processes of accessing African stock markets and reduce information gaps** between investors and investees, particularly in the private equity/venture capital space. Indeed, the growth of stock markets, sovereign wealth funds and the insurance sector would be crucial in financing Africa's development.

The Covid-19 crisis has created significant disruptions among customers and service providers as an increase in use and adoption of digital tools has deeply transformed African societies. The registered benefits extend far beyond the number of users to include reducing gender inequalities, intermediate costs, and goods delivery time. It is also a factor of financial literacy and integration of part of the informal economy.

*“African countries with more digital technology utilization are more likely to have a smaller shadow economy”* in **“Does Digitization limit the proliferation of the shadow economy in African Countries? An in-Depth panel analysis”** E. Umoru A. Usman, AEC presented paper

The benefits already recorded in the reduction of the informal sector as a result of economic digitalization are both surprising and encouraging. As shown in Umoru and Usman (2021) the results are sizeable, with a 0.1-point increase in digitalization, the shadow economy shrinking by 4%, and e-government adoption following, putting pressure on institutions to improve internally qualitatively in order to have a multiplier effect.

*“the pandemic amplified the demand for new DFS as individuals and households adopted digitalization to meet their daily financial needs (...) in Kenya the lockdown resulted in 35% increase in online purchases for food, 18% in pharma and 54% for agribusiness; and in parallel, companies invested in mobile technologies allowing increased lending limits”* in **“Post Covid-19 recovery for African economies: lessons for digital financial inclusion in Kenya and Uganda”**. R. Mugume & E. Bulime, AEC presented paper

# C. CAN SUSTAINABLE FINANCE BE THE SOLUTION FOR AFRICA?

## 1. A continent heavily vulnerable to climate change impacts

The pandemic has hampered Africa's progress and increased its disparities. According to UNDP's Africa Bureau, the economic effects of the pandemic have reversed Africa's macroeconomic and development gains over the last two decades, making it even more difficult for the continent to get back on track to achieve the Sustainable Development Goals or the African Union Agenda 2063. It will take a massive effort and a huge increase in resources to recover from COVID-19's damage and go forward with better, fairer, and more long-term solutions<sup>4</sup>. The ongoing pandemic has increased calls for robust and flexible infrastructure in the event of a disaster. The World Bank estimates that Africa's infrastructure deficit will cost \$100 billion per year over the next ten years. Modern, durable, and sustainable infrastructure has a strong economic rationale, with one EU study indicating a \$4 return on every \$1 invested<sup>5</sup>.

Climate change is another major concern for the continent. **Africa is the most**

**vulnerable continent to climate change, despite contributing only 4% of global CO2 emissions<sup>6</sup>.** According to the Economic Commission for Africa (ECA), low levels of access to technology, reliance on rain-fed agriculture, and high poverty levels in the continent, are some of the key challenges to reacting to climate change in Africa. As a result, Africa is very vulnerable to the effects of climate change and has limited capability to mitigate and adapt to them<sup>7</sup>.

**Growth should be green in order to address the climate emergency, overcome the COVID-19 economic shock, and ensure that African economic progress will last.** Following 2013, the global market for green bonds exploded, with issuance more than 300-fold between 2007 and 2019, and a 104 percent average annual growth rate over the same time. While the rapid expansion of green bond issuance indicates encouraging steps toward supporting sustainable development, Africa has been the slowest to adopt these novel financial vehicles, restricting the continent's ability to mobilize supplemental funding for sustainable development. Between 2007 and 2018,

4 <https://www.africa.undp.org/content/rba/en/home/presscenter/events/-leveraging-african-resources-to-finance-sustainable-post-covid-.html>

5 <https://www.adaptation-undp.org/resources/reports-and-publications-relevance-country-teams/green-recovery-africa-possible-after>

6 [https://www.stockholmsustainablefinance.com/wp-content/uploads/2018/06/SSFC\\_greenbonds\\_africa\\_report.pdf](https://www.stockholmsustainablefinance.com/wp-content/uploads/2018/06/SSFC_greenbonds_africa_report.pdf)

7 <https://www.un.org/en/chronicle/article/climate-change-around-world-view-un-regional-commissions>

Africa contributed only 0.4 percent of the market share in terms of value<sup>8</sup>.

African financial institutions have a role in converting natural resources into financial means for sustainable development, taking advantage of blue-carbon markets, and green financing mechanisms. **Innovative solutions can boost Africa's domestic development financing.**

Considering environmental, social, and governance concerns when making investment decisions in the financial sector will lead to longer-term investments in sustainable economic activities and projects. Among the critical issues are climate risk-sensitive investments, de-risking, impact investments, and environmentally sustainable projects. Thus, the financial sector has a key role in re-orienting investments towards more sustainable technologies and businesses, thereby contributing to the creation of a low-carbon, climate-resilient, and circular economy.

## 2. AEC discussion pledged for an increasing role of African financial institutions in sustainable finance

The development paradigm must shift must encompass far more than GDP or income per capita levels. It must involve strategic investments in people, infrastructure, technology, and the planet. What is needed in terms of financing for this very complex proposition requires us to think through different types of financing instruments. Sustainable financing options include blue bonds and green bonds.

Africa should make use of sustainable finance opportunity because, in all regions of the world, the expansion of capital markets has been correlated with levels of development. So, if we really want Africa to reach its full potential, including its island states, we must actively develop those capital markets. This also implies acknowledging that, even in the developed world, the deepening of capital markets did not just happen organically or naturally; rather, it was planned in many cases. There have been specific policies led by governments, supported by central banks, and in many cases, even larger institutions, such as monetary institutions. Regional integration bodies in Africa have a key role to play.

As Africa is not a single country, there are significant differences between the various levels of development, the geographic and immediate needs of every country. Some countries are currently in a stage where their main priority is to mobilize grant finance to meet the immediate needs; particularly the countries that are emerging from a conflict, which do not always have strong institutions. It may not be right for them to explore this, at least in a meaningful manner, in the immediate, but the building blocks and their foundations can be laid for the future.

**However, the majority of African countries are now middle-income.** If they want to go to the next level, they must explore the deepening of those markets and bonds. Several African countries are simultaneously gaining market access and accessing concessional financing mechanisms. This market access must continue to grow but on a more affordable

8 <https://www.brookings.edu/blog/africa-in-focus/2021/03/26/africas-green-bond-market-trails-behind-other-regions/>

cost because Africa is currently paying a high-risk premium. There are numerous reasons behind the risk premium for the access to capital markets. Of course, in some cases, it is associated with the legitimate risk perceived by the private sector about investing and in countries that are may be less stable than more established markets. On the other hand, ratings for African countries tend to be harsher. Africa is paying a premium and solutions need to be actively designed for that. **The Economic Commission for Africa has put forward a liquidity and sustainability facility.** At the COP26, the principle of creating a repo market for Africa has been launched. This repurchasing market would effectively increase demand for African bonds, stimulating the opportunity for African countries to issue bonds. The goal of this repo market must also be linked to sustainable assets. Classical green bonds and blue bonds are also important components of the planning that African countries should explore.

The European Union launched the Global Gateway initiative and dedicated about \$40 billion US dollars for guarantees as part of that process. In the recently concluded FOCAC 2021, China looked at similar private sector investment in Africa. At COP26, the Green Climate Fund also explored the possibility of using its balance sheet to guarantee sustainable bond issuing. Those are all opportunities which African countries could explore and develop.

Moreover, there is also **the possibility of loans for climate adaptation swaps**, which could be a viable option that Cabo Verde is investigating in collaboration with the Economic Commission for Africa. However, any country with a well- defined policy

for investing in climate adaptation and a significant amount of debt could consider these options as a realistic means of getting additional financing for sustainable development.

**Regulatory frameworks and transparent mechanisms should be in place to ensure proper use of proceeds from bond issuance, in particular sustainable ones.**

The use of key performance indicators linked to national development plans, Paris Agreement commitments, or SDG achievements could help tracking the sustainability of proceeds use.

Sustainable financing encompasses a wide range of products, including green global resilience, bonds, social bonds as well as climate finance. Africa has to improve its access to sustainable financing which accounts for approximately \$18 billion of the \$632 billion of global climate finance provided. In order to access large-scale sustainable financing, the continent must overcome several challenges, including a misalignment between the global agenda for sustainable finance and the national development priorities, as well as the countries' limited capacity to develop bankable projects. The development of bankable projects is a critical step to access sustainable financing, which will require strong governance structures and expertise to develop proposals that meet the criteria.

**Various institutions are supporting the continent to put in place a financial system that will facilitate access to sustainable markets.** In the context of COVID, the AfDB issued a \$3 billion COVID 19 Social Bond. The control of the use of the bond proceeds remains a challenge.

**Africa must build capacity at multiple levels in order to explore the**

**opportunities provided by existing products such as green bonds, climate finance, biodiversity finance, and debt for climate swaps.**

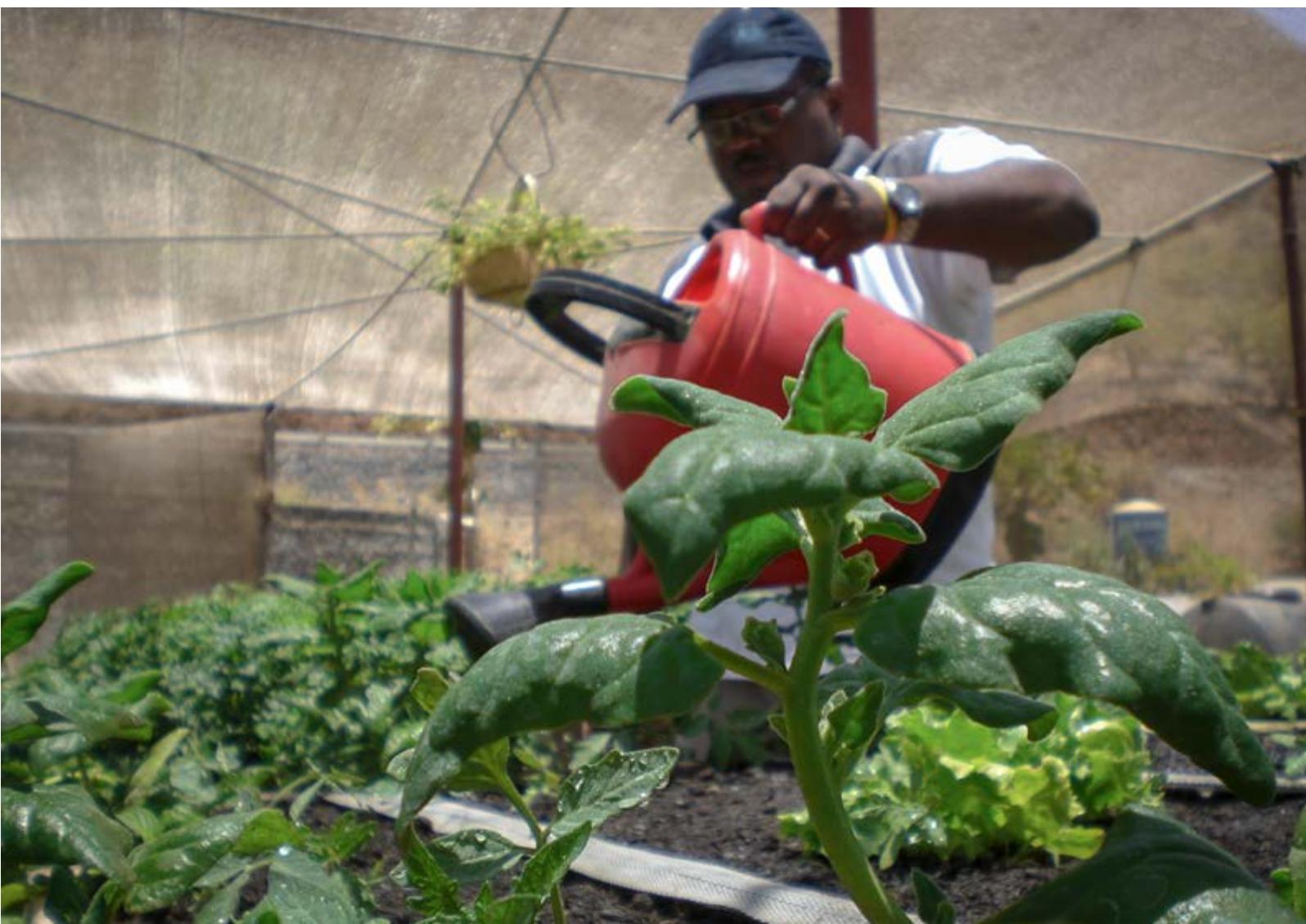
In this context, **the private sector can make a significant contribution.** The African Development Bank (AfDB) has recently launched a new initiative called the African Financial Alliance on Climate Change, which aims to bring together the African financial institutions to reorient their investments towards more sustainable development activities. Public institutions, such as central banks or the Ministry of Finance, can play a role in ensuring that even public funds are used sustainably in the country, as well as how we can also use public funds to leverage more private funds in order to invest in sustainable development.

**Financing is available.** The issue is gaining access to that financing. How prepared

is Africa? It brings us down to the issue of capacity, both at national and continental levels. We also need a continental institution to help mobilize resources for continental or regional projects, because some of the issues concerning sustainable finance go beyond national borders. For instance, investing in river basins shared by multiple countries.

Building continental institutions with the capacity to not only apply standards but also put proposals on the table that can meet the standards and gain access to those resources. With the exception of some countries in northern and southern Africa and South Africa, most African countries have difficulty reaching institutions accredited to these global sustainable funds.

Building capacities must not be done in a vacuum, but in a practical approach, as Seychelles did for its climate adaptation swap in 2015, building capacities to



negotiate with creditors of the Paris club in order to refinance their debt through a new bond issuance with Nature Conservancy, a philanthropic organization, at much lower rates. Those capacities made possible the issuance of a blue bond two year later. The liquidity and sustainability facilities will be very beneficial to African countries because it will enable them to essentially learn from the bond issuance process and create the opportunity for multiple issuances.

**Green and blue bonds require extensive certification, which has turned off many developing countries.** It is also one of the reasons why African countries issue only 0.4 percent of green and blue bonds. The certification is required because there has also been a lot of greenwashing where green-labeled bonds have been issued. This emphasizes the need of a central authority to control the certification.

Local-level financing is important for bringing development closer to the people. Municipal bonds are solutions for waste management, electricity generation, and food. Other areas of SDGs can be equally considered. Therefore, subnational bonds, subnational borrowing, asset management, procurement, and the design and support of global financing mechanisms at the subnational level must all be considered. At the COP 26, UNCDF has been supporting such approach in Africa through a program called Look Out, which stands for local climate adaptive living facility. The program is based on the issuance of performance-based grants to countries at the local level through their own financing systems and focused on climate adaptation mechanisms so that they can grow in the direction of becoming more climate resilient.

The importance of SMEs to the SDG agenda justifies **focusing on financing the missing middle enterprises as well**. UNCDF is applying this to climate change by promoting access to finance across the energy value chain, from customer to business to larger investments. About one million clean energy products have been sold out through the SMEs, with an estimated one million tons of CO2 offset by 2025.

Even if it's a sovereign issuance, a well-designed bond, can channel funds into MSMEs. However, identifying a need at the national level with sufficient interest from MSMEs to structure them remains a challenge. Bonds instruments could be seen as holding the value chain, as the tourism sector seems to demonstrate, opportunities to create investments and an attractive investment climate for MSMEs.

Working on the green bonds at the sovereign level is critical to ensure that all the sovereigns are rated, and that this rating is taken into account when they issue sovereign bonds that could be green bonds.

Innovation also involves lowering the interest rate paid by countries. This could be a **nature performance bond**. Because it is an outcome-based bond, the country may commit to certain outcomes. When those are met, the interest payments on those bonds decrease. This is a concept of sustainability linked bonds that has now reached about one trillion dollars in global issuance.

Africa is a part of financial innovation. In 2020, Egypt issued a green bond to invest in renewable energy. Just over a month ago, South Africa issued three billion rand for the restructuring of their energy sector and refinancing of Eskom allowing them to invest in their renewable energy sector. Years ago, Seychelles, have issued a blue bond.

# D. REFORMING AFRICA'S FINANCIAL SYSTEM

## 1. Inefficiencies and bottlenecks of Africa's financial system

**The COVID-19 pandemic has highlighted the critical role that financial systems have to play to support Africa's development and build resilient economies.** Although there is no consensus on the resources required to fund Africa's development, available estimates suggest that financing gaps for key SDGs could amount up to US\$1.2 trillion per annum between 2015 and 2030. Already, the African Development Bank has projected that African governments would require additional financing of about \$484.4 billion within the next three years to close the financing gap necessary to respond to the COVID-19 crisis and support a strong and sustainable recovery. Decades of structural underinvestment in key sectors such as health, infrastructure, education or agriculture by both African governments and their development partners, have led to increased vulnerabilities to global shocks and the inability to adequately address their socio-economic effects.

**Improvements in the quality, quantity and efficiency of financial systems are crucial for Africa's sustainable development.**

Africa's financial system – which include financial markets, banks, and other financial intermediaries, has a vital role to play in mobilizing and allocating domestic savings to the real sector. A well-functioning financial system can help to build a yield curve, which

is a key element in pricing risks, extend debt maturities. create benchmark issuances and liquidity of secondary markets and diversify the investor base while enabling the development of new financial products. More effective financial systems across the continent can promote resource mobilization and better allocation of savings to productive investments by shifting incentives for the banking system toward the core functions of payment, price discovery, information production, and intermediation.

**Limited capacity of Africa's financial systems to enhance and better allocate domestic savings has inhibited efforts to mobilize more domestic resources on the continent.** Africa has one of the lowest and most volatile gross domestic savings rates among developing regions of the world. Reported to population size, Africa's gross domestic savings amounted to around US\$510 per capita in 2019, lower than the US\$6,400 in East Asia and Pacific and US\$1,640 in Latin America and the Caribbean, but slightly higher than the US\$505 in South Asia. Africa's low domestic savings capacities could be attributable to a variety of factors, including weak financial sectors that discourage savings, and low financial inclusiveness of the population, leaving a big part of household savings in the informal sector.

Africa's sustainable development and growth requires **an efficient and participatory financial system.** Financial inclusion – the situation that grants businesses and families access to timely

and adequate credit and other financial products and services at an affordable cost – is a building block for equitable resources distribution, poverty reduction and economic growth. Across the continent, financial systems remain limited in their provision of appropriate inclusive institutions and services for low-income and disadvantaged groups. More than 80% of the SSA adult population does not have access to formal financial services; only 22% have access to a basic bank account in formal financial institutions, while the majority of the adults use informal methods to borrow or use savings. Financial services are also substantially skewed towards large corporations, with small and medium enterprises' ability to expand business opportunity hampered by limited access to financial services such as credits and insurance. Reforming Africa's financial systems will require a focus on advancing financial inclusion for individuals and microenterprises, while ensuring broad-based and sustainable financial deepening – in terms of services and product offerings.

Financial systems that **harness digital technologies while promoting free and fair competition** will be fundamental in revitalizing African economies. In 2020, mobile technologies and services generated \$130 billion of economic value-added in sub-Saharan Africa, equivalent to 8% of GDP, and contributed about \$15 billion in taxes. Low transaction costs and technological innovations, especially in mobile banking, play a critical role in bringing large segments of the population into the financial system, particularly in East and West Africa. In Nigeria, financial technology start-ups have raised over \$600 million in funding since 2014, with more than 200 fin-tech companies providing

essential financial services in a country where about 40% of the population is financially excluded. Digital technologies provide valuable innovation that allows Africa's citizens, most of whom derive their livelihoods from informal activities and subsistence agriculture, to take advantage of business opportunities, save and invest for their future and mitigate risks.

## 2. AEC discussion on reforming Africa's financial system and enhancing its position in the international financial system

**The development of capital markets is important for African countries' economic diversification and growth.** This may also help to crowd-in other financial sources, such as reducing the continent's reliance on loans and foreign aid. There are 36 stock exchange markets countries in Africa, but most of these are underdeveloped, with only five (South Africa, Nigeria, Kenya, Egypt, and Mauritius) being fully developed. The challenges faced include small economies, weak macroeconomic and business environments, and poor institutional and governance quality.

Recently there has been **an increase in the issuance of various types of bonds in Africa (Eurobonds, infrastructure bonds, diaspora bonds, green bonds, blue bonds, social bonds)**, primarily to raise capital to mitigate government budget deficits. It may be necessary to investigate whether government participation in this market is not crowding out private sector participation. How do we ensure that this does not happen again?

It is also worth noting that **there is capital on the continent that is sub-optimally utilized or that is currently dormant to the tune of about US\$ 1.1 trillion**; insurance premium bonds, sovereign wealth bonds, pension funds, external reserves in African Central Banks and unutilized bank funds are few examples. Why are we looking for more expensive resources to develop our capital markets when 30 percent of our GDP is in sub-optimal or dormant funds?

African capital market ratings influence institutional investors' and domestic savings' interest in African government securities markets. Ratings of developing markets and deterrents to international investors are based on perceived sovereign risks, which are determined using secondary data such

as macroeconomic indicators, economic and trade reforms, political reforms, and state corruption. **Perceptions are that African countries have been downgraded at times despite high economic performance and resilience shown by these countries** (during COVID-19). 91% of African countries have been assigned single B or lower (speculative or junk status). In some cases, this has made it more expensive for African countries to secure development financing resources. In other cases, other African countries have been able to raise bonds, (notwithstanding the rating). In Africa, only Botswana, Mauritius and Morocco are considered investment grade, with South Africa being downgraded during the pandemic.



**THE FOLLOWING STEPS/ACTIONS ARE NECESSARY TO BUILD TRUST OF INVESTORS AND REDUCE RATING 'INACCURACIES':**

- 01** > Rating in local currency – use local currency for rating and ensure that the foreign reserves cover is calculated in local currency to maintain confidence in the local currency and foreign exchanges;
- 02** > Consistent communication on the economic performance, use of resources (transparency and efficiency) and investment opportunities. Information asymmetries may lead to negative rating or the use of the investment expos to promote the country and available investment opportunities;
- 03** > Financial market development – state of financial inclusivity, and development of local infrastructure to facilitate liquidity collection
- 04** > Introduce reforms for the business environment, macro-economic stability and human development while working towards the achievement of the SDGs
- 03** > Financial market development – state of financial inclusivity, and development of local infrastructure to facilitate liquidity collection
- 06** > Monetize the countries' economic and social assets such as demographic dividend (youthful population), by developing the human capital capabilities/skills and investing in health and education, take advantage of the low carbon emissions and identify opportunities for raising contributions to government revenue
- 07** > Address the ease of doing business in African countries and contribute to the fundamentals of the credit rating institution

**African risk could be reduced when countries are rated together;** when rated individually, each of the eight West African Economic and Monetary Union (WAEMU) countries has a bad risk rating score. WAEMU countries could band together and go to market as one entity to issue bonds. This will contribute to reducing the risk premium assessed by rating agencies.

Reforming capital markets in Africa to enhance its international standing will require **initiatives to support the creation and integration of capital markets.** WAMI received support from AfDB (\$2 million) to design a roadmap for creating and integrating capital markets in some West African countries (Gambia, Sierra Leone, Guinea, and Liberia). Nigeria and Ghana regulatory framework are used as reference to assist the four other countries capital market regulatory frameworks.

**Common currency, digital and crypto currencies are all opportunities.** Digital currency is different from crypto currency. Digital currency is controlled by the Central Bank whereas crypto currency is

decentralized and not controlled by the Central Bank. Digital aims at accelerating the circulation of money (velocity). Crypto money is only available on smartphones and is based on volatility. This is also different from crypto currency backed currency.

**Walk towards establishment of a common currency in Ecowas and how it relates to digital and crypto currencies.**

The 2020 schedule has been postponed to 2027. Digital currency and crypto currency are also opportunities that the continent could tap into. Africa needs to have its own digital currency but must also mitigate the risks associated with it. This can be done by ensuring that appropriate regulations and infrastructure are in place prior to deploying the digital currency. Africa can maximize the crypto-currency opportunity, but needs standardization, harmonization of market rules. Moreover, an African crypto currency should be backed by natural resources and not just a smart phone online currency backed by nothing that looks too risky.

## OPTIONS FOR AFRICAN GOVERNMENTS FOR DEVELOPMENT OF CAPITAL MARKETS:



Develop alternative portfolios for raising bonds: currently bonds are used to finance public expenditure, recommended to introduce project-based bonds in order to finance capital investment, reducing reliance on foreign loans



Develop local capacities/ investment vehicles to mobilize domestic liquidity for investment, including promoting domestic savings programs, such as pension funds, and financial education



Establish transparent process for reporting on use of funds, and efficiency

African countries should avoid using short-term instruments to finance long term investments, to avoid debt distress and currency pressures. Project-based bonds should be used to avoid maturity mismatches.

African countries must leverage regional infrastructure to reduce risk and increase liquidity within their countries for investment purposes. An African based guaranteed scheme can support improved credit ratings.

Develop partnerships with the rating agencies to address the misconceptions and perceptions about sovereign risks and build capacity. Working together with credit rating agencies to better understand their mechanisms can help ensure African countries get it right.

Enhance economic fundamentals including **ease of doing business to build confidence in the local market and credit worthiness.**

This also includes improving governance

infrastructure, human capital and boosting each country's the ability to pay.

**Leverage the optimal use of existing sub-optimally used or dormant capital** such as sovereign wealth funds, pension funds, foreign reserves, insurance premium funds and unutilized bank funds to strengthen capital markets and support development processes.

Create knowledge/invest in capital market research to inform policy reforms and transformation, as well as to effectively engage with credit rating agencies and the key capital markets actors.

The SDR allocation could be a game changer, given the needs for additional capital. It is important that SDRs are greater than just reserve assets, and that thought be given to how they can be leveraged to finance growth. In this regard, bold international action is needed to develop innovate ways to maximize the SDR allocation for growth.

## E. AfCFTA AS AN ENABLER OF FINANCE DEVELOPMENT

### 1. The AfCFTA may provide an opportunity to enhance development financing

The African Continental Free Trade Area (AfCFTA) agreement, signed by 54 out of 55 member countries of the African Union (AU), and ratified by 30 of them, has the potential to raise Africa's low productivity

and promote higher investment. Its agenda is to deepen economic integration ("Agenda 2063"), create a continental customs union, increase significantly intra-African trade, enhance competitiveness, and promote industrialization. The agreement aims to lower customs duties on 90% of goods produced by its member countries. Intra-regional trade in Africa is relatively low (9% in 2000, 17% in

2017) in comparison to Europe or Asia (over 50%). Its composition also differs, as intra-African trade primarily involves manufactured goods and food, while primary products dominate its exportation.

The AfCFTA is one of the critical instruments that will assist the continent in navigating its way out of the socioeconomic set back caused by the COVID 19 pandemic. The consensus from all analysts and institutions supporting trade confirms that intra-African trade will close to double its 2012 figures bringing dividends for all, including women. In sectors like agriculture – processing is anticipated to increase by nearly 40% with an almost similar boost expected in services exports.

The focus is shifting from a celebration of a historic pan African milestone to an unpacking of what AfCFTA has to offer concretely. And as tariff and services offers continue to get exchanged, there is increasingly better possibility to understand what the preferential treatment under the AfCFTA is shaping up to be.

Therefore, the next generation of critical preparatory work on the AfCFTA work falls into the category of how African businesses and policy makers can best position themselves to maximize AfCFTA opportunities.

## 2. AEC discussion highlighted the opportunity AfCFTA is for Africa's economic transformation

The AfCFTA provides Africans with a unique opportunity to use trade as a vehicle for Africa's economic transformation, including development finance, while allowing the continent to set its own rules.

Trade integration becomes central to any economic leverage, and the agreement objectives currently overshadow subsequent negotiations about multiple phases still being discussed.

“Despite obvious challenges, the coming months will likely witness a convergence of fruitful outcomes of multiple moving parts.”

G. Antonio, Senior Advisor to Secretary General of the AfCFTA

Successful negotiations of the remaining protocols, more ratifications, countries' customs infrastructure readiness, PAPSS implementation, and digital app active use, will bring enormous tangible benefits.

**For inclusive access to development finance under the AfCFTA:** there is a need for practical economic empowerment interventions, specifically for women-led businesses under the AfCFTA post-Covid-19. This will help policymakers understand the opportunities provided by the AfCFTA and investigate the gender-specific constraints and challenges that confront women entrepreneurs and small-scale cross-border traders. **Ensuring fair and inclusive trade is key to achieving the full potential of the AfCFTA:** implementing an inclusive AfCFTA that encompasses women economic empowerment outcomes requires the integration of gender considerations in national strategies to implement the AfCFTA. This entails closing the persistent gender gap in access to

finance and borrowing rates, building export training capacity programmes for women through the AfCFTA, and designing gender-responsive trade facilitation reforms, including digital trade facilitation for SMEs and the informal sector.

**Leveraging trade integration achievements/successes of Regional Economic Communities (RECs) will be key to the successful implementation of the AfCFTA**, as lessons will be drawn from areas of failure of RECs towards enhancing the adequate performance of the Agreement. RECs have a crucial role in advancing Africa's integration agenda, including implementing AfCFTA. This is especially true given the progress made by RECs and the challenges they have faced over the years to promote trade integration among their member states. One of the main objectives of the AfCFTA is to accelerate regional and continental integration through the consolidation of Africa's multiple and overlapping trading regimes, embodied in pre-existing RECs, which will continue to play a central role in the African trade landscape. As such, it was pointed out the need to learn from the drawbacks and successes of RECs. It is recommended that a platform for regular and results-oriented dialogue be established to enhance stakeholder engagement in

the implementation of the AfCFTA. It will also build knowledge and expertise of all stakeholders on AfCFTA priority trade issues.

**AfCFTA is a stimulus for Africa's socio-economic recovery from the COVID-19 crisis and as a driver of sustainable development, particularly for African women and youth.** The path to more robust and resilient African economies could be challenging, calling for policymakers' boldness, imagination, and tenacious implementation. African governments should focus on profound challenges such as lack of financing—including informal businesses—and support promising sectors to jumpstart and sustain economic revival.

The recently innovative regulation initiative as a Stimulus (RaaS) economic model, launched by UNDP, Africa investor (Ai) and the AfCFTA Secretariat as a post-pandemic recovery plan, is an example of initiative aimed at putting money directly into the hands of people by reducing costs linked to meeting export trade requirements, streamlining regulation and supporting governments in creating favourable market conditions, increasing individuals' capabilities to maintain incomes and employment through savings, while paying attention to women-specific concerns.



There are three main takeaways from the Covid-19 economic impacts and AfCFTA's buffering role:

- Significant decrease of consumption in almost all sectors of activity. It is observed to be higher in industrial sectors than agricultural or services. Lockdowns and restrictions regulations on mobility have disrupted production chains, resulting in job losses in higher labour-intensive sectors.
- Demand for labour and capital decreased during the 2020-2021 period in every sectors. Contrary to the other sectors, the agricultural sector in northern Africa has registered a small increase over the same period. However, demand for labour fell drastically in sub-Saharan Africa in agriculture and activities linked to the transformation of agricultural products (rice, fruits, sugar, tobacco) and construction. This domino effect can be explained by a sudden drop in economic activities and consumer purchases (lockdowns).

Services have been negatively impacted by the Covid-19 crisis as disruptions in supply were not anticipated. Importantly, it should be noted that suppression of custom tariffs on imports and exports has greatly contributed to minimizing negatives economic impacts. Significant lower economic costs which facilitated supply in equipment goods, investments and health products is to be credited to the AfCFTA agreement implementation. Every African region registered an export increase in industrial and intermediate goods. The agreement is an obvious catalyst of industrialization and structural economic transformation.

**“Analyse comparative des effets de la ZLECAf sur les impacts économiques de la Covid-19 en Afrique du Nord et Australe”** P. Bakouan, I. Dialga, P. Relouendé-Zidouemba, AEC presented paper.

The following recommendations were highlighted:

- A need to strengthen the Pan-Africanism spirit and political will in AfCFTA implementation while pursuing supportive partnerships;
- An inclusive stakeholder engagement program is critical to building ownership and sustained momentum during the AfCFTA implementation phase;
- Technology is integral to the movement of goods and services. Mobile money would further empower the growth of eCommerce in Africa, and the growing penetration of smartphones opens a broader opportunity both in terms of accessing online stores and in enabling a range of payment methods; Africa should fast track the implementation of the 1999 Yamoussoukro open skies agreement, which will complement the AfCFTA.



# RENEWING ACTORS AND INSTITUTIONS COMMITMENTS AND ROLE: RECOMMENDATIONS





# A. THE ROLE OF GOVERNMENTS: GOVERNANCE, PUBLIC FINANCE MANAGEMENT AND REGULATIONS

## 1. Efficiency orientation of Domestic Resources Management policy.

Domestic resources appear to be plenty provided they are extracted properly and sustainably, within a framework that ensures good governance, transparency, and a long-term plan (e.g., a specific theory of change). The natural resources and extractives sector currently dominates FDI flows, with the potential to expand to agricultural contracts, maritime trade/fisheries resources tapping, and possibly the telecommunication sector. Governments should integrate an awareness of the true value of natural resources and demonstrate it through tariff rates harmonization.

**Valuable natural assets:** When monetizing the capacity of its infrastructure projects, Africa will demand efficiency and profitability in revenue-generating sectors. With thousands of kilometers of coastline and ocean access, Africa should consider the potential of developing a maritime and fishing sector to represent its huge territory.

**Promoting Africa's ability to lead institutional reforms:** good governance of the country's economic and financial institutions will instill confidence and aid in the elimination of widespread corruption. Minimizing tax exemptions could boost domestic resource mobilization. DRM will

provide the majority of financing for African countries and gain importance through current public management reforms (M. Kazadi). Reducing tax expenditures or tax deductions that are in common in many governments through the reduction of administrative and overhead costs. Tax revenue loss averages 3% of total GDP in most countries, with tax debt ranging from 20% to 30% of GDP. The allocation of these exemptions is usually regressive, non-transparent and unfair. Increasing awareness and better understanding of budget costs such exemptions create should be prioritized to secure Africa's future economic development. In this regard, development partners are urged to establish improved practices and solid principles on the issue of tax exemptions. The ECA is currently working on this issue.

*The identification of the factors determining the capacity of countries to levy taxes is essential. While the first works mixed the emphasis on structural and macroeconomics determinants, the role of institutional determinants is increasingly recognized. In AEC paper "Tax Revenue mobilization in sub-Saharan Africa: Does political legitimacy matters?" I. Ouedraogo, O. Dianda, A. Ouedraogo.*

Because many African economies are small, financial service institutions that are designed for economies of scale are limited. Exploring the development of common currency or regional financial network is therefore a step forward.

Africa's financial eco-system is designed to meet the continent's different needs: Moving forward, a financial and investment eco-system that speaks to Africa's realities is required. Africa's challenges within the financial and investment ecosystems can only be overcome by investing in social capital in order to develop responsive eco-systems. There must be significant effort towards reducing the disconnect between macro and micro level information which has been amplified by the pandemic. To demonstrate this, Africa's technology entrepreneurs attracted more financing than other regions during 2020-2021. In 2021 alone, \$2 billion were invested in the technology sector, which is dominated by people under 30, underscoring successful organic and homegrown digitalization ventures. Investors did not require a conducive policy environment to use innovation to shape an industry. Nigeria and Kenya have developed one of the world's most advanced mobile payment infrastructures.

## 2. Modifying approach of the “debt stress” in Africa

### Enhancing African economies' financial profiles:

- Introducing reforms for the business environment to include macro-economic stability and human development while working towards the SDGs' accomplishment;
- Developing a framework for cross-border financing in Africa;

- Monetizing existing economic and social assets in the countries, such as demographic dividend (youthful population) and increasing the human capital capabilities/skills through health and education investments.
- Reforming and supporting a friendlier approach to doing business in African countries which will help improve the fundamentals of credit rating institutions' criteria.

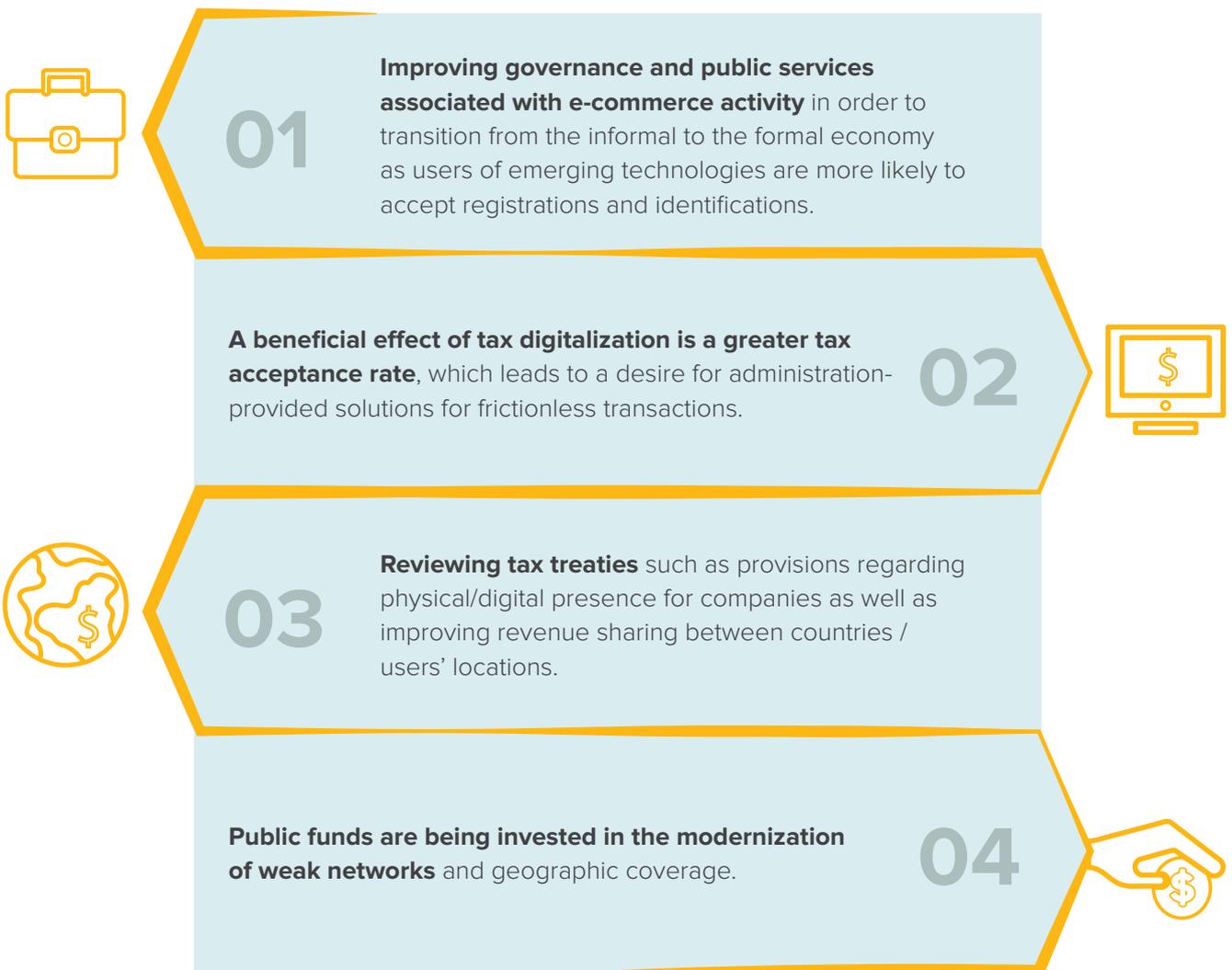
### Improving Institutional relationships

- Dialogue with creditors: African countries should avoid using short-term instruments to finance long-term investments in order to avoid debt distress and currency pressures. Project-based bonds should be used to prevent maturity mismatches. In this context, African countries must take advantage of regional infrastructure to lower risk and improve liquidity within their borders for investment purposes. An African based guaranteed scheme could support improved credit ratings. Panelists consider that strengthening partnerships with rating agencies and addressing misconceptions regarding perceptions of sovereign risks and building capacities have been overlooked or neglected. Collaborating with credit rating agencies to gain a better understanding of their mechanisms can help ensure that African countries 'get it right'.
- Improving economic fundamentals, such as ease of doing business, is a necessary effort to build confidence in the local market and creditworthiness. This also includes improving the governance infrastructure, improving human capital and boosting credit reliability for each country.

Each of the aforementioned aspects, such as sovereign wealth funds, pension funds, foreign reserves, insurance premium funds, and unused bank funds, could be used to maximize the optimal use of existing sub-optimally used or dormant capital.

It would be transformative to share data to create knowledge-based investments in capital markets and inform policy reforms, transformation, and effective engagement with credit rating agencies. (W. Omamuli).

### 3. Embracing digitization.



## B. ROLE OF THE DEVELOPMENT OF FINANCIAL INSTITUTION: ENHANCING AFRICA'S POSITION AND DIVERSIFYING THE APPROACH TO DEVELOPMENT FINANCING

National and international policymakers are increasingly focused on the need to develop local securities markets. This has resulted in the creation of different types of bond concepts in Africa (Eurobonds, diaspora bonds, social bonds, green bonds) as well as their issuance by several countries in recent years (Ghana, Cote d'Ivoire, Benin, Senegal for the Eurobonds recently). This has now been linked to the issue of government debt management as many countries are facing solvency risk. The characteristics of many countries' financial systems play a critical role in the development of a government securities market.

**The extent to which the market institutions and capital structure in Africa are mature enough for efficient government securities markets remains a question.** Domestic banks' in generating enough investment to ensure competitiveness and low transaction costs, the development of secondary markets, investor confidence to lower interest rates for borrowers, and the structured organization of government agencies that issue securities are all

persistent challenges. A well-developed domestic bond market offers a wide range of opportunities for financing both the government and the private sector, with the government bond market typically creating opportunities for other issuers. Depending on the availability of alternative channels for the public and the private sectors, the size of the economy, and the maturity of the financial sector, better options could include private placements of securities, the growth of retail markets, or even regional solutions.

**Significant prospects appear to be emerging in "sustainable finance"**, which is a growing field that originated with the introduction of 'green' financial instruments by the EIB in 2007 and the World Bank in 2008. Though still small in market share relative to the global volume of bonds, funds, and other securities – 'green' bonds, for example, accounted for only 0.0079% of global bonds markets in 2018 – sustainable finance instruments are part of a growing industry with an estimated total value of **\$258.9 billion in 2019**, up from 171.2 billion in 2018 within the green bond sector alone.<sup>9</sup> While green bonds were the first form of 'sustainable finance' and still

9 Climate Bonds Initiative, 2019 Green Bond Market Summary, (February 2020), available in: [2019\\_annual\\_highlights-final.pdf \(matebonds.net\)](#)

lead sustainable finance in terms of market volume, there has been a proliferation of sustainable finance instruments ranging from social, sustainability and sustainability-linked bonds as well as Environmental, Social, and Governance (ESG) labelled funds, to even more recent or emerging 'transition' and 'blue' instruments. These proliferating frameworks now encompass a vast range of financial instruments (bonds, funds, equity, etc.), market actors (regulators, financial service associations, banks, stock exchanges, etc.), processes and regulations, standards and labels, and third-party verification mechanisms. To give an overview of this growing financial industry, taxonomies spanning from green, social, blue, transition, sustainable, and sustainability-linked bonds to ESG funds and, more recently, equity based on a company's adherence to impact standards have crystallized over time. Given the sustainable finance industry's fledgling stage, there could be another opportunity for Africa to surge ahead of current market trends and trajectories.

To reshape Africa's development financing models, robust, transparent, and accountable institutions must be built to combat money laundering through IFFs and effective governance that fight corruption. This should be backed up by strong human capacity capabilities, a favourable investment climate to attract FDI and effective government leadership to reposition Africa in the international financial system.

**The current global debate on Special Drawing Rights (SDRs)** sparked by the Paris Summit on Financing of African Economies declaration (18 May 2021) following the unprecedented general allocation of IMF's **\$ 650 billion SDRs**

**in August 2021** has brought to light the issue of Africa's position in the international financing system.

**H.E. Mr Nicolas Kazadi, Minister of Finance, Democratic Republic of Congo (DRC)**, noted that the new SDR allocation is innovative and should be leveraged by African countries to fund recovery efforts. While it is unprecedented, in the context of global shocks and pandemics, the new SDRs distribution procedures raise concerns of fairness and equity in the global financial architecture.

The unequal playing field in the global financial system, which has historically harmed Africa, is blamed for imbalance in resource allocation or access to financing mechanism. There is no doubt that African countries, including their resources, have a lot to offer at the international level. However, Africa has to earn its place in the global governance architecture by re-positioning itself through regional trade, manufacturing, industrialisation and building its competitiveness.

International players and development institutions need to address the issue of equity in financing. It advocates for equitable, fair, and responsive development financing solutions to global concerns, particularly in times of crises and pandemics. This entails reforms in the global financial architecture in the direction of more responsive frameworks that take into account the unique circumstances of developing countries.

Managing SDR, on the other hand, is critical at the national level. The efficient and effective administration of SDRs resources will be based on good economic governance practices, particularly public financial management.

**As Mr Masood Ahmed, the President, Centre for Global Development,** highlighted that Africa needs to:

**1. Boosting concessional lending:** SDRs are important to the recovery efforts of low-income countries and the need to advocate for concessional lending as a long-term financing strategy is necessary. In the current SDR allocation, low-income countries are the most disadvantaged, receiving a disproportionate share of \$6.5 billion based on their quota. As technical discussions regarding terms and conditions for the SDR mechanism, including allocations to multilateral development banks (MDBs), are still ongoing and will take some time, about \$30 billion has been allocated to the new Resilience and Sustainability Trust to provide financing for the PRGT eligible countries in Africa and middle-income countries on longer maturity or concessional long-term investments needed to support structural changes in these economies.

**2. Maintain higher forms of concessional lending for LICs:** Given their restricted participation in financial markets, official lending, including concessional loans, remains the primary source of financing for low-income countries (LICs). IMF's PRGT facility provides much more funding for eligible LICs than the SDRs allocations (about \$25 billion). Rather than returning to the lower levels of funding facilities before the pandemic, further advocacy efforts for concessional financing from MDBs are needed over the next few years at heightened levels of 2020 and 2021. Since the pandemic is still ongoing, more robust and sustained advocacy from Africa and other regions for MDB financing is still needed.

**3. Additional Innovative financing mechanisms:** In the future years, Middle-Income Countries (MICs) will have to deal with a looming uncertainty in the financial markets with anticipated high-interest rates and increased debt. This calls for more innovative financing instruments to enable African countries to access alternative sources. MDBs should create and strengthen alternative financing mechanisms. The latest Liquidity Support Facility including the G-20's Debt Service Standstill Initiative, will go a long way but it must be sustained. MDBs must act as catalysts for private finance inflows to the continent and make this a priority going forward. MDBs have not performed well in channelling private finance to Africa.

**4. Minimise tax exemptions to boost domestic resource mobilisation:** Domestic resources will supply the majority of financing for African countries and are currently top priority for Ministers of finance. Many governments must consider lowering tax expenditures or tax deductions standards. Most countries give away a lot of money through exemptions averaging 3% of GDP and 20-30% of tax debt. These exemptions are frequently regressive, non-transparent, and unfair in allocation. Countries must examine tax exemptions in details, including specifically costing them as budget items to raise awareness and understanding of their budgetary implications. In this regard, development partners were urged to set a better practice on the issue of tax exemptions. The ECA is currently working on a study on tax exemptions to be finalised in 2022.

As highlighted by **Dr Gillian Marcelle, Resilience Capital Ventures**, the debate on financing Africa's post-COVID recovery is one-sided, focusing mainly on macro-economic issues and not the micro-level. The disconnection concerns three main areas:

**Information asymmetries:** The pandemic has amplified the disconnect between the macro and micro level information. There is a gap in the narrative from the successes during the pandemic. Africa's technology entrepreneurs attracted more financing than other regions during 2020/21. In 2021 alone, about \$2 billion were invested in the continent as a technology investment. Men under 30 years old dominate the continent's technology entrepreneurship landscape, underscoring a gender gap in this burgeoning field. Africa's telecom companies, which have shaped the digital revolution in the region, are the best example of digitalisation. The telecom industry provides the best example of successful organic, home-grown digitalisation, yet it is unfortunately missing in policy discussions.

- 1.** Contrary to popular belief on digitalisation, private telecom companies did not wait for a favourable policy environment or leapfrog to shape the industry, but instead used innovation. Africa has the most innovative mobile payment infrastructure globally, led by Nigeria and Kenya. To keep the narrative balanced; this and other stories must be included in the discussion.
- 2. Perceptions of the continent:** The way technocrats see Africa is not taking into account the reality on the ground. It is necessary to connect the gap between the technocrats and facts.

**3. The definitional disconnect:** Regarding blended financing, there is a gap between existing definitions which do not consider the African context. Development partners and international players have set a restrictive definition of blended finance, disregarding other forms of capital (the knowledge and social capital) to the continent's development trajectory and post-Covid recovery efforts.

#### What should be done?

- **Redefinition of blended finance for the African context:** Africa must assume responsibility for managing its finances, investments, and macroeconomics in accordance with its national interests and priorities. There is a need to change how Africa engages with its development partners. If Africa accepts the external definitions of blended finance, there will be insufficient progress in crowding in private finance. Critical issues have been overlooked by definitions from outside the continent. They do not consider the forms of capital (other than financial capital) that are very important to Africa's development context—the knowledge capital and social capital need to be sequenced first in blended finance to meet recovery needs. Blended finance and de-risking measures are critical to Africa's financial recovery and sustainable development.
- **Building a financial and investment ecosystem that speaks to Africa's realities:** Africa's financing and investment ecosystems challenges cannot be solved by finance but through investing in social capital to establish responsive ecosystems. The perceived risks and actual threats by global

financial architecture on the continent are missing the ground realities.

- **Ownership of financing initiatives:** Ensure that domestic financial operators are included in Africa's international financing deals. Africa should be on the table when it comes to structuring its financing facilities.
- **Building domestic financing capabilities:** Domestic currency financing is important but needs to draw on the expertise and knowledge within Africa, including relevant stakeholders, academics, and think tanks policymakers, to build on domestic financial capabilities.

From an entrepreneurial perspective, Africa's challenges are building its markets **as stated by Mr Samba Bathily, CEO of Africa Development Solutions Group.**

With a population of over 1.2 billion people, Africa offers one of the most significant prospects. For example, if Africans wore more African made textile, the textile industry would grow exponentially. The challenge is not the lack of resources or legal frameworks but rather the need for a

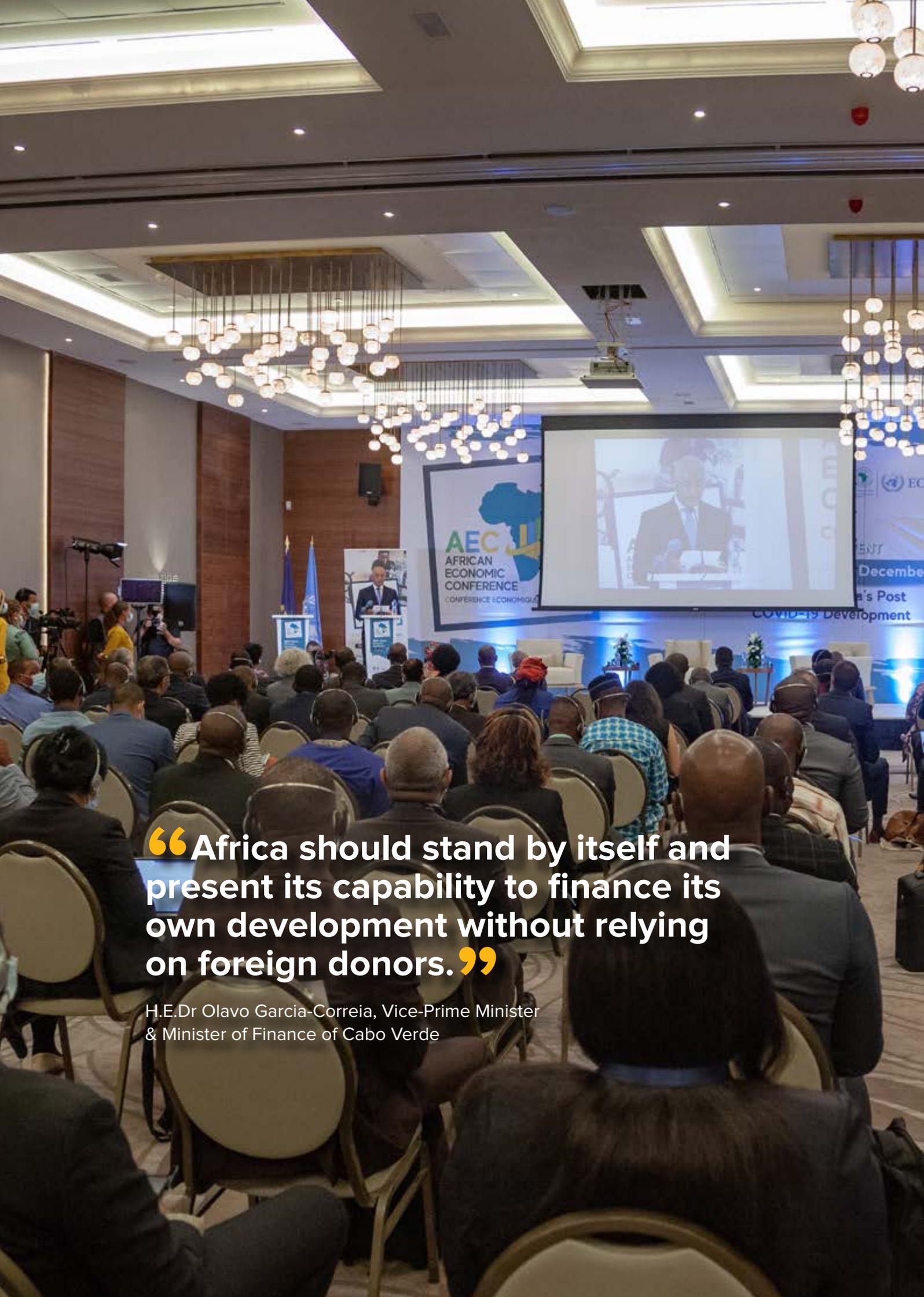
shift in mind-set. The AfCFTA is available as a legal instrument to facilitate trading, but it will only bring dividends if there is a shift in mind-set.

**Africa must take control of its economic and financial flows** to enhance its international position, as highlighted by **Ms Cristina Duarte, UN Under-Secretary-General and Special Adviser on Africa.**

**Ms Usha Rao-Monari, Associate Administrator of United Nations Development Programme,** pointed out, that the role of International Financial Institutions (IFIs) is key in this debate. At the national and sub-national levels, IFIs and other international organisations must be trusted government partners. And what this entails is being close and understand their development needs as well as how to provide resources to meet those needs.

Non-traditional players, such as the private sector, are also important in bringing stability and improving risk management. This entails creating a conducive environment that ensures stability for both traditional and non-traditional players.





**“Africa should stand by itself and present its capability to finance its own development without relying on foreign donors.”**

H.E.Dr Olavo Garcia-Correia, Vice-Prime Minister  
& Minister of Finance of Cabo Verde

