Financing Africa

Where is the money?

MO IBRAHIM FOUNDATION

FORUM REPORT, JUNE 2024

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Foreword by Mo Ibrahim

Founder and Chair of the Mo Ibrahim Foundation (MIF)

The World Bank's latest Global Economic Prospects report, published 11th June 2024, provides a sobering assessment. According to it, global economic growth will stabilize in 2024 for the first time in three years, but at a pace insufficient for progress on development goals. In 2024, one in four developing economies is expected to remain poorer than it was on the eve of the pandemic in 2019. Nearly half of developing economies are expected to see their income gap with advanced economies widen over the course of 2020-2024—the highest proportion since the 1990s.

This is a recipe for more instability, within and between countries, and for more conflicts.

But the "global order" framework set in the aftermath of WW2 has become obsolete, and the system impaired. This is not any more about Marshall Plans, or "helping" to "sort out "a continent doomed by civil wars, gripping poverty, natural disasters, and diseases. Climate change, pandemics, wars, have become shared challenges, whatever the level of development achieved. We have become "partners in crisis".

What are the needs, when it comes to Africa?

Both the UN Agenda 2030 and the AU Agenda 2063 are far from being met, with key gaps in terms of health, food security, economic transformation and strong institutions. Assessing the financial needs to achieve the goals in due time reveals a complex picture marked by staggering numbers ranging from $900 billion to $1.3 trillion a year or higher.

Climate change exacerbates these challenges, with the continent facing an estimated annual GDP loss of up to $50 billion. Furthermore, mainly led by already developed countries, whose citizens all have had access to energy for a long time, the current global conversation on climate gives the priority to mitigation. This means that the needs for adaptation, which is Africa's priority, remain underestimated. And the needs for immediate access to energy for all are mostly overlooked.

To address these daunting challenges, where is the money?

What I hope this report will show, and I wish to warmly thank here all our external contributors, who all made the point, is that the money is there, but mainly stuck in pipes, or misused.

First, external resources.

They are substantial. But their accessibility and effective utilisation appears problematic. Official Development Assistance (ODA) constitutes nearly 10% of the continent's financial resources, but conditionalities and the focus of traditional donors often limit its impact. Debt has become an impossible option, as Africa's external debt has already tripled since 2009, and is compounded by a complex structure that renders traditional relief mechanisms obsolete. Foreign Direct Investment (FDI) and participation in global financial markets remain disproportionately low.

To move forward, a radical reboot of the current multilateral financial system is essential. This involves increasing concessionality, enhancing Africa's representation at decision-making level, boosting the agility, flexibility and innovation of lending institutions, updating approaches to risk assessment and mitigation, and effectively implementing the ever piling up global commitments.

Second, and most of all, domestic resources.

These too are substantial, but potentially only, as they are currently left dormant in the best of cases, but also too often misused. We are just squandering our own resources.

According to the African Union, the mobilisation of the continent's domestic resources is expected to cover up to 90% of the financing required for Agenda 2063. This means drying up illicit financial flows, strengthening tax systems- we cannot afford tax holidays for foreign companies-, leveraging remittances, sovereign funds, pension funds and private wealth, monetising Africa's green assets – biodiversity, critical minerals, carbon-sinking potential.

So, our conclusion is clear: the money is there.

What is needed is not further pledges, seldom implemented anyway. What is needed is not more money, but smarter money. What is needed is a paradigm shift. One that avoids any trade-off between climate and development. One that moves beyond the aid and charity model to a cooperative, deal- making one, trading resources - key commodities, workforce and markets – with expertise and information. One that puts, not the blame, but the responsibility, and ownership, on Africa.

Chapter 01.

Setting the scene: assessing the needs

Money is not the problem

David Ndii, Chair, President William Ruto's Council of Economic Advisors

Recent development experience suggests that economic take-off requires countries to reach and sustain an investment rate of 30 percent of GDP for two decades or more. Africa's investment and national savings rates are at 22 percent and 20 percent respectively. The 30 percent investment threshold vis a vis the 20 percent saving rate translates to a financing gap of 10 percent of GDP, which, applied to Africa's $3 trillion GDP works out to a baseline investment requirement of $300b a year.

Estimates of climate finance, though still highly uncertain, seem to converge on a requirement of $250b to $300b a year, another 8 to 10 percent of GDP. The two investment requirements are not additive—there is bound to be a fair amount of overlap, in energy for example. Still, these broad brush parameters still indicate a financing gap in the order of 15 percent of GDP, $450b per year.

From a global capital availability standpoint, this is not a large amount of money. It is just about 0.4 percent of the $120 trillion assets under management (AUM) in the hands of global institutional investors. A GDP proportionate share, a sum of $3.2 trillion, is equivalent to seven years of the baseline investment requirement. Since debuting in the sovereign bond markets in 2007, African countries have issued over $160b sovereign bonds. Three countries Cote d'Ivoire, Kenya and Benin raised $4.85b in arguably the most difficult market conditions since Africa's market entry into the bond markets.

Quite evidently, money is not the problem. What is? Two things, macroeconomic stability and public debt carrying capacity. Both speak to a solvency constraint.

First, the macroeconomics.

The savings-investment gap is much too large. In economic accounting terms, the savings-investment gap is the same thing as the current account balance. A 15 percent of GDP current account deficit on an ongoing basis is simply not financeable. Macroeconomic stability and debt sustainability puts a limit to how much of the investment gap can be sustainably financed externally at perhaps no more than 5 percent of GDP. This means that domestic savings have to contribute at least half of the financing gap.

The question of what public policy can do to raise domestic saving is not a straightforward one both in theory and practice. It is helpful to approach the question of by disaggregating it to three components, namely household, corporate and public savings.

Household saving depends on structural variables, income and demographic dynamics primarily, that evolve slowly. That said, **a pension schemes development** is one of the areas that public policy can help mobilize household savings. Africa's pension coverage is very low with only 10 percent of the population, reflecting to a large extent the predominance of informal economy on the one hand, and a pension scheme system that is built around payroll deductions. Devising a pensions scheme model that works for Africa's predominantly non-payrolled workforce is necessary not only to mobilize savings, but to prevent widespread old age poverty in the face of rapid urbanisation and attendant weakening of traditional kinship based systems of old age security.

Corporate saving refers to the portion of investment that is financed by retained earnings. This depends first on profitability and second, on the rate of return on potential investments— which is to say economic fundamentals and business environment broadly defined.

It is not easy to identify specific policy interventions distinct from general economic policy to raise it.

This leaves **public savings**. Public saving refers to the surplus of government revenues and recurrent spending, "consumption" if you like, which is to say, the portion of public investment financed by government revenues and surpluses of state owned enterprises. It is in effect the component of saving that is most amenable to public policy. Indeed, public savings played a key role in take-off stage of the Asian tigers' economic transformation. The East Asian tigers managed to maintain public saving rates above 6 percent of national income throughout the 70s and 80s, double the 3 percent average for developing countries as a whole. Notably, this public saving rate was out of revenue base of 18 percent of GDP which is comparable, in fact marginally lower, than the developing countries as whole (19 percent). This enabled the East Asian governments to finance most of their public capital from revenue, thereby minimizing foreign debt and crowding out of the private sector from domestic markets.

Let's turn to debt carrying capacity.

The public debt carrying capacity matters because investment in infrastructure and human capital needs are critical and still large, and these investments are necessary to crowd in private capital.

Average public debt of OECD countries is in the order of 120% of GDP compared to Africa's 60 percent. Notably the OECD average is between a third and three times the debt burden of the four African countries that have defaulted on the debt that they were carrying the year preceding default (Chad 41%, Ethiopia 47%, Ghana 79% and Zambia 92%).

Debt carrying capacity is a reflection of two factors primarily—the cost of borrowing, and the government's revenue base. The OECD countries have an average revenue of 34 percent of GDP. Debt service consumes 3.2 percent of revenues, which translates to an interest rate of 1.2 percent per year. If the OECD countries had African revenues of 15 percent of GDP, but were still paying interest at 1.2 percent, the debt service would consume 7.5 percent of revenues. If they had the same revenue base but paid 8 percent interest, the debt service would be consuming 21 percent of revenues. The combination of low revenue and high borrowing cost pushes debt service to 48 percent of revenue.

The self evident corollary here is that **unravelling the "the great financial divide", why poor countries pay 5 - 8 times more for credit on international markets than wealthy ones, is of essence**. There is much to be said for more concessional financing and novel climate financing instruments but these can only go so far. **The first best solution is to make markets work.**

Still a long way to go to implement Africa's development agendas

Progress is slow towards Africa's two key development frameworks – the UN's Agenda 2030 Sustainable Development Goals (SDGs) and the African Union's (AU) Agenda 2063. The conditions for an optimal realisation of these objectives are worsened by the cumulative impacts of climate change, the fallout from the COVID-19 pandemic, as well as the ongoing Russia-Ukraine and the Israel-Gaza conflicts.

According to the 2023 UN Sustainable Development Report, at nearly two-thirds of the way to the UN SDGs' deadline of 2030, only two out of the 17 SDGs show significant progress in Africa (SDG 12 *Responsible Consumption and Production* and SDG 13 *Climate Action*), both of which are climate-related. The worst-performing goals – SDG 1 *No Poverty*, SDG 2 *Zero Hunger*, and SDG 3 *Good Health and Well-being* – are facing major obstacles, despite their crucial importance for Africa's development.

Similarly, on the road to the AU's Agenda 2063, Africa has made mixed progress. According to the New Partnership for Africa's Development (NEPAD) in 2022, at nearly the end of the First Ten-Year Implementation Plan (FTYIP), the average level of implementation for all 20 goals was 55%. Of these, the worst performing goals concern core priority areas for the continent's progress: Goal 4 *Transformed Economies* is the lowest performing goal, followed by Goal 1 *High Standard of Living* and then by Goal 12 *Capable Institutions and Transformative Leadership*.

While Agendas 2030 and 2063 are separate frameworks defined by different entities and timelines, both agendas overlap considerably in their objectives. According to the United Nations Economic Commission for Africa (UNECA), the degree of convergence between the SDGs and Agenda 2063's goals is 100.0% at Goal level, 69.8% at Target level and 67.2% at Indicator level. On the way to realising its sustainable development objectives, Africa still has a long way to go with its priority areas of economic transformation, governments' and financial institutions' capacities, climate-change preparedness and living standards.

SDG 1 *No Poverty*, SDG 2 *Zero Hunger* and SDG 3 *Good Health and Well-being* are the worst-performing SDGs in Africa

Estimates for the SGDs' financing gap in Africa range between \$194 billion to \$470 billion annually

Though highly variable, all figures point to substantial financial needs

According to UNECA in 2020, the gross financial needs for achieving the SDGs by 2030 in Africa are estimated at \$1.3 trillion. According to the Organisation for Economic Co-operation and Development (OECD) and the AU in 2023, the gross financial needs for achieving the SDGs by 2030 are estimated at nearly \$870 billion a year.

To meet these gross needs, ranging from \$870 billion to \$1.3 trillion a year, estimations of the available resources also vary. According to the AU-OECD figures, Africa's sources of financing amount to \$673 billion annually. According to MIF's own calculations, these amount to \$829.7 billion for the year 2022.

Consequently, the net financing gaps to meet Africa's needs range from about \$194 billion (according to AU-OECD) to about \$470 billion (utilising the UNECA's estimate of \$1.3 trillion of gross needs, and MIF's calculation of \$829.7 billion of available sources of finance).

> Financing for sustainable development is at a crossroads and without urgent investment, global efforts to achieve a more just and equitable world by 2030 will fail.
>
> *H.E. Amina J. Mohammed, Deputy Secretary-General, United Nations*

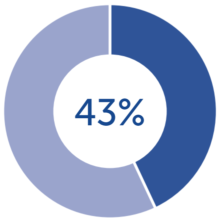
Africa: annual GDP & SDG gross financial needs and net gaps ($ billion) (latest year available)

Estimated annual SDG financing needs

$870 billion - $1.3 trillion

Share of Africa's GDP (3.0 trillion)

$1.3 tn =

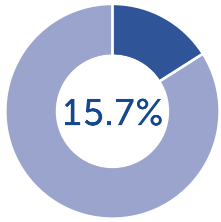


Estimated annual SDG financing gap

$194 billion - $470 billion

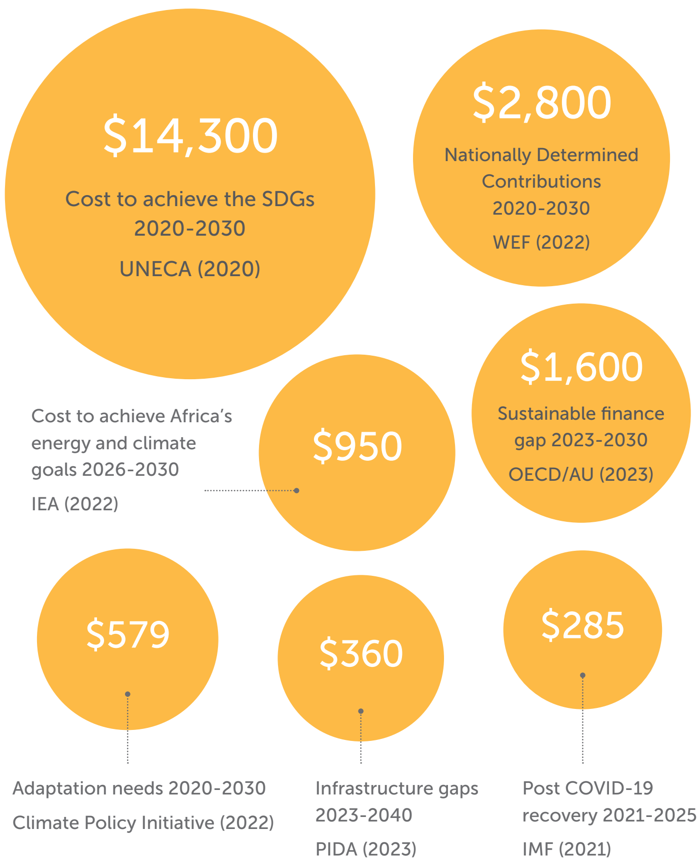
Share of Africa's GDP (3.0 trillion)

$470 bn =



Source: MIF based on AU-OECD, IMF & UNECA

Africa: estimated financial needs and gaps from various sources ($ billion) (2020-2040)



Source: MIF based on AUDA-NEPAD, UNECA, WEF, OECD, Climate Policy Initiative, PIDA, IMF, IEA & AfDB

Africa's annual net financial gap to achieve the SDGs in due time amounts to about 15.7% of the continent's GDP

"The SDGs illustrate aspirations and a shared vision but lack concrete financing mechanisms, representing a missed opportunity to create a more prosperous world.

Arkebe Oqubay, former Senior Minister and Special Adviser to the Prime Minister of Ethiopia

Note: The selection of figures presented aim at showing the diversity of financial needs estimates for the implementation of Africa's development and climate goals. There are likely overlaps between some of the figures.

Africa: estimated financial needs by SDG (latest data year)

Goal 1: No Poverty

According to the United Nations Development Programme (UNDP) in 2023, lifting 165 million people out of poverty worldwide living on less than $3.65 a day would cost around **$14 billion**.

Estimates to eradicate extreme poverty are are even higher, with **$175 billion** needed per year to eliminate all extreme poverty globally.

Goal 2: Zero Hunger

According to Africa Improved Foods (AIF) in 2019, to eradicate hunger in Africa would cost approximately **$5 billion**.

According to the World Meteorological Organization (WMO) in 2023, food imports by African countries are expected to increase by approximately three times from $35 billion to $110 billion by 2025.

According to the Commercial Agriculture for Smallholders and Agribusiness in 2022, there is an agricultural funding gap of $74.5 billion for agricultural small and medium-sized enterprises (SMEs) in sub-Saharan Africa.

Goal 3: Good Health and Well-being

According to UNECA in 2019, Africa faces a financing gap of **$66 billion** per year to meet growing healthcare financing needs and rising healthcare demands.

According to the IMF in 2021, between 2021-2025, additional financing to all African countries of around $285 billion was needed to step up the spending response in the aftermath of the COVID-19 pandemic.

Goal 4: Quality Education

According to the United Nations Educational, Scientific and Cultural Organization (UNESCO) in 2023, the annual average financing gap for education between 2023 and 2030 is estimated to be **$97 billion** for all low- and lower-middle-income countries. African countries account for $70 billion per year on average.

Goal 5: Gender Equality

According to the UNDP in 2016, gender inequality is costing Africa approximately **$95 billion** per year.

According to the African Development Bank (AfDB), bridging the gender financing gap for women-led enterprises would cost $42 billion.

Goal 6: Clean Water and Sanitation

According to the AU in 2023, approximately **$50 billion** per year is needed to achieve water security in Africa by 2030.

Goal 7: Affordable and Clean Energy

According to the International Institute for Sustainable Development (IISD) in 2021, an additional **$73 billion** on average per year is needed to achieve affordable and clean energy in Africa.

According to the International Energy Agency (IEA) in 2023, it will cost **$950 billion** between 2026-2030 for African countries to achieve all their energy-related development goals, including universal access to energy.

Goal 8: Decent Work and Economic Growth

According to the OECD in 2014, **$13.5 billion** is needed to eradicate modern slavery worldwide.

Goal 9: Industry, Innovation and Infrastructure

According to the AfDB in 2022, the continent's infrastructure financing needs are around **$170 billion** a year up to 2030. Solving Africa's housing backlog will require $200 billion over ten years over the same period.

According to UNECA in 2020, Africa's ICT funding needs are around $4-7 billion annually.

Goal 10: Reduced Inequality

According to the UN in 2023, to boost social protection schemes and expand old-age pensions across all low-income countries would cost approximately 1.6% of GDP or **$49.6 billion**.

Goal 11: Sustainable Cities and Communities

According to UN Habitat in 2020, in developing countries globally, each small city may require $20-50 million per year, each medium-sized city **$140 million to over $500 million**, and each large developing city $600 million to over $5 billion per year.

Goal 12: Responsible Consumption and Production

According to the United Nations Environment Programme (UNEP) in 2022, Africa would need between **$6 and $42 billion** in the short term and up to $125 billion by 2040 to roll out large-scale recycling and recovery technology to reduce waste.

Goal 13: Climate Action

According to the AU and Climate Policy Initiative (CPI) in 2023, Africa may need as much as **$1.7 trillion** for climate adaptation from 2023 to 2035.

According to UNECA in 2020, between $18 billion and $30 billion will be needed annually over the next two decades to mitigate and adapt to climate change in Africa, with nearly $1 trillion in investments and projects ready to be financed.

Goal 14: Life Below Water

According to UNCTAD in 2019, **$175 billion** per year is needed worldwide to achieve SDG 14 by 2030.

Goal 15: Life on Land

According to the World Economic Forum (WEF) 2023, biodiversity needs worldwide amount to approximately **$300 billion**. This would serve SDGs 13, 14 and 15.

Goal 16: Peace, Justice and Strong Institutions

According to the OECD and the IISD in 2020, the funding gap for data capacity related to strong institutions stands at approximately **$200 million** per year.

According to the new Finance for Peace Initiative and Interpeace, peacebuilding programmes are estimated between $1.6-$2 million over 18 months.

Goal 17: Partnerships to achieve the Goal

According to the UN in 2023, the estimated funding requirement for uninterrupted implementation of the African Continental Free Trade Area (AfCFTA) is at **$10 billion** over the next six to ten years.

Infrastructure development in Africa: $360 billion needed by 2040 under the Programme for Infrastructure Development in Africa (PIDA)

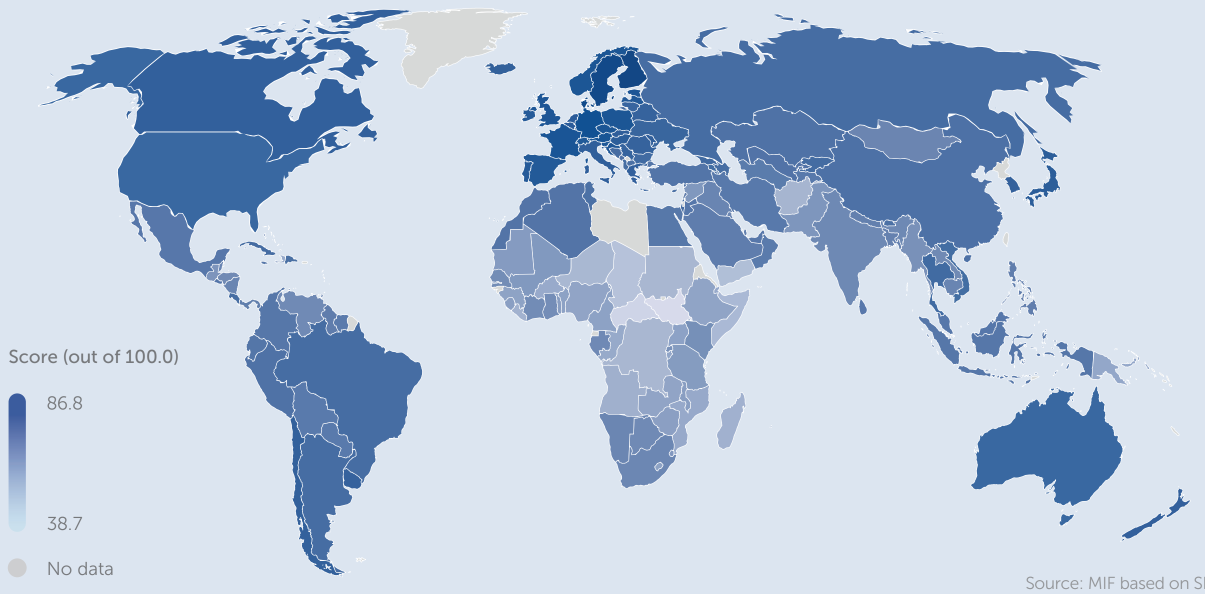
Designed and agreed by the AU in 2012, PIDA is a joint initiative of the African Union Commission (AUC), the New Partnership for Africa's Development Planning and Coordination Agency (NPCA), and the African Development Bank (AfDB). PIDA aims to advance important infrastructure projects in Africa and is crucial for increased regional trade, integration, and the realisation of Africa's long-term vision outlined in Agenda 2063 and the AfCFTA.

The total estimated cost of implementing all the projects identified in PIDA to address projected infrastructure needs by 2040 is $360 billion. Currently in its Second Priority Action Plan (PIDA PAP 2), projects focus on transnational transport corridors and telecommunications networks to improve regional integration.

The UN's SDGs: where do we stand two-thirds through to 2030?

In 2015, building on the Millenium Development Goals (MDGs), the UN adopted Agenda 2030 and laid out the roadmap for its implementation based on 17 SDGs over a 15-year time period.

World countries: SDG Index overall score (2023)



Source: MIF based on SDSN

Two thirds of the way to 2030, more progress is needed for Africa to reach the SDG deadline

According to the 2023 Sustainable Development Report, only six of the 17 SDGs have been met by at least one African country.

Of these six, the two best performing SDGs are climate-related: SDG 13 *Climate Action* and SDG 12 *Responsible Consumption and Production*, with 34 and 30 out of 54 countries already achieving them respectively.

- SDG 13 *Climate Action*: 34 countries achieved
- SDG 12 *Responsible Consumption and Production*: 30 countries achieved

The remaining four SDGs have already been met by at least one country:

- SDG 1 *No Poverty*: Algeria, Mauritius, Tunisia
- SDG 4 *Quality Education*: Seychelles
- SDG 5 *Gender Equality*: Namibia
- SDG 10 *Reduced Inequalities*: Algeria

18 countries in sub-Saharan Africa are, on average, less than halfway towards meeting the expected outcomes on all SDGs

“

At our current rates, we estimate some 600 million people will still be living in extreme poverty beyond 2030. Finance is the crux of the problem.

H.E. Amina J. Mohammed, Deputy Secretary-General, United Nations

However, crucial development-related SDGs have not been met by any country, with most facing major challenges.

- SDG 2 *No Hunger* and SDG 3 *Good Health and Well-being*: 50 out of 54 countries are classified as “facing major challenges”, and the remaining 4 countries are classified as “facing significant challenges”.
- Despite this, few other countries outside of Africa are performing any better. It is not just African countries that are failing to reach SDG 2, with both the UK and the US classed as "facing major challenges".
- Further, the lack of intersectionality within the SDG methodology means that the data presents interesting challenges. For example, countries like Algeria which have achieved SDG 1 *No Poverty* are still facing major challenges in SDG 2 *No Hunger*.

All 54 African countries are classified as facing either major or significant challenges to achieving SDG 2 *No Hunger* and SDG 3 *Good Health and Well-being*

Is progress towards development-related SDGs ruling out progress in climate-related SDGs?

The table overleaf showing the performance of each African country across the 17 SDGs highlights the complex relationship between development and climate goals on the continent. Countries with lower levels of economic development produce lower emissions and therefore register a good performance in climate-related SDGs. However, as soon as countries progress in their levels of socio-economic development, performance in climate-related indicators drops, indicating the need to better reconcile climate and development goals. This demonstrates the difficulty for any country to achieve all of the SDGs simultaneously.

Indeed, the majority of African countries have already achieved SDG 13 *Climate Action*, the highest proportion compared to other world regions. These countries simultaneously face major challenges in human or socio-economic development indicators.

On the other hand, the African countries that have achieved some of the human or socio-economic development indicators are the only ones facing challenges in the climate-related indicators. For instance, Algeria, Tunisia and Mauritius are the only African countries to have achieved SDG 1 *No Poverty*. However, they are all classified as facing challenges in SDGs 12 and 13.

This trend also occurs in other world regions: while most African countries have achieved SDG 13 *Climate Action*, no EU country, nor the US or Canada have done so. Almost 90% of EU and North American countries are facing major challenges in achieving SDG 13 and none are on track for achievement. At the same time, these regions are scoring among the highest when it comes to socio-economic development indicators.

African countries: SDG Index scores by goal (2023)

* Country names are organised in alphabetical order based on their full names as in the latest version of the AU Handbook.

Country	SDG1: No Poverty	SDG2: No Hunger	SDG3: Good Health and Well-Being	SDG4: Quality Education	SDG5: Gender Equality	SDG6: Clean Water and Sanitation	SDG7: Affordable and Clean Energy	SDG8: Decent Work and Economic Growth
Algeria	97.7	57.6	77.3	70.1	41.0	58.0	65.5	67.5
Angola	33.2	54.8	35.2	44.6	49.7	54.3	43.6	59.0
Benin	57.2	65.4	42.0	57.3	34.2	49.4	11.8	76.0
Botswana	64.8	45.1	51.3	65.8	69.4	68.1	48.8	64.0
Burkina Faso	26.9	58.6	46.6	26.7	40.7	44.8	21.1	70.2
Burundi	0.0	59.5	48.5	50.2	60.5	55.2	19.3	55.0
Cabo Verde	84.9	45.0	75.5	79.2	76.2	67.4	61.9	58.7
Cameroon	50.6	61.3	39.8	49.2	56.0	56.0	49.1	68.8
Central African Republic	3.2	36.5	13.0	19.3	34.2	40.4	19.4	53.4
Chad	25.4	38.5	27.1	13.3	30.8	42.4	8.7	64.4
Comoros	51.8	45.2	55.3	39.4	33.9	49.0	39.2	43.5
Congo Republic	24.0	53.2	45.6	47.3	54.8	52.0	44.1	54.2
Côte d'Ivoire	73.7	65.4	43.1	53.2	50.7	55.2	47.2	76.4
DR Congo	8.2	51.7	34.2	42.7	43.2	43.2	28.9	60.5
Djibouti	64.7	53.0	50.9	24.3	39.3	57.7	16.7	53.6
Egypt	88.0	65.3	69.4	67.9	57.7	65.1	69.9	64.9
Equatorial Guinea								
Eritrea								
Eswatini	33.7	50.4	35.7	74.2	70.0	50.5	70.5	44.8
Ethiopia	48.8	53.7	46.5	31.7	59.7	38.7	34.1	66.1
Gabon	88.7	51.6	50.5	60.8	45.2	61.4	85.1	66.6
Gambia	59.4	47.6	48.6	51.5	43.1	59.9	30.4	65.7
Ghana	54.4	70.8	52.8	84.5	54.9	57.7	50.9	76.4
Guinea	60.5	58.2	32.3	33.4	28.0	51.7	27.7	67.8
Guinea-Bissau								
Kenya	49.4	58.5	51.0	71.1	70.0	46.7	41.5	75.7
Lesotho	36.7	49.2	24.3	51.1	74.8	49.7	26.2	46.5
Liberia	26.4	47.8	32.8	37.1	44.1	53.0	13.3	66.4
Libya								
Madagascar	4.2	53.5	32.9	54.5	68.1	44.9	36.6	64.7
Malawi	0.0	61.7	49.7	52.8	70.1	52.5	42.0	67.3
Mali	44.4	59.3	40.7	10.6	60.1	61.7	34.5	72.2
Mauritania	77.0	42.6	51.8	47.0	38.7	58.2	37.6	50.4
Mauritius	98.0	71.5	75.2	83.5	52.3	71.1	70.3	74.6
Morocco	90.4	64.7	73.1	78.6	43.8	63.5	70.0	69.1
Mozambique	3.2	54.3	31.7	55.1	65.0	54.7	35.6	66.9
Namibia	61.1	49.9	49.9	83.7	87.6	56.0	46.2	64.0
Niger	12.8	45.3	37.6	3.0	43.7	43.3	10.9	67.6
Nigeria	49.9	61.1	36.2	38.8	39.2	59.7	25.0	66.6
Rwanda	23.5	63.0	59.0	61.3	77.2	57.8	33.7	69.1
São Tomé and Príncipe	48.2	60.7	63.6	69.1	51.4	51.4	38.8	48.6
Senegal	67.9	61.8	57.8	31.7	44.3	64.8	41.1	78.7
Seychelles								
Sierra Leone	49.1	56.7	36.6	50.3	46.6	49.1	16.5	67.1
Somalia	11.3	27.3	17.9	55.6	25.9	49.3	43.3	55.7
South Africa	51.7	56.8	57.0	76.6	76.8	62.4	59.7	69.8
South Sudan	0.0	19.8	23.9	1.2	56.0	41.0	11.4	50.9
Sudan	32.5	21.9	51.9	31.8	42.6	32.6	55.1	44.2
Togo	31.4	61.0	45.7	80.1	42.4	50.9	27.2	70.7
Tunisia	97.9	61.5	78.9	93.1	51.0	63.9	70.2	62.5
Uganda	25.4	66.7	49.3	40.8	67.8	47.4	38.2	69.3
Tanzania*	25.6	61.0	46.2	48.7	70.8	51.7	34.3	73.3
Zambia	9.9	59.5	45.6	66.7	65.1	52.9	44.7	65.1
Zimbabwe	21.5	48.5	41.9	62.5	77.2	51.1	41.6	63.2

Note: Only countries having data for at least 80% of the indicators are included in the Global Index ranking and scores. The regional average value is imputed for countries that are missing a score for one entire goal.

Source: MIF based on SDSN

SDG9: Industry, Innovation and Infrastructure	SDG10: Reduced Inequalities	SDG11: Sustainable Cities and Communities	SDG12: Responsible Consumption and Production	SDG13: Climate Action	SDG14: Life Below Water	SDG15: Life on Land	SDG16: Peace, Justice and Strong Institutions	SDG17: Partnerships for the Goals
53.9	97.0	62.6	89.2	88.6	64.8	67.1	65.3	81.1
13.7	16.5	43.2	94.1	96.3	67.4	66.3	41.6	50.4
25.9	62.0	39.1	96.9	97.8	60.0	66.4	46.0	49.6
53.5	13.7	76.2	84.6	89.3		74.4	62.4	68.8
21.9	22.1	60.5	95.6	98.8		87.9	45.5	57.2
12.1	58.4	60.0	96.6	99.8		72.2	50.7	52.2
41.0	41.6	79.5	81.3	97.1	57.0	71.6	79.3	73.0
29.4	23.1	42.4	96.4	98.1	73.7	63.5	36.2	43.7
7.1	9.6	21.9	94.5	99.5		89.7	42.3	36.5
9.6	63.0	32.8	91.0	99.1		76.2	29.4	52.6
21.7	25.6	52.1	95.8	99.1	43.1	71.2	52.5	61.1
8.1	19.9	51.2	95.3	92.2	72.0	83.5	48.2	49.1
33.2	64.1	50.4	95.7	97.8	79.3	72.9	52.8	47.1
14.4	43.0	35.7	97.7	99.6	77.9	69.8	36.2	39.3
36.5	44.4	71.0	87.8	90.6	57.6	37.6	56.5	53.2
57.9	83.9	68.5	91.2	95.1	51.5	68.3	60.1	58.8
40.9	11.8	86.8	85.3	97.5		50.6	53.7	60.8
26.3	71.7	48.0	98.8	98.2		57.8	34.7	46.1
36.2	61.8	54.7	83.6	89.9	65.8	83.2	40.3	47.3
24.6	69.1	54.9	96.2	99.0	63.7	83.0	47.7	46.6
46.8	35.2	48.9	95.4	96.6	44.9	69.4	65.0	46.0
13.3	91.8	52.7	96.5	98.4	57.8	69.0	39.0	55.0
39.2	49.5	55.6	94.7	98.4	69.8	58.7	51.1	54.5
26.4	27.5	66.2	98.6	97.5		74.2	45.9	71.7
11.6	72.1	29.8	96.1	98.8	83.5	48.2	41.0	45.9
10.3	40.2	53.0	96.7	99.4	65.9	49.5	37.4	42.6
20.3	58.5	58.2	97.9	99.6		60.4	51.5	48.5
21.2	68.9	60.0	94.5	99.0		86.8	55.1	50.4
25.6	81.8	45.1	90.7	97.2	71.5	51.1	51.0	55.6
51.8	65.3	87.7	74.4	91.4	49.0	27.4	60.8	51.2
55.1	53.9	76.2	91.3	94.2	71.9	76.7	62.3	70.2
14.1	12.7	62.8	97.9	98.3	72.0	63.1	47.6	60.9
38.4	5.5	65.2	83.7	91.2	79.4	89.9	64.4	76.7
11.3	63.2	46.2	96.2	99.5		73.8	49.0	51.7
40.6	72.8	29.4	95.6	96.7	62.1	76.4	34.7	37.9
30.2	34.9	57.3	94.7	99.3		67.3	68.0	60.9
29.9	48.3	71.1	95.8	98.5	79.9	81.1	78.0	52.1
36.9	60.3	63.6	95.0	97.6	68.4	66.3	54.0	60.9
14.2	69.7	38.0	97.8	99.3	78.5	63.7	53.3	59.7
5.6	73.8	69.4	94.1	99.9	50.3	53.4	40.0	43.7
70.8	0.0	80.5	84.4	82.7	70.9	57.8	55.1	75.2
1.7	26.6	13.8	91.0	99.4		74.7	38.1	41.6
15.4	75.0	34.8	97.3	99.1	61.7	49.2	43.8	36.3
23.1	41.6	44.5	96.3	98.9	70.9	77.7	42.4	51.6
55.9	80.8	65.4	86.7	93.1	63.3	70.9	60.6	76.7
30.3	39.7	43.3	96.3	99.4		64.1	42.8	48.2
27.2	50.4	59.8	95.3	99.1	69.8	59.6	42.9	50.5
20.2	8.3	58.1	94.9	98.0		68.4	44.1	54.9
27.0	24.0	65.7	94.5	94.3		77.9	40.5	47.8

The AU's Agenda 2063: assessing the first decade of progress (2014-2023)

The AU Agenda 2063 is the continent's strategic framework for transforming Africa from 2013 to 2063. It is organised around seven aspirations and 20 goals.

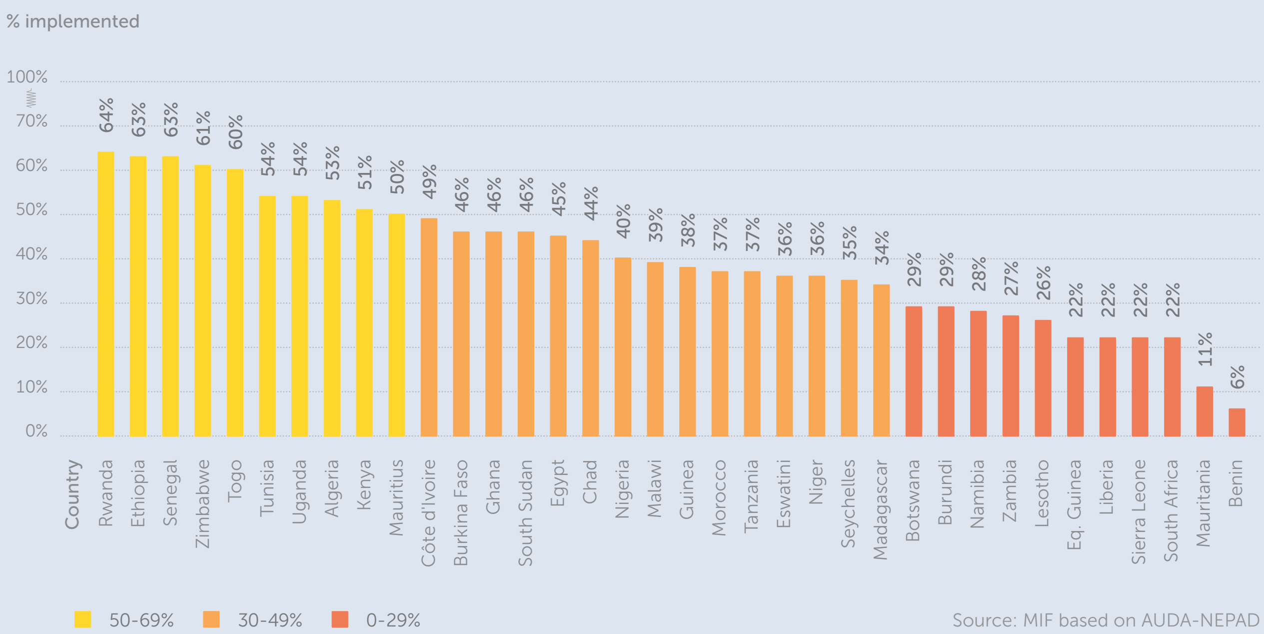
Agenda 2063 is divided into five Ten-Year Implementation Plans. The First Ten Year Implementation Plan (FTYIP) covered 2014-2023. In 2022, NEPAD produced the first assessment of the FTYIP presented at the February 2024 AU Summit.

AU Agenda 2063 – 20 Goals

1. A high standard of living, quality of life and well being for all citizens
2. Well educated citizens and skills revolution underpinned by science, technology and innovation
3. Healthy and well-nourished citizens
4. Transformed economies and job creation
5. Modern agriculture for increased productivity and production
6. Blue / ocean economy for accelerated economic growth
7. Environmentally sustainable and climate resilient economies and communities
8. United Africa (federal or confederate)
9. Key continental financial and monetary institutions are established and functional
10. World class infrastructure criss-crosses Africa
11. Democratic values, practices, universal principles of human rights, justice and the rule of law entrenched
12. Capable institutions and transformative leadership in place
13. Peace, security and stability is preserved
14. A stable and peaceful Africa
15. A fully functional and operational APSA
16. African cultural renaissance is pre-eminent
17. Full gender equality in all spheres of life
18. Engaged and empowered youth and children
19. Africa as a major partner in global affairs and peaceful co-existence
20. Africa takes full responsibility for financing her development

Source: MIF based on AU

Selected African countries: Agenda 2063 FTYIP implementation progress (2022)



Source: MIF based on AUDA-NEPAD

At the end of the FTYIP, at country level, only ten countries have been able to implement 50% or more of their goals, representing 23.8% of Africa's population in 2022: Rwanda (64%), Ethiopia (63%), Senegal (63%), Zimbabwe (61%), Togo (60%), Tunisia (54%), Uganda (54%), Algeria (53%), Kenya (51%) and Mauritius (50%).

At the other end, 11 countries have an implementation rate of 30% or less, representing 9.4% of Africa's population in 2022: Botswana (29%), Burundi (29%), Namibia (28%), Zambia (27%), Lesotho (26%), Equatorial Guinea (22%), Liberia (22%), Sierra Leone (22%), South Africa (22%), Mauritania (11%) and Benin (6%).

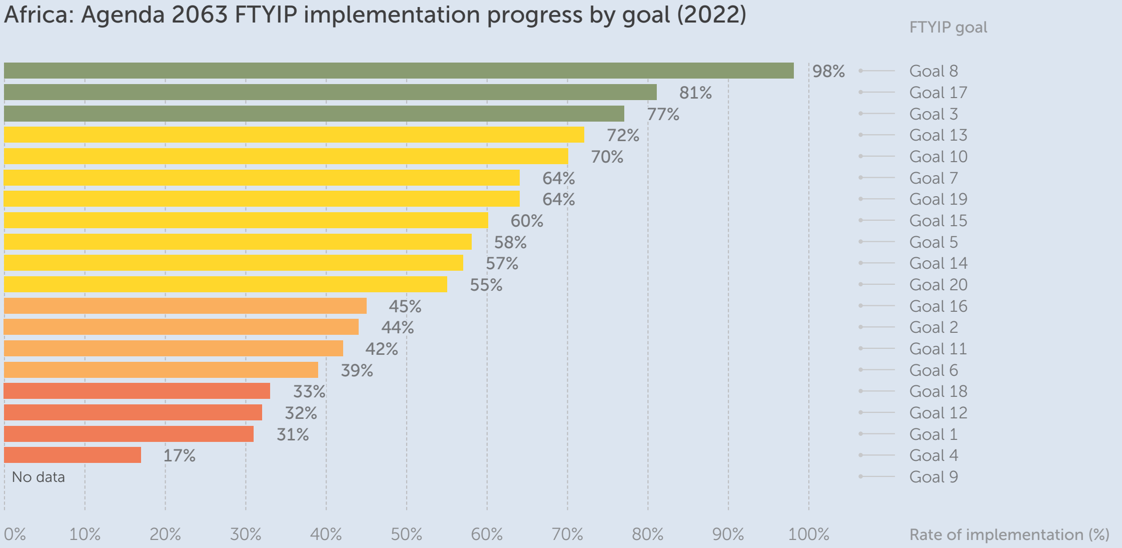
At goal level, only five out of the 20 goals are assessed as being more than 70% implemented: Goal 3 *Healthy and well-nourished citizens*, Goal 8 *United Africa (federal or confederate)*, Goal 10 *World class infrastructure criss-crosses Africa*, Goal 13 *Peace, security and stability is preserved*, and Goal 17 *Full gender equality in all spheres of life*.

Crucially, Goal 4 *Transformed economies and job creation* is assessed as only being 17% implemented, the worst performing goal out of the 20. This is critical, considering the key areas of this goal measure focus points for the continent's economic progress: sustainable and inclusive economic growth; manufacturing, industrialisation and value addition driven by Science, Technology and Innovation (STI); economic diversification and resilience; as well as hospitality/tourism.

Only 5 countries achieved 60% or more of Agenda 2063 first decade goals (FTYIP): Rwanda (64%), Ethiopia (63%), Senegal (63%), Zimbabwe (61%), Togo (60%)

11 African countries have not submitted any progress reports for Agenda 2063 first decade goals (FTYIP): (2014-2023)

Africa: Agenda 2063 FTYIP implementation progress by goal (2022)



Source: MIF based on AUDA-NEPAD

The three best performing Agenda 2063 goals are Goal 8 *United Africa (federal or confederate)*, Goal 17 *Full gender equality in all spheres of life*, and Goal 3 *Healthy and well-nourished citizens*.

The three worst performing Agenda 2063 goals are Goal 4 *Transformed economies*, Goal 1 *A high standard of living, quality of life and well being for all citizens*, Goal 12 *Capable institutions and transformative leadership in place*.

11 countries, including South Africa, have achieved less than 1/3 of Agenda 2063 first decade goals (FTYIP)

The Second Ten-Year Implementation Plan (STYIP)

In February 2024, the AU launched the Second Ten-Year Implementation Plan (STYIP) at the AU Summit, built around seven "moonshot" targets to be achieved over the next 10 years from 2024 to 2033 (the "Decade of Acceleration"). The targets, inspired by the aspirations of Agenda 2063, are as follows:

Moonshot	Objective	Goals
1	Every AU Member State attains at least middle-income status.	The focus will be on creating wealth, with an overall target of GDP per capita $3,048 achieved by each AU Member State. Key interventions will include industrialisation and value addition, boosting agriculture productivity and production and strengthening governance at all levels.
2	Africa is more integrated and connected.	The focus will be on infrastructure development and energy security, trade in goods and services and on connectivity, including internet access, IT, AI, road and air transport, among others.
3	Public institutions are more responsive.	This will include: placing a premium on respect for the rule of law, nurturing transformative leadership and building/strengthening responsive democracy over the next decade.
4	Africa resolves conflicts amicably.	This will entail strengthening surveillance and early warning mechanisms at all levels, strengthening social cohesion and respect for diversity and enhancing mechanisms for peaceful conflict resolution.
5	African culture and values are explicit and promoted.	The continent will articulate Africa's values and promote all development on African values.
6	African citizens are more empowered and more productive.	The continent will make deliberate efforts to transform education and health systems, enhance social protection measures, and equip its citizens with the requisite skills and resources to be able to drive Africa's development.
7	Africa is a strong and influential global player.	The continent will be intentional about Africa's representation at strategic global platforms, build African Common Positions on pertinent global matters, and play an active role in the governance of international institutions.

Source: MIF based on AU

CLIMATE: A COMPLEX FRAMEWORK, SEVERELY UNDERFUNDED

Africa's unique climate context

Africa is the continent least responsible for climate change and yet it is the most affected. Between 1850 and 2021, Africa was responsible for just 2.8% of global fossil fuel emissions, whereas the OECD countries along with Russia and China collectively account for over 75% of historic fossil fuel emissions.

Limited economic development has left African countries disproportionately lacking resilience to climate change. In 2021, the Notre Dame Global Adaptation Initiative (ND-GAIN), which considers vulnerability to climate in terms of economic development as well as country-specific geographic vulnerabilities, reported that seven of the ten most climate-vulnerable countries globally are in Africa.

In the short term, Africa will continue to produce very low emissions due to its limited economic development. However, building industrial economies with resilient energy and food systems, creating jobs, infrastructure networks, secure housing and generally advancing human development can be an emissions-laden process everywhere.

7 of the 10 most climate-vulnerable countries globally are in Africa

First, a loss of continental GDP, up to $50 billion annually by 2030

According to the AfDB (2022), Africa loses between $7-$15 billion annually due to climate change, and this figure is expected to rise to around $50 billion per year by 2030.

According to the OECD (2023), the combined macroeconomic effects of climate change could lower the continent's GDP by up to 3% by 2050. The UNEP estimates that the reduction in GDP per capita growth could be as high as 15% per year.

Further, the WMO predicts that annual food imports by African countries are expected to increase three times, in part due to the worsening effects of climate change, from $35 billion to $110 billion by 2025.

Climate change-induced GDP loss in Africa is due to food and water shortages, population displacement, droughts, floods, damage to crops and infrastructure, loss of harvest and agricultural revenue and natural disasters.

Selected figures for climate-related costs

Source	Area	$ Needs
UNECA/AfDB	Climate funding	Between $1.3-1.6 trillion between 2020-2030 to implement climate commitments and NDCs
High level expert group on climate finance COP27	Climate funding	$2 trillion a year needed in climate funding by 2030.
AfDB	Loss & damage	Estimates in Africa for Loss & damage between $290-440 billion between 2020-2030 depending on the level of warming.
African Union	Adaptation	$259-407 billion between 2020 and 2030 for adaptation in Africa.
Global Center for Adaptation	Adaptation	$1.7 trillion by 2035 for adaptation finance in Africa.
Climate Policy Initiative	NDCs	$2.8 trillion between 2020-2030 for Africa to fulfil its NDCs.
International Energy Agency	Energy access	$950 billion between 2026-2030 for African countries to achieve all their energy-related development goals.
World Economic Forum	Biodiversity needs	Biodiversity needs worldwide assessed at approximately $300 billion in 2023.

Between 2020-2030, to fulfil its NDCs Africa needs $2.8 trillion

The Paris Agreement is a legally binding international framework, created at COP21 in 2015. The agreement aims for a 50% reduction in emissions by 2030 and achieving net-zero emissions by 2050. It will periodically assess climate progress. It was signed by all 54 African countries, binding them to submit Intended Nationally Determined Contributions (INDCs) every five years outlining the steps and the financial needs to meet the Paris Agreement goals. The AU's objective is to align with the Paris Agreement.

In 2022, the Climate Policy Initiative (CPI) and the World Economic Forum (WEF) estimated that between 2020 and 2030, Africa will need $2.8 trillion to fulfil its NDCs under the Paris Agreement ($277 billion per year for the decade between 2020 and 2030).

As of 2024, all African countries except Libya have ratified their NDCs.

- Excluding Libya, all African countries have submitted their first NDC, outlining their plans to cut emissions and adapt to climate impacts.
- Of those, 46 have updated their first NDC.
- Gabon, Gambia, Madagascar and South Sudan have already submitted a second NDC to the registry.

African countries: NDCs recorded in registry maintained by the United Nations Framework Convention on Climate Change (UNFCCC) Secretariat (as of 20 February 2024)

First NDC

53 Countries - excluding Libya

First NDC Update 1

Of these, 44 countries submitted a first update of their First NDC: Algeria, Botswana, Côte d'Ivoire, Djibouti, Eritrea, Lesotho, Senegal and Sudan did not submit an update to their First NDC

First NDC Update 2

Of these 44 countries, Egypt and Namibia submitted a second update of their First NDC

Second NDC

Of the countries to have submitted a First NDC, Gabon, Gambia*, Madagascar* and South Sudan submitted a Second NDC

* Gambia and Madagascar did not submit updates to their First NDC submission.

Source: MIF based on UNFCCC

The Paris Agreement's NDCs

The Paris Agreement recognises that the long-term goals specified in its Articles 2 and 4.1 will be achieved over time and, therefore, builds on a ratcheting up of aggregate and individual ambition over time.

NDCs are submitted every five years to the UNFCCC secretariat. Successive NDCs are expected to provide a progression compared to the previous NDC to reflect the highest ambition.

Africa would need $2.8 trillion to fulfil its NDCs between 2020 and 2030

Adaptation vs mitigation: in Africa, adaptation should get the lion's share of climate finance

The limited economic development of African countries, with the accompanying challenges of food security, energy security, housing and infrastructure deficits, render populations more vulnerable and less resilient to the consequences of the climate crisis.

This generates a vicious cycle in which the effects of climate change and extreme weather events are more strongly felt due to already low resilience, while at the same time they further weaken adaptation and resilience capacities.

However, because the Paris Agreement goals focus on reducing emissions globally, NDCs tend to focus more on mitigation, even though these are not a short-term priority in the specific context of Africa.

According to CPI, mitigation accounts for the largest share of reported needs in 2020-2030 – $1.6 trillion – at 66% of total climate finance needs. Mitigation needs are predominantly split across four sectors: transport (58%), energy (24%), industry (7%), and agriculture, forestry, and other land use (AFOLU) (9%). Excluding South Africa (which accounts for most of the transport needs), the composition of mitigation needs per sector is energy (39%), AFOLU (27%), industry (20%), and transport (10%).

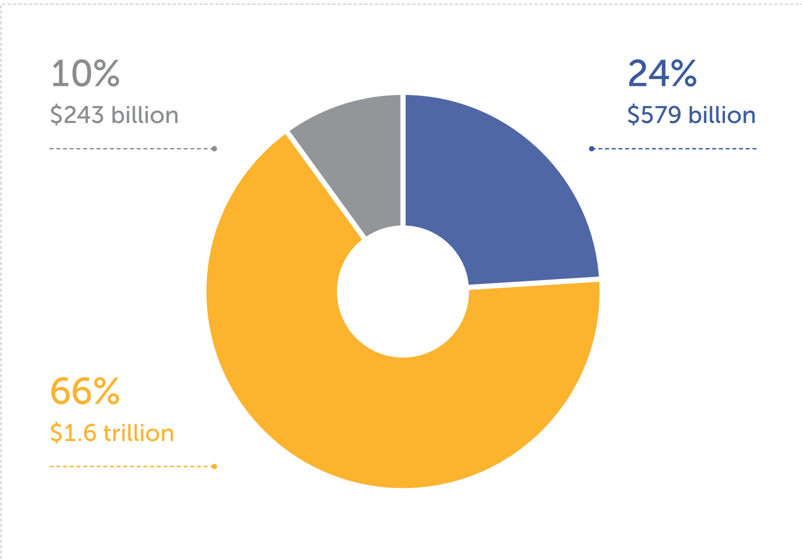
According to CPI in 2022, adaptation needs for sub-Saharan Africa were estimated at $579.2 billion between 2020 and 2030, more than in any other region, and accounting for only 24% of total climate finance needs identified.

NDCs tend to focus on mitigation measures, which are not a priority for Africa

Typical adaptation measures can include: building climate-resilient cities and infrastructure, securing water resources, improving crop production and protecting coastlines.

Typical mitigation measures can include: policies to reduce carbon emissions such as carbon taxes and cap-and-trade systems.

Africa: reported climate finance needs by type (2020-2030)



Finance type

- Adaptation
- Mitigation
- Dual benefits

Source: MIF based on CPI

According to Africa's NDCs and the Global Center on Adaptation (GCA), the continent requires $52.7 billion a year for adaptation. However, this is likely to be a significant underestimation as only half of the NDCs (28) calculate costs for adaptation, according to the GCA.

Indeed, further analysis of the NDCs from both Brookings in 2024 and CPI in 2022 agree that the adaptation finance needs for the continent per year are between $53-57 billion. However, both Brookings and CPI point out that these figures, which are based on Africa's NDCs, are highly likely to be significantly underestimated due to a lack of data and technical expertise to calculate true adaptation needs. Brookings argues that the annual cost for adaptation needs could be 100% higher, meaning the cost could be as high as $106 billion per year, based on their initial figure of $53 billion.

Further, at the current finance levels of around $30 billion per year, Africa will only mobilise $195 billion by 2035. With yearly adaptation finance estimates potentially as high as $106 billion, this amount would not even cover two years of adaptation costs at the upper estimation.

However, the Institute for Global Environmental Strategies (IGES) in 2023 estimates an even larger figure based on NDCs that uniquely sets aside Africa's substantial needs versus other world regions. According to IGES, Africa's total climate needs would amount to $3.5 trillion, of which $2.1 trillion would be for mitigation, $986.6 billion for adaptation, and $364.7 billion estimated as unspecified needs.

Africa's share of the total global climate needs amounts to 55.3%. Of this, Africa accounts for 71.0% of adaptation needs, and 69.3% for mitigation. This surprisingly large share of mitigation needs for Africa is in part due to the absence of mitigation finance figures from major emitters in their respective NDCs.

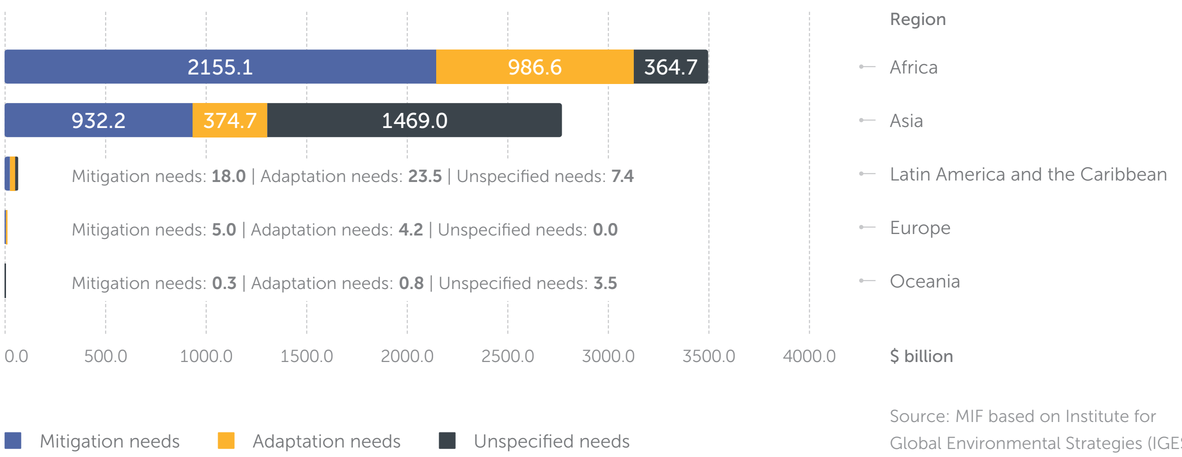
As the figures from Brookings, CPI and IGES demonstrate, the actual climate financing needs for Africa are both varied and significantly larger than the available current flows as well as likely much larger than the estimated needs identified in the NDCs.

Africa's total climate needs as well as its priority share of adaptation climate finance are underestimated due to data gaps and NDC's focus on mitigation

The annual cost for adaptation needs in Africa could be 100% higher than estimates, reaching as high as $106 billion per year

Africa's total climate needs amount to approximately $3.5 trillion by 2030

World regions: mitigation and adaptation financial needs as expressed in NDCs (2022)



Source: MIF based on Institute for Global Environmental Strategies (IGES)

Financing climate goals cannot come at the expense of development goals

In Africa, there is growing concern that an increased focus on climate finance could crowd out financial resources intended for development.

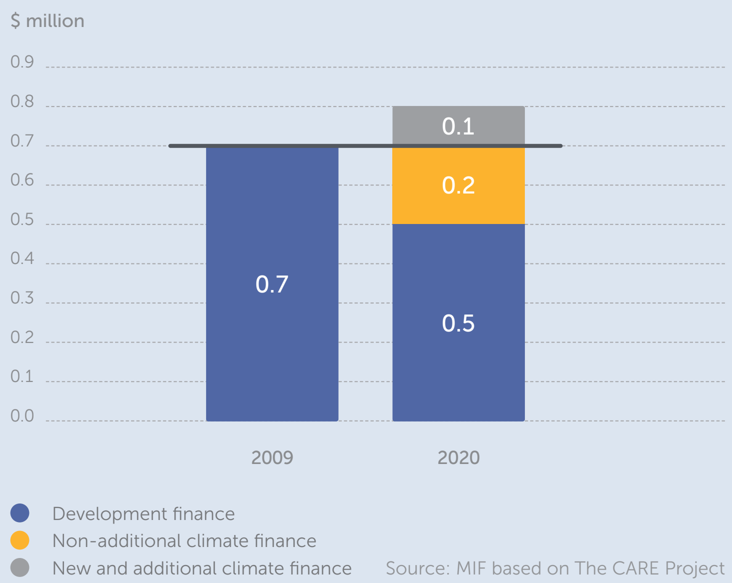
Reconciling climate and development is crucial for Africa. Adequate adaptation finance is an important step towards this, to be kept separate from mitigation finance. In addition, traditional development finance should not be eroded to increase climate finance pledges.

At COP15 in Copenhagen in 2009, developed countries committed to support climate change adaptation and mitigation activities in developing countries and to provide scaled-up, new and additional finance, reaching $100 billion annually between 2020 and 2025. This goal was belatedly realised in 2022 when developed countries provided nearly $116 billion in climate finance.

In 2015, the UN General Assembly agreed that climate financing should be "new and additional" and so should not come at the cost of other SDGs. New funding should not prioritise climate financing at the cost of non-climate development finance, as this would increase the vulnerability of populations to climate shocks. Climate financing should be additional and not simply a reclassification of already-existing development finance or at the expense of previous development finance. As reported by ONE, foreign aid dropped by nearly 5% in the same year that the $100 billion goal was reached (2022), putting a big question mark on the "new and additional" criterion.

> The Global South's frustration is understandable. In many ways they are paying the price for the prosperity of others.
>
> *Ajay Banga, President, World Bank Group*

World: development & climate finance (2009 & 2020)



Source: MIF based on The CARE Project

Only 7% of the climate finance provided from 2011 to 2020 is found to be "new and additional" to high-income countries' existing ODA commitments

Despite this, the amount of "additional" climate finance provided since 2009 only sits at approximately $141 billion, according to CARE. This remains well below the continent's estimated needs for adaptation alone, ranging from $53-$106 billion as reported by CPI and Brookings. As a result, developing countries with limited resources are forced into trade-offs between curbing their own already low emissions (mitigation), adapting to the impact of climate change (adaptation), or investing in other development priorities.

According to the ONE Project in 2021, the world's 20 most climate-vulnerable countries received a total of just $1.7 billion in climate finance disbursements, or 6.5% of the climate finance they needed each year to address climate change. Further to this, less than half (49%) of the climate finance committed by bilateral providers between 2013 and 2021 was reported as disbursed or was meaningfully related to climate.

The ONE Project also reported that climate finance funders generally have the freedom to set their own definitions for what is classified as climate-related finance to reach their own targets. As a result, providers can take credit for more climate finance without expanding their budget/pledges. For example, the UK expanded its definition of climate finance in October 2023 which allowed the re-classification of funds marked for other projects, whether related or not, as climate finance, meaning no additional finance was received.

Due to this lack of standardised reporting rules, some countries like Japan, the US, Italy and the EU engaged in 'creative counting' to finally reach the $100 billion goal in 2022. They included for example natural gas and coal-fired power plants, as well as counterterrorism efforts in the $116 billion in climate finance. Additionally, more than two thirds were provided in the form of loans vs only one third in grants, thereby adding to existing fiscal stress in climate-affected countries.

This complex financial framework and a lack of commitment to pledges and international agreements from high-income countries, means that only $1 in every $5 of "climate finance" commitments in the OECD's open dataset between 2013 and 2021 — worth $115 billion — is really related to climate.

To reach the $100 billion annual climate finance goal, some developed countries included non-climate-related expenses in their counting

Two thirds of climate finance issued by developed countries in 2022 ($116 billion) was provided as loans, thereby adding to debt distress in developing countries

> Investing in Africa's climate resilience and financial stability is a strategic necessity. By addressing the intertwined challenges of climate change and public debt, we can empower the continent to lead a sustainable future, unlocking boundless potential for generations to come.
>
> *H.E. Louise Mushikiwabo, Secretary General of the Organisation Internationale de la Francophonie*

> There is now the beginning of an understanding that poverty and climate cannot be separated, that education, and climate cannot be separated.
>
> *H.E. Mia Mottley, Prime Minister of Barbados*

Major emitter countries provide no financial figures to implement their NDCs

According to the most recent NDC submissions in the UNFCCC's NDC registry, several major global economies have not provided financial figures to implement their mitigation and adaptation needs and strategies. With the global deadline of 2050, outlined in the Net Zero Coalition to achieve net zero, providing detailed plans and budgets is a crucial task for the largest emitters. However, countries such as China and the US have submitted NDCs that do not clearly outline the needs, targets, and costs for emission mitigation objectives.

The absence of these figures for the largest emitting countries jeopardises the validity of global mitigation and adaptation figures, leaving a large amount of global mitigation financing needs likely unaccounted for. Most African countries have provided detailed figures for their adaptation and mitigation needs. Despite Africa accounting for a larger proportion of adaptation rather than mitigation needs globally, absent figures from the largest emitters create a bias in the data, making Africa account for a substantial portion of mitigation needs globally (69.3% according to the IGES).

In the US's most recent NDC in 2021, next to various adaptation and mitigation sections, their document reads "N/A". While the NDC acknowledges in its introduction that "the United States is the world's second-largest producer and consumer of energy. This creates significant opportunities to mitigate greenhouse gas emissions through energy efficiency, electrification of end-uses that currently burn fossil fuels, and carbon-free energy supply", the NDC is not substantiated with any figures at any point in the document, and formulated in vague terms.

Similarly, in China's most recent NDC, while it states that "the central government budget has scaled up investments in climate change mitigation and adaptation and technological support" it does not provide the figures to prove this or to understand the scale of these commitments.

In the US' NDC the following key sections are marked with "N/A":

Specific projects, measures and activities to be implemented to contribute to mitigation co-benefits, including information on adaptation plans that also yield mitigation co-benefits, which may cover, but are not limited to, key sectors, such as energy, resources, water resources, coastal resources, human settlements and urban planning, agriculture and forestry; and economic diversification actions, which may cover, but are not limited to, sectors such as manufacturing and industry, energy and mining, transport and communication, construction, tourism, real estate, agriculture and fisheries.

Selected large economies: submitted figures for adaptation and mitigation (as of 29 March 2024)

Country	Has submitted clear and easily accessible figures for adaptation and mitigation needs in their NDCs (according to the IGES NDC database)
US	No ("N/A")
China	No
Japan	No ("N/A")
UK	No ("N/A")
Russian Federation	No ("N/A")
Brazil	No
India	Yes - $834 billion, mitigation - $206, adaptation
EU	No ("N/A")

Confronting Incoherence in Development Financing Discussions

Masood Ahmed, President, Center for Global Development (CGD)

Without getting lost in the details, the one fact that stands out is that **most estimates of needs are orders of magnitude larger than currently available finance and larger than plausible estimates for the financing that is likely to be available in the next five years**. While there is substantial potential to mobilize finance by redirecting illicit financial flows from Africa or by exploiting Africa's natural competitiveness in supplying carbon markets, realizing this potential will take many years.

Thus, aggregate financing needs for meeting the SDGs and delivering on the climate agenda exceed current flows of domestic and international finance for African development by hundreds of billions or even trillions of dollars every year. Concessional finance or ODA flows are under pressure from the rising needs for humanitarian assistance and refugees as well as the redirection of funds to deal with the consequences of the war in Ukraine (and, in the future, Gaza). The expectation of a sharp and sustained increase in private financing for development and climate projects assumes a break from past trends and entrenched practices among private investors and official development finance institutions, both of which are expected to play a catalytic role in enabling this increase. And, while the sources and destinations for illicit financial flows have now been well documented, overcoming the political and financial resistance to clamping down on them remains a challenge.

This disconnect between financial estimates based on needs or potential on the one hand and financing availability driven by fiscal, policy or political constraints on the other is not unique to Africa. But a failure to address it is particularly damaging for constructing a financing strategy for the continent's future development. **The energy and resources spent on elaborating detailed national and continent-wide investment plans that are unlikely to be realized for lack of funding generates frustration and cynicism and hampers a candid dialogue on tradeoffs and priorities. And where it relates to cross border flows, the disconnect between promises and delivery exacerbates the erosion of trust that has damaged international discussions and made it harder to reach agreement to address common problems**.

We need this discussion on the incoherence that is inherent in the numbers set out in the different chapters. The challenge for analysts and policymakers is to **confront that incoherence and to push for both more realism and more real ambition**. Real ambition focuses not on grand plans that lack practical means, but on the means necessary to extend the limits of what is achievable. In the end, it is only by pushing boundaries that we will make a real difference in improving the lives of Africa's growing population and meeting the expectations of its increasingly impatient youth.

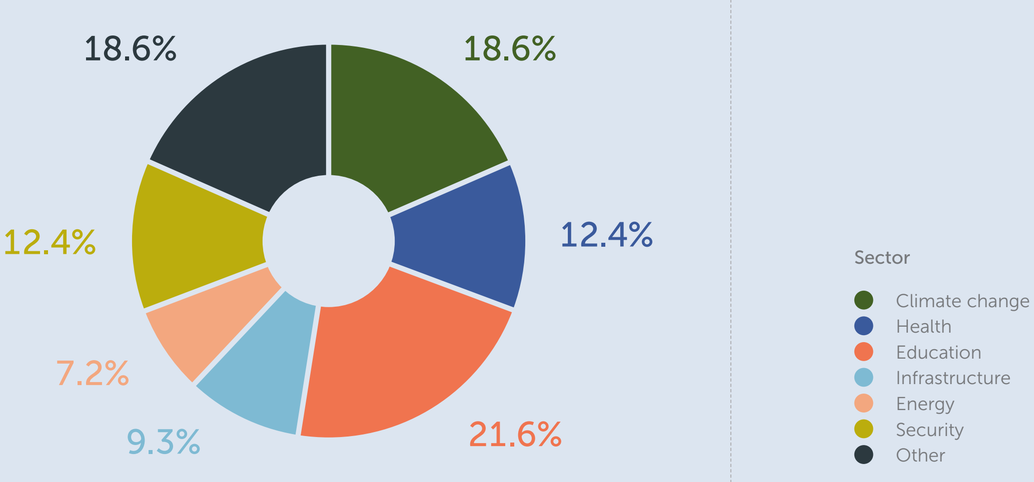
> We have heard the billions to trillions story (and I feel guilty in a way because I coined the formula). It remains valid but has become misleading. It gave the feeling that there were trillions floating around and that it was just about capturing them ... To get there we need to secure the public and private trillions and we are far from it. And then we need to make sure we move from trillions to millions if not to thousands - meaning we need to work on the transmission. Bottom line, we need a genuine revolution in development finance and Africa could be central to it. If we continue "more of the same" we will get even "less of the same".
>
> *Bertrand Badré, CEO and Founder, BlueOrange Capital, former Managing Director and Chief Financial Officer, World Bank Group*

2024 MIF Now Generation Network survey: Assessing Africa's needs

More than half of Africa's youth view Education and Climate change as top priority sectors for the continent

- More than half of the respondents selected Education (21.6%) and Climate change (18.6%) as Africa's top priority sectors.
- Other priority sectors mentioned were Governance (strong institutions), Entrepreneurship, Agriculture, Technology and Economic integration.

Top priority sector for African countries



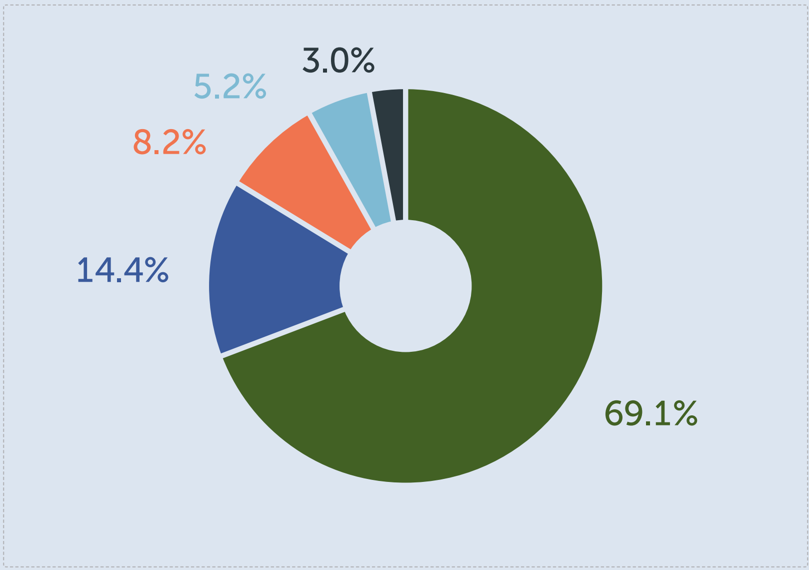
Source: MIF

Almost 70% of Africa's youth consider adaptation as Africa's top climate priority

- The largest majority of respondents (69.1%) selected Climate adaptation as Africa's top climate priority followed by mitigation (14.4%)
- Loss and damage was the least selected priority by only 5.2% of respondents.

> Africa needs its own Financing Agenda based on its resources and assets to be implemented by Africans. We are at point that Africa can no longer rely on external partners to finance its own development.
>
> *Oulimata Sarr, National Program Coordinator, International Trade Centre*

Climate: What should be Africa’s top priority?



Priority

- Adaptation (building resilience to climate change)
- Mitigation (emissions reductions e.g. renewable energy)
- Humanitarian support for natural disaster victims
- Loss & damage (compensation for climate damages)
- Other

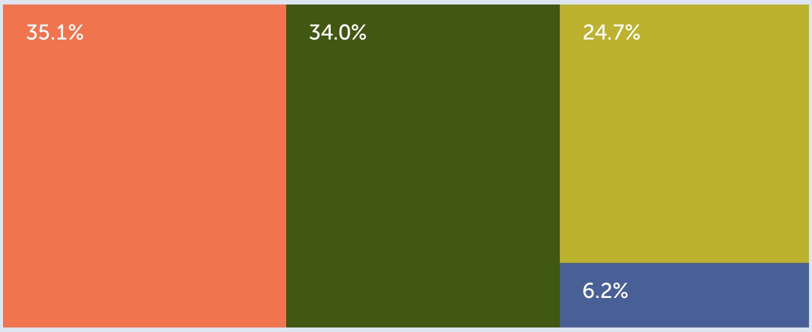
Source: MIF

When it comes to Africa's youth, Education and Employment are the greatest financing needs

- Collectively, almost 70% of respondents chose Education (35.1%) and Employment (34.0%) as African youth’s greatest financing need.
- Education and skills training emerged as a prominent financial need and priority sector in Africa throughout the survey. Respondents selected it as a top priority and among the top 3 sectors with the largest financing gaps.
- The other youth financing needs selected were Entrepreneurship capital (24.7%), Increased access to technology (6.2%).

Education and skills training are a top priority when it comes to Africa's youth's financing needs

What are Africa's youth's greatest financing needs?



Education and skills training	35.1%
Employment	34.0%
Entrepreneurship capital	24.7%
Increased access to technology	6.2%

Source: MIF

No single source of financing is independently sufficient to tackle financing sustainable development on the continent successfully. Africa should aim to attract more private financing as a key sustainable finance mechanism. It has been pivotal in driving growth and job creation in many countries. Blended finance is also a key financing mechanism due to its utilisation of both public and private resources and subsequent bolstered financing potential – though we must ensure that we minimise the risk that members of the public sector take on.

Nomahlubi Jakuja, Senior Economist, Social Policy Initiative

Boosting Africa’s infrastructural development will require larger financing pools and some key aspects to be improved. First, more effort must be put into domestic resource mobilisation. The development of local capital markets will go a long way toward mobilising domestic capital to meet countries' rising expenditure needs. Countries should also better manage and derive greater revenue from their enormous natural resources through better governance and transparency.

Sadallah Joe Lemaron, 2022 MIF Leadership Fellow, African Development Bank

Enhancing access to finance is crucial as many African nations face barriers in accessing climate finance due to limited capacity and resources. Streamlining funding mechanisms, simplifying application processes, and providing technical assistance can improve access for vulnerable communities. Mainstreaming adaptation into development planning is also essential. Climate finance should be integrated into national budgets and development strategies to ensure coherence and effectiveness.

Ujunwa Ojemeni, Senior Policy Advisor, Energy Transition, E3G

Chapter 02.

External resources: better money, rather than just more money

Changing the paradigm

Mark Malloch-Brown, External Adviser to the Managing Director of the IMF and the President of the World Bank on their institutions' future

Africa is not alone in being starved of sufficient public and private international capital. Its situation is worsened by low domestic savings rates but **the continent is still the victim of an international financial system that remains based on history not the present**. It is not unfair to characterise such finance as still cascading down from Western capitals and prioritizing the capital needs of the Global North before it arrives at the lower reaches - the Global South. In turn, the Global South has had to learn to live with what's left which is never enough and particularly too little when the tap is tightened because of economic conditions in the North.

There are new challengers, led by China but including the Gulf States, Turkey and others, who are disrupting this old hegemony with alternative capital flows. But **too much public finance retains traces of a mindset that is near colonial in character. Its philosophy remains partly rooted in a vision of aid that smacks more of alms than investment. On the private side, the credit risk agencies have become the new Scrooges of the system, deterring investment flows by threatening sovereign downgrades with the easy abandon of football referees with their red cards. This has suppressed new flows and inhibited debt relief**.

The public officials and private investors involved are not blind to these issues but entrapped in assumptions and history about volume and risk that leave the world way off track to achieve the Sustainable Development Goals or ensure the transition to a new green energy economy that is critical to our shared future. Our financial instruments are pygmies; our needs are giant.

We are at an inflection point where **we need radically to reorder our financial system to ensure it provides a launching pad for a quantum leap in ambition**. The bad news is the world is deeply at odds, divided by war in Europe and the Middle East and with an increasingly nationalistic and protectionist dimension to international trade and investment issues. We are in the grip of a polycrisis that fuses economic, social, security and political crises.

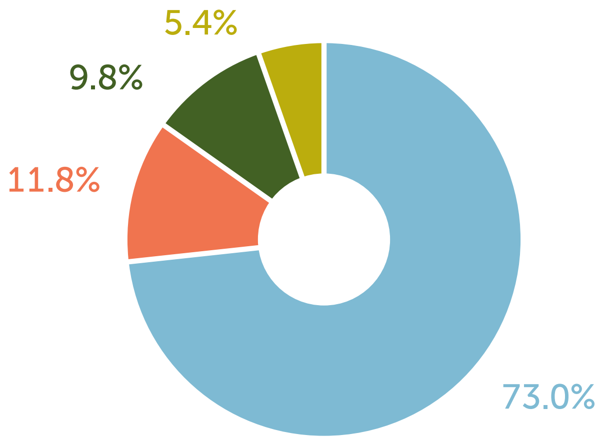
The better news is the Bretton Woods Institutions and the climate governance lodged at the UN (namely the UNFCCC) have not been pulled under by these tensions in the same way that the Security or Human Rights Councils have. Each also has smart and ambitious leaders who realise that while their institutions don't have the direct financial clout that at least the IMF and World Bank once had, they can be the centre of networks of finance and policy that can move the world towards a more enlightened place.

The Bretton Woods Institutions are now 80 years on from the conference in New Hampshire where they were conceived. So they are in a mood of reflection and increased ambition. It may seem to some like grasping at straws as people drown but that straw could become a raft on which we begin to re-float a global economy that is based around a twenty-first century vision of green, inclusive growth for all. A vision that lets us both live within our planetary means and tackle the distorting inequalities that are dividing societies and the world. Only when public and private finance flows are aligned and encouraged by coordinated international public policy will we start to match up to the threats to our shared future.

We have waited too long for political leaders to act but they seem to be intellectually bankrupted by the crises lapping at their own doors. **We should remember the vision for the original Bretton Woods Institutions** - which, despite their mixed record since, were cornerstones of the post Second World War recovery and designed not to repeat the mistakes of First World War - was the brainchild of formidably minded economists and policy heavyweights, John Maynard Keynes and Harry Dexter White. Keynes had remade the whole approach to public spending, allowing deficits when they led to growth. Ideas flew from his pen and politicians followed. We need similar inspiration today.

ODA TO AFRICA: AROUND 10% OF THE CONTINENT'S TOTAL FINANCIAL RESOURCES

Africa: main sources of finance (2022)



In 2022, ODA to Africa amounted to 9.8% ($81.4 billion) of Africa's four main sources of finance

Africa's main sources of finance

- Revenue
- Personal remittances, received
- Official Development Assistance
- Foreign Direct Investment inflows

Source: MIF based on IMF & World Bank

Official Development Assistance (ODA) is the key measure used in practically all aid targets and assessments of aid performance. ODA covers most flows to countries and territories on the Development Assistance Committee (DAC) list of ODA recipients and to multilateral organisations. The transactions are provided by official agencies, including state and local governments. Each one is administered with the promotion of the economic development and welfare of developing countries as its main objective and is concessional in character (grants and soft loans). The DAC list of countries eligible to receive ODA is based on per capita income and updated every three years.

The **DAC donors'** overarching objective is to promote development cooperation and other relevant policies, aimed at contributing to the implementation of the UN's Agenda 2030 for Sustainable Development, including inclusive and sustainable economic development, the advancement of equalities within and among countries, poverty eradication, improvement of living standards in developing countries and to a future in which no country will depend on aid. The DAC collects and analyses development data and provides a forum where the world's major bilateral aid donors meet to discuss, review and coordinate aid policy, aiming at expanding the volume and effectiveness of official resource transfers to developing countries.

Non-DAC donors are a group of countries that sit outside the OECD's DAC member group, which are often referred to as 'new', 'emerging', 'non-traditional', 'non-Western' or 'non-DAC', but the labels applied simplify a very complex and diverse group. Many of these countries do not want to be labelled as 'donors' and instead see themselves as development partners facilitating South-South cooperation.

In 2022, Africa's four main sources of finance amounted to $829.7 billion

DAC 32 members: Australia, Austria, Belgium, Canada, Czech Republic, Denmark, European Union, Estonia, Finland, France, Germany, Greece, Hungary, Iceland, Ireland, Italy, Japan, South Korea, Lithuania, Luxembourg, the Netherlands, New Zealand, Norway, Poland, Portugal, Slovak Republic, Slovenia, Spain, Sweden, Switzerland, United Kingdom and the United States.

Non-DAC donors are varied: they include countries that have previously been recipients of aid (such as Malta); those that still are recipients (such as Nigeria); countries that respond to disasters domestically (such as India); those that host a growing number of refugees (such as Turkey); countries that have been contributing to and supporting international development programmes and systems for a number of decades (such as the United Arab Emirates); and some which have been doing so for longer and with larger aid budgets than certain DAC donors.

In 1970, most donor countries agreed to a UN target of committing 0.7% of national income to aid

Most donors are far from the 0.7% of national income to aid target

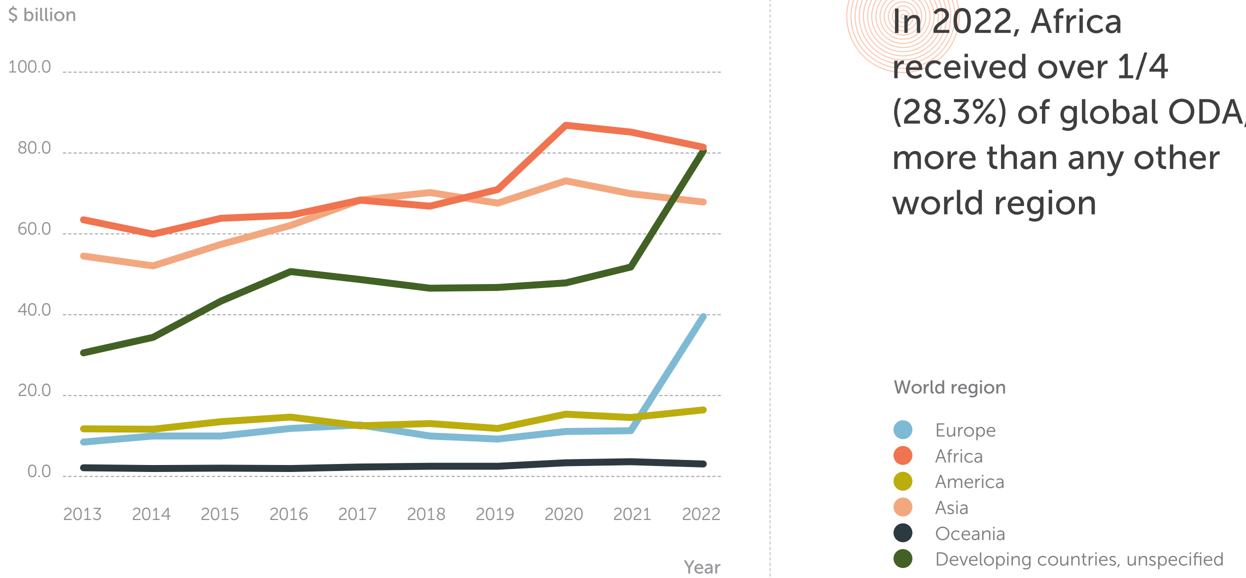
In 1970, most countries agreed on a United Nations (UN) target of giving 0.7% of gross national income to aid (ODA/GNI). In 2005 and again in 2015, European Union (EU) countries expressed recommitment to this target.

Despite this, very few countries have achieved 0.7% since then, and even fewer have maintained it. In 2022, only four DAC donors spent more than 0.7% of their national income on aid: Luxembourg (1%), Sweden (0.89%), Norway (0.86%) and Germany (0.85%).

In 2022, only 4 DAC countries met or exceeded the UN target of 0.7% ODA/GNI: Luxembourg, Sweden, Norway and Germany

Africa received over 28% of global ODA in 2022

World regions: ODA received (2013-2022)



In 2022, Africa received over 1/4 (28.3%) of global ODA, more than any other world region

Source: MIF based on OECD

Note: According to Development Initiatives (DI), "Developing countries, unspecified" refers to ODA that benefits several regions or non-country programmable aid such as administrative costs, refugee-hosting costs and in-donor research costs.

Between 2013 and 2022, Africa received the largest amount of ODA of any world region in every year other than 2018.

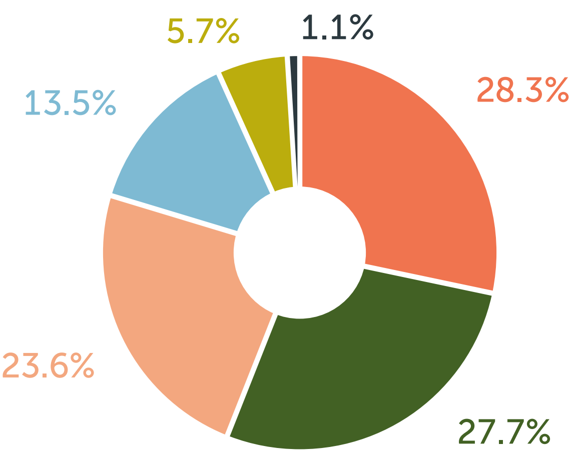
However, the total ODA received by Africa fell from $86.4 billion in 2020 to $81.4 in 2022.

Due to the impact of the Russia-Ukraine conflict, Europe was the only world region registering an increase in ODA in 2022 – from $11.3 billion in 2021 to $38.8 billion in 2022, a more than three-fold increase in a single year.

ODA received by "Developing countries, unspecified" has become almost equivalent to ODA to Africa in 2022 ($79.7 billion and $81.4 billion, respectively).

ODA to Africa fell from 36.0% of the global total in 2021 to 28.3% in 2022, while Europe was the only world region registering an increase in ODA in the same period due to the Russia-Ukraine conflict.

World regions: share of ODA received (2022)



Between 2021 and 2022, while ODA to Ukraine increased by 1163.3%, ODA to Sudan decreased by 66.9%

World region

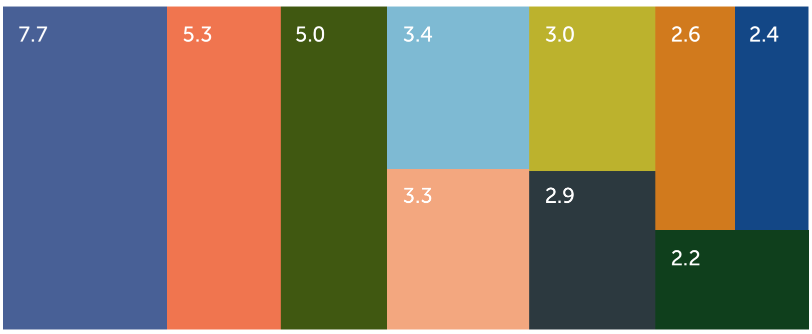
- Africa
- Developing countries, unspecified
- Asia
- Europe
- America
- Oceania

Source: MIF based on OECD

Note: According to DI, "Developing countries, unspecified" refers to ODA that benefits several regions or non-country programmable aid such as administrative costs, refugee-hosting costs and in-donor research costs.

10 countries capture nearly 50% of total ODA to the continent

Top ten African countries: ODA received ($ billion) (2022)



Egypt	7.7
Ethiopia	5.3
Nigeria	5.0
DR Congo	3.4
Kenya	3.3
Tanzania	3.0
Mozambique	2.9
Morocco	2.6
Uganda	2.4
Niger	2.2

Source: MIF based on OECD

Top 10 ODA recipients in Africa (2022)

Top 10 ODA recipients in Africa (2022)	Total ODA ($ billion)	ODA per capita ($)	ODA from DAC countries ($ billion)	ODA from non-DAC countries ($ billion)	ODA from multilaterals ($ billion)
Egypt	7.7	69.5	1.5	5.4	0.8
Ethiopia	5.3	43.0	2.7	0.2	2.4
Nigeria	5.0	22.7	1.5	0.01	3.5
DR Congo	3.4	34.7	1.3	0.00	2.1
Kenya	3.3	61.3	1.5	0.01	1.8
Tanzania	3.0	46.1	1.1	0.02	1.9
Mozambique	2.9	87.1	1.3	0.00	1.5
Morocco	2.6	68.6	1.7	0.05	0.8
Uganda	2.4	50.2	1.2	0.02	1.1
Niger	2.2	83.4	0.8	0.02	1.3

Highest value per country

Source: MIF based on OECD & UNDESA

In 2022:

- Egypt received the largest amount of ODA of any African country, totalling $7.7 billion – 70.2% of that coming from non-DAC countries.
- Ethiopia received the second largest amount of ODA in Africa, totalling $5.3 billion – more than half of it coming from DAC countries.
- Nigeria received the third largest amount of ODA of any African country totalling $5.0 billion – 69.9% of it coming from multilaterals.

10 African countries, hosting over 70% of the continent's population, received nearly half (46.4%) of total ODA to the continent in 2022

African countries have the highest net ODA received as a share of central government expenditure

According to the World Bank, African countries top the list of countries globally with the highest net ODA received as a share of central government expense: 16572524.6% in Somalia (latest data year 2020), 222.4% in Central African Republic (latest data year 2021), 74.2% in Rwanda (latest data year 2020), 68.3% in Madagascar (latest data year 2021), 61.8% in Mali (latest data year 2020), 59.8% in Mozambique (latest data year 2021), 58.6% in Ethiopia (latest data year 2020) and 54.3% in Malawi (latest data year 2021).

Global net financial transfers to developing countries (including new lending and ODA) will fall by over $100 billion in the next two years

Top 10 ODA recipients in Africa in per capita terms (2022)

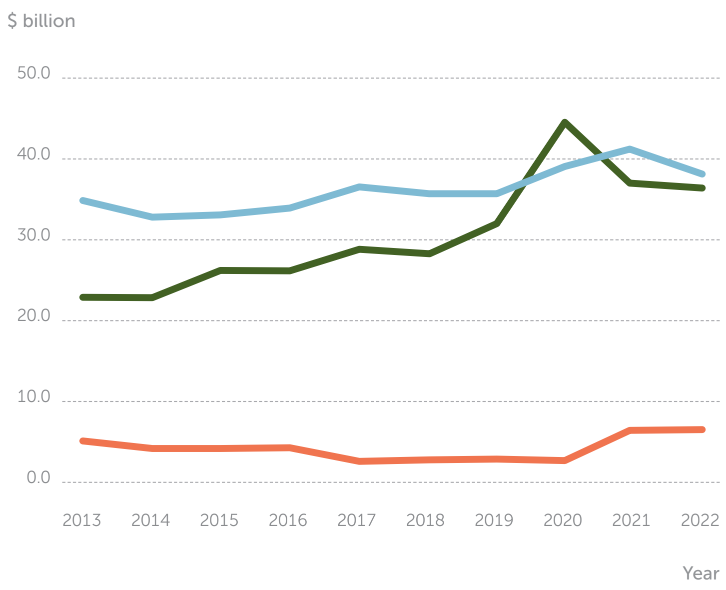
Top 10 ODA recipients	ODA per capita ($)
São Tomé and Príncipe	426.1
Cabo Verde	240.8
Djibouti	218.3
South Sudan	189.9
Comoros	177.9
Tunisia	156.9
Namibia	155.4
Congo Republic	128.3
Central African Republic	127.3
Somalia	115.7

Source: MIF based on OECD & UNDESA

In 2022, São Tomé and Príncipe ($426.1), Cabo Verde ($240.8) and Djibouti ($218.3) were the largest recipients of ODA per capita in Africa

Still leading, DAC countries and multilaterals slowly decrease support to Africa, while non-DAC steadily increase, making it a priority

Africa: ODA received by donor type (2013-2022)



In 2022, 37.1% of ODA from non-DAC countries went to Africa, compared to only 20.9% from DAC countries

- DAC countries
- Non-DAC countries
- Multilaterals

Source: MIF based on OECD

In 2022:

- Africa received $38.3 billion in ODA from DAC countries, $36.5 billion from multilaterals and $6.6 billion from non-DAC countries.
- Africa's share of global ODA from DAC countries amounted to 20.9% ($38.3 billion).
- Africa's share of global ODA from multilaterals amounted to 42.4% ($36.5 billion).
- Africa's share of global ODA from non-DAC countries amounted to 37.1% ($6.6 billion).

Between 2020 and 2022, ODA to Africa from DAC countries fell by -7.3%, while ODA from non-DAC countries rose by +136.3%

Between 2013 and 2022:

- The total ODA received by Africa from multilaterals went up from $23.0 billion to $36.5 billion (+58.8%).
- The total ODA received by Africa from non-DAC countries went up from $5.2 billion to $6.6 billion (+25.4%).
- The total ODA received by Africa from DAC countries went up from $35.0 billion to $38.3 billion (+9.5%).

Over recent years (since 2020):

- The total ODA received by Africa from non-DAC countries went up from $2.8 billion in 2020 to $6.6 billion in 2022 (+136.3%).
- The total ODA received by Africa from DAC countries went down from $41.3 billion to $38.3 billion between 2021 and 2022 (-7.3%).
- The total ODA received by Africa from multilaterals went down from $44.6 billion to $36.5 billion between 2020 and 2022 (-18.2%).
- However, declines in ODA from both DAC countries and multilaterals have to be seen in the context of a previous augmentation due to the onset of COVID-19.

In 2022:

- 47.1% of total ODA received by Africa came from DAC countries (compared to 55.3% in 2013).
- 44.8% of total ODA received by Africa came from multilaterals (compared to 36.3% in 2013).
- 8.1% of total ODA received by Africa came from non-DAC countries (compared to 8.3% in 2013).

Of the top 10 ODA donors to Africa in 2022:

- Four were multilateral organisations: The World Bank Group ($17.1 billion), EU Institutions ($7.0 billion), Global Fund ($4.1 billion) and United Nations ($3.0 billion).
- Five were DAC countries: United States ($12.4 billion), Germany ($6.3 billion), France ($5.9 billion), Japan ($2.8 billion) and Canada ($1.8 billion).
- One was a non-DAC country: Saudi Arabia ($5.5 billion).

Top 10 ODA donors to Africa (2022)

Top 10 ODA donors	Total ODA ($ billion)	
The World Bank Group	17.1	Multilateral
United States	12.4	DAC country
EU Institutions	7.0	Multilateral
Germany	6.3	DAC country
France	5.9	DAC country
Saudi Arabia	5.5	Non-DAC country
Global Fund	4.1	Multilateral
United Nations	3.0	Multilateral
Japan	2.8	DAC country
Canada	1.8	DAC country

DAC country · Non-DAC country · Multilateral

Source: MIF based on OECD

In 2022, the World Bank Group was the largest ODA donor to Africa, accounting for 21.0% of total ODA received by the continent ($17.1 billion)

In 2022, the US was the largest country donor to Africa, accounting for 15.2% of total ODA received by the continent ($12.4 billion)

In 2022, non-DAC member Saudi Arabia features among the 10 largest donors to Africa, accounting for 6.8% of total ODA received by the continent ($5.5 billion)

China's ODA

At the 2021 UN General Assembly (UNGA) meeting, China's President Xi Jinping announced a new Global Development Initiative (GDI), aimed at accelerating the implementation of the UN's Agenda 2030 and addressing the needs of countries impacted by COVID-19 and adapting to climate change. The GDI comprises 32 measures to advance global development and to narrow the North-South gap, including an upgrade and replenishment of the Global Development and South-South Cooperation Fund to $4 billion.

Korea's ODA

The first Korea-Africa Summit in Seoul on 4-5 June 2024 was attended by 48 African countries, of which 25 Heads of States and Government. At the event, the Republic of Korea announced an increase in its official development assistance (ODA) to $10 billion by 2030, as a catalyst for projects for cooperation with Africa. It will also commit 14 billion US dollars in export financing to Korean companies by 2030 to encourage their activities on the continent, thus stimulating trade and investment with Africa. The summit had a heavy focus on critical minerals, with South Korea and African leaders agreeing to launch a "critical minerals dialogue."

At the first Korea-Africa Summit (Seoul, 4-5 June 2024), the Republic of Korea committed $10 billion in ODA to Africa by 2030

Top 10 global ODA recipients by donor type

Top 10 global ODA recipients from DAC countries (2022)	Total ODA ($ billion)	
Ukraine	17.6	
India	6.0	
Bangladesh	4.2	
Afghanistan	3.1	
Ethiopia	2.7	●
Indonesia	2.4	
Philippines	2.2	
Syria	2.0	
Colombia	2.0	
Yemen	1.9	

● African country

Source: MIF based on OECD

In 2022, Ethiopia was the only African country among the top 10 global ODA recipients from DAC countries ($2.7 billion, fifth largest recipient globally).

Top 10 global ODA recipients from multilaterals (2022)	Total ODA ($ billion)	
Ukraine	11.6	
Nigeria	3.5	●
Bangladesh	2.8	
Pakistan	2.5	
Ethiopia	2.4	●
DR Congo	2.1	●
Tanzania	1.9	●
Kenya	1.8	●
Mozambique	1.5	●
Turkey	1.4	

● African country

Source: MIF based on OECD

In 2022, Nigeria received the most ODA from multilaterals of any country in Africa ($3.5 billion, second largest recipient globally), followed by Ethiopia ($2.4 billion, fifth largest recipient globally) and DR Congo ($2.1 billion, sixth largest recipient globally).

Top 10 global ODA recipients from non-DAC countries (2022)	Total ODA ($ billion)	
Syria	5.7	
Egypt	5.4	●
Yemen	1.0	
Jordan	0.6	
West Bank and Gaza Strip	0.5	
Ethiopia	0.2	●
Ukraine	0.2	
Sudan	0.1	●
Somalia	0.1	●
Pakistan	0.1	

● African country

Source: MIF based on OECD

In 2022, Egypt received more than 80% of the ODA flows from non-DAC countries to Africa ($5.4 billion, second largest recipient globally), followed very far by Ethiopia ($0.2 billion, sixth largest recipient globally).

In 2022:

- Of the top 10 global ODA recipients from DAC countries, only one was African: Ethiopia ($2.7 billion).
- Of the top 10 global ODA recipients from multilaterals, six were African: Nigeria ($3.5 billion), Ethiopia ($2.4 billion), DR Congo ($2.1 billion), Tanzania ($1.9 billion), Kenya ($1.8 billion) and Mozambique ($1.5 billion).
- Of the top 10 global ODA recipients from non-DAC countries, four were African: Egypt ($5.4 billion), Ethiopia ($0.2 billion), Sudan ($0.1 billion) and Somalia ($0.1 billion).

Is ODA money getting lost?

Dormant ODA funds: Many countries encounter difficulties in effectively absorbing ODA funds, due to various political and administrative shortcomings in managing investment projects. According to estimations, depending on the beneficiary country, between 10% and 70% of ODA, specifically in project financing, is not consumed.

When it comes to loans, donors see their money tied up with no return, while beneficiaries struggle with the underutilisation of the financial resources allocated.

Undistributed and mislabelled aid: According to the OECD in 2022, ODA donor countries actually held on to 14.4% of aid, worth over $193 billion, that was intended to be distributed but was not delivered, and around $30 billion was funneled back to the accounts of donor countries as a result of mislabelling what counts as aid.

“

Currently, a World Bank project takes 27 months – on average – before a single dollar gets out the door. This is followed by a lengthy implementation process and project construction. Too often it’s longer than 10 years before the first benefits are felt. That is a lifetime. We must do better. And there is precious time we can save.

Ajay Banga, President, World Bank Group

G7 countries' estimated unpaid aid and funding for climate action to developing countries are estimated at $13.3 trillion

“

Although it is difficult to find a reliable source on this subject, under-utilisation of ODA funds by partner countries is a key challenge that is often overlooked. In Tunisia, for example, under-spending approaches 50%.

Hakim El Karoui, Founding Partner, Volentia

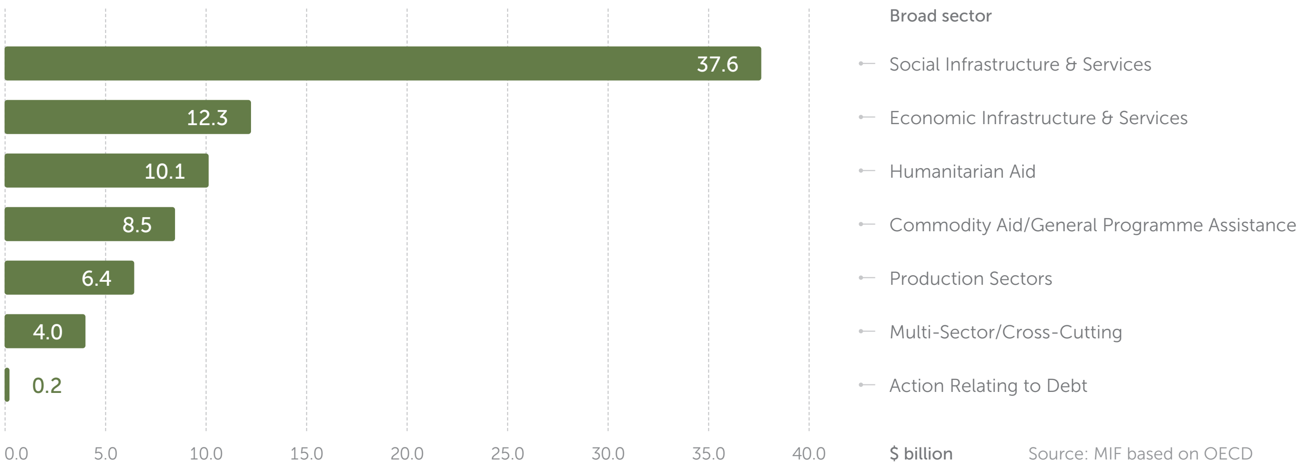
Financial support conditions and modalities vary extensively by partner

Key Partners	Conditions & Modalities
Countries	
China	According to the Chinese government, China's aid is granted in adherence to the principles of mutual respect of sovereignty and territorial integrity, no interference in internal affairs, and safeguarding common interests. **Conditions often include:** 1. Adherence to the One-China principle. Recipients cannot have official ties with both mainland China and Taiwan. 2. Adherence to regulations put in place by the Chinese enterprises, including the use of Chinese labour and resources. **Modalities** 1. **Grant aid** (Ministry of Commerce): mainly aid in kind, with no expectation of repayment. 2. **Zero interest loans**: Chinese authorities consider that more than 90% of these loans will be written off over time. 3. **Concessional loans** (China EXIM BANK): these loans are given an interest subsidy by China's Ministry of Commerce. China's Belt and Road Initiative (BRI), an international infrastructure and development strategy which began in 2013, largely functions as a fragmented collection of bilateral arrangements made with different terms and little transparency.
US	The main channel of ODA for countries in sub-Saharan Africa is the African Growth and Opportunity Act (AGOA) granting duty-free access to the US market for over 1800 products. As of 2022, 36 countries in sub-Saharan Africa are eligible. **Conditions for eligibility for AGOA requires among others:** 1. Having a market-based economy. 2. Adherence to the rule of law. 3. Adherence to political pluralism. 4. Adherence to the right to due process. 5. Adherence to the protection of internationally recognised workers' and human rights. **Modalities** 1. Provided by official agencies, including state and local governments, or by their executive agencies. 2. Concessional (i.e. a mixture of grants and soft loans) and administered with the promotion of the economic development and welfare of developing countries as the main objective.
Russia	Russia's cooperation is based on the principles of mutual respect of sovereignty and territorial integrity as well as protecting common interests, according to the Russian government. Russia has military cooperation agreements with 43 African countries. Beyond arms, Russia's trade with Africa is relatively lower compared with other trade partners. Russia's presence is stronger in the African mining and energy markets, notably through mining concessions, and it has signed nuclear cooperation agreements with 20 countries.
India	According to the Indian government, India's model of development for Africa is without any conditionality and its development strategy is driven by demand, is conditionality-free and based on the principle of partnership among equals. However, analysis of India's EXIM-Bank Line of Credit/IDEA suggests that some loans may come with conditions such as a requirement that 70% of the line of credit should be spent on Indian goods and services. **Modalities** 1. Capacity building and training. 2. Lines of credit (LOC). 3. Grant assistance. 4. Bilateral trade and investments.

Multilateral Institutions	
International Monetary Fund (IMF)	The IMF's main conditionalities for loans can be split into four categories: 1. **Prior Actions** to be taken by recipients ahead of receiving a loan (fiscal revenue measures, clearance of external arrears, governance reform, banking sector restructuring plan). 2. **Quantitative Performance Criteria** to measure specific conditions (ceiling on new public guarantees, ceiling on external debt, ceiling on public sector external arrears). 3. **Indicative targets** to monitor recipient progress (ceiling on general government wage bill, ceiling on domestic arrears, ceiling on government borrowing from the central bank). 4. **Structural benchmarks** to assess implementation of the programme, often harder to quantify (strengthen tax administration, improve fiscal transparency, improve anti-corruption and rule of law, reform state-owned enterprises and their governance). **Modalities** IMF members have access to the General Resources Account on non-concessional terms (market-based interest rates), but the IMF also provides concessional financial support (currently at zero interest rates) through the Poverty Reduction and Growth Trust (PRGT).
World Bank	1. **Income conditions:** countries that are eligible to lend from the International Development Association (IDA) must have a per capita income of less than $1,085 and cannot already be in arrears to the IMF or World Bank 2. **Double instrument conditionalities:** these consider the quality of public policies, with resulting disbursements often accompanied by conditions relating to public policy reforms. 3. **Fiscal and Trade policies:** according to Eurodad, 14.2% of the World Bank's standard conditions are related to potentially controversial economic policies, in particular fiscal and trade policies. Nearly a quarter of all conditions focus on public financial management and procurement representing 22.1% of the total. Prior to receiving Development Policy Operations (DPO) funding, the recipient country must also have an IMF seal of approval on the soundness of its macroeconomic framework. **Modalities** Under the World Bank's debt sustainability framework, IDA countries at low risk of debt distress receive financial support in the form of concessional loans (loans at less than market rate.) Countries at moderate risk of debt distress receive a mix of 50% loans and 50% grants.
EU	Launched on 14 June 2021, the Neighbourhood, Development and International Cooperation Instrument (NDICI) now represents the EU's external action main financing instrument. It has five key priorities and areas of conditionality: 1. Protecting and empowering individuals. 2. Building resilient, inclusive and democratic societies. 3. Promoting a global system for human rights and democracy. 4. Harnessing the opportunities and addressing the challenges of new technologies. 5. Delivering by working together. - Other types of EU conditions can include migration conditionality. **Modalities** The EU has used other financing instruments like the EU-Africa Infrastructure Trust Fund which uses blended finance, i.e. combining long-term investments from development finance institutions (loans, risk capital, etc) with grants. The EU's Global Gateway Africa-Europe Investment Package includes the EU and the EU Member States' bilateral aid, through both grants and loans. The Investment Package is also attracting private funding, from both Africa and Europe.

Health and education remain the main priorities of ODA to Africa from official donors

Africa: ODA received by broad sector (2022)



Source: MIF based on OECD

ODA broad sector definition

Social Infrastructure & Services: Education, Health, Population Policies/Programmes & Reproductive Health, Water Supply & Sanitation, Government & Civil Society and Other Social Infrastructure & Services.

Economic Infrastructure & Services: Transport & Storage, Communications, Energy, Banking & Financial Services and Business & Other Services.

Production Sectors: Agriculture, Forestry & Fishing, Industry, Mining & Construction, Trade Policies & Regulations and Multi-Sector/Crosscutting.

Commodity Aid/General Programme Assistance: General Budget Support, Development Food Assistance and Other Commodity Assistance.

Action Relating to Debt: Action Relating to Debt, Debt Forgiveness, Relief of Multilateral Debt, Rescheduling & Refinancing, Debt for Development Swap, Other Debt Swap and Debt Buy-Back.

Humanitarian Aid: Emergency Response, Reconstruction Relief & Rehabilitation and Disaster Prevention & Preparedness.

In 2022, *Social Infrastructure & Services* represented the largest amount of ODA received by Africa ($37.6 billion), followed by *Economic Infrastructure & Services* ($12.3 billion) and *Humanitarian Aid* ($10.1 billion).

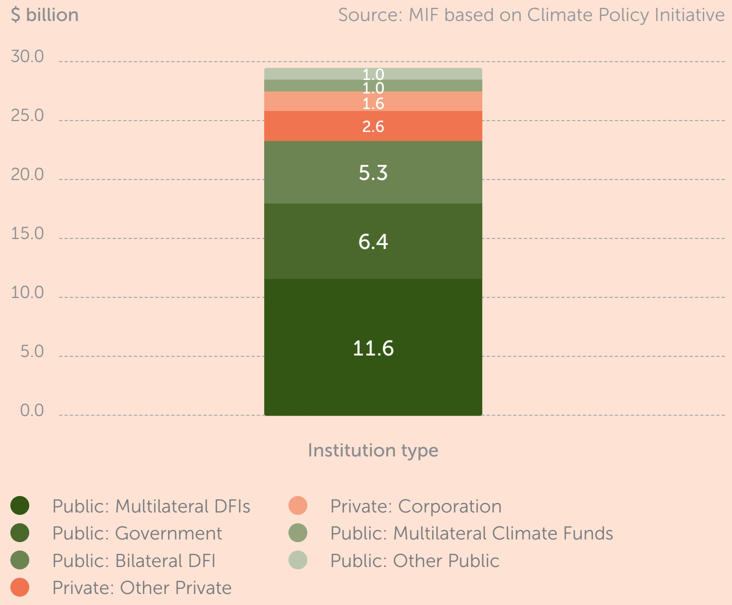
In 2022, *Action Relating to Debt* represented the smallest amount of ODA received by Africa ($0.2 billion)

Access to energy: key to development

In April 2024, the World Bank committed to provide 300 million people in Africa with electricity access by 2030.

Climate finance for Africa: at $29.5 billion a year on average, covering less than 11% of estimated needs

Africa: supply of climate finance (annual average for 2019-2020)



While the annual cost to achieve Africa's climate goals is estimated at $277 billion, annual climate finance supply on the continent averages $29.5 billion annually (10.6% of needs)

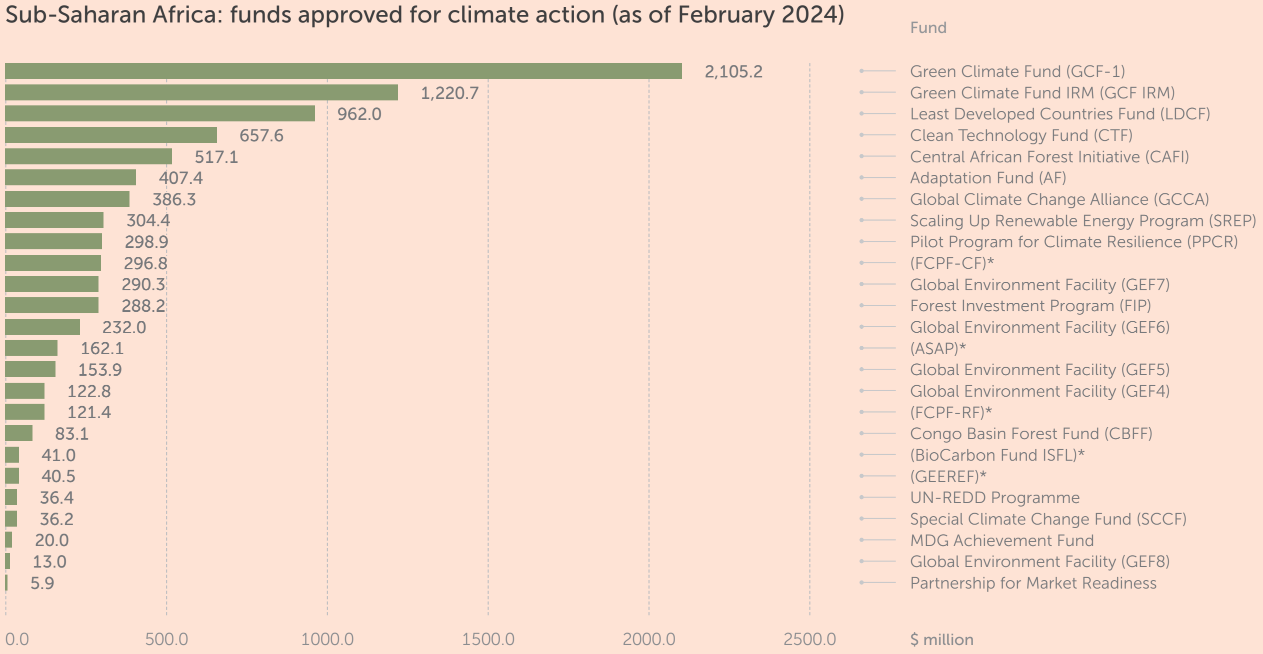
- In 2022, the supply of climate finance for Africa amounted to $29.5 billion.
  - Multilateral Development Finance Institutions (DFIs) provided the largest amount ($11.6 billion), followed by flows from governments ($6.4 billion) and from bilateral DFIs ($5.3 billion).
  - The private sector provided 14.1% ($4.2 billion).
  - $11.3 billion was allocated to adaptation compared to $14.5 billion to mitigation projects, a split of 38.5% and 49.4% respectively. The rest was allocated to multiple (10.8%) or unknown (1.2%) objectives.

Major climate funds supporting sub-Saharan Africa

- As of 2022, the largest fund operating in sub-Saharan Africa was the Green Climate Fund (GCF), established by the United Nations Framework Convention on Climate Change (UNFCCC) and designed to assist developing countries with adaptation and mitigation projects.
- The Least Developed Countries Fund (LDCF), set up after COP7 in 2001, along with the Clean Technology Fund (CTF) and the Central African Forest Initiative (CAFI), comprise the next three largest funds.

As of 2022, 25 different climate funds provide a total of $8.8 billion for climate action in sub-Saharan Africa

Sub-Saharan Africa: funds approved for climate action (as of February 2024)



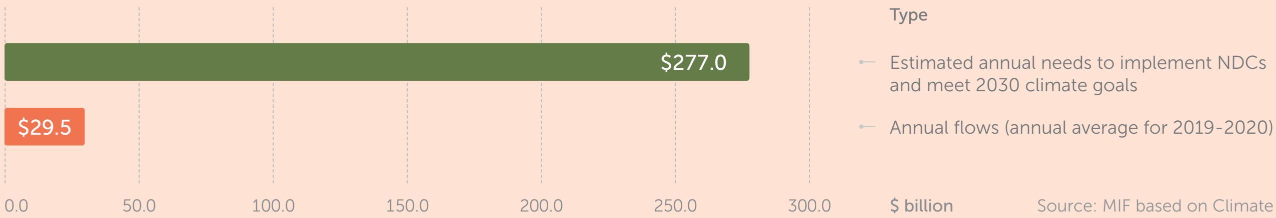
* Forest Carbon Partnership Facility - Carbon Fund (FCPF-CF) | Adaptation for Smallholder Agriculture Programme (ASAP) | Forest Carbon Partnership Facility - Readiness Fund (FCPF-RF) | BioCarbon Fund Initiative for Sustainable Forest Landscapes (BioCarbon Fund ISFL) | Global Energy Efficiency and Renewable Energy Fund (GEEREF)

Source: MIF based on Climate Funds Update

According to the Climate Policy Initiative (CPI), Africa needs $277 billion annually to implement its Nationally Determined Contributions (NDCs) and meet 2030 climate goals.

The amount of climate finance for Africa only accounted for less than 11% of annual needs on average for the years 2019 and 2020.

The amount of annual climate finance received by Africa accounts for less than 11% of needs



Source: MIF based on Climate Policy Initiative

According to the Overseas Development Institute (ODI), only seven countries provided their "fair share" of climate finance in 2020, based on the $100 billion commitment, historic emissions, GNI and population: Sweden, France, Norway, Japan, the Netherlands, Germany and Denmark.

According to ONE, in 2023 49% of the climate finance committed by bilateral providers between 2013 and 2021 was reported as disbursed or was meaningfully related to climate.

The EU’s 360 degree strategy

Koen Doens, Director General, DG International Partnerships (DG INTPA), European Commission

Africa can rely on strong assets to tap into the green and digital transitions. It is home to about half of the world’s 20 fastest growing economies, a young and dynamic workforce, and abundant natural resources. With additional financing of at least €190 billion a year, the continent could achieve the Sustainable Development Goals by 2030, according to the OECD.

But the environment does not help. Fiscal space is limited, debt levels are high; interest rates hikes and currency depreciations have only compounded the problem. At the same time, African countries have been hit hard by a combination of brutal short-term shocks (COVID, Russian invasion of Ukraine) and long-term challenges (such as climate change).

To meet the investment needs, international public finance can never be enough. Like the oil that lubricates the engine, it is needed, but insufficient. However, the African continent, which makes up 18% of the world population, still only attracts 3.5% of global foreign direct investment.

Hence the importance of leveraging broader public and private funds. The EU, with the means at our disposal, is focusing on exactly that: work with our African partners to unlock investment opportunities where they can have the biggest impact.

This strategy is called Global Gateway. It offers to enhance digital, transport and energy connectivity while strengthening health, education and research systems. It accounts for half of the total amount committed by the G7 under the Partnership for Global Infrastructure and Investment. Africa is its major beneficiary: EUR 150 billion by 2027, announced at the 2022 EU-African Union Summit.

A good example is the Global Gateway Initiative on health products manufacturing and access, whereby the EU, Member States and European Development Finance Institutions have partnered with the private sector to build or upgrade state-of-the art manufacturing facilities in Rwanda, Ghana, Senegal, South Africa or Nigeria. In parallel, the EU also acts to ensure demand for these products and address the obstacles to scaling up the sector: research, technology transfer, business environment, regulatory reliance or talent and skills development.

Global Gateway combines the resources of the EU institutions, 27 Member States, European development finance institutions, and the private sector. It helps de-risk investment through a combination of grants, concessional loans and guarantees. The toolbox is extensive, which allows us to tailor every intervention to the individual situation.

We use grants in the social sectors, including through budget support to accompany partners embarking on growth-oriented reforms. We put a particular emphasis on helping administrations **strengthen domestic revenue mobilisation**, still relatively low on the continent at about 18% of GDP on average. This includes strong action on **tackling the illicit financial flows** that bleed many of our partner countries – a dedicated Team Europe Initiative

> “
>
> Global Gateway is what we call a 360-degree strategy: through a variety of financing modalities, the EU makes sure that investment in hard infrastructure goes together with improved policy and implementation capacity of state institutions; sound public finance management (Collect More, Spend Better); robust regulatory frameworks, norms and standards; the transfer of technology, know-how and skills; and more predictability for trade and investment.
>
> *Koen Doens, Director General, DG International Partnerships (DG INTPA), European Commission*

supports our African partners combating these flows – estimated at over EUR 80 billion annually – and transnational organised crime.

We also **blend grant finance with loans from other public or private actors**, extend guarantees that enable investments in more risky environments, and, through programmes such as the Global Green Bond Initiative, help partners mobilise capital for sustainable development from institutional investors, building on the experience accrued in Europe.

Finally, we invest in **making the global level better fit for purpose**. Because the international financial system should better cater for the needs of those that are committed to making progress. EU Member States contributed nearly a third of the G20's target to re-channel USD 100 billion of IMF Special Drawing Rights to vulnerable countries. Moreover, we supported the subsidy account of the IMF's Poverty Reduction and Growth Trust, to ensure the continuity of significant concessional lending to low-income countries. We are also a strong advocate for a **well-functioning G20 Common Framework for Debt Treatment**.

The EU is committed to making the international financial system better geared to channel investment towards the sustainable development of our African partners. This means **reforming the Multilateral Development Banks** so that they are better equipped to respond to today's challenges. And making sure that Africa has a seat at the table – the EU was a strong supporter of the African Union's accession to the G20.

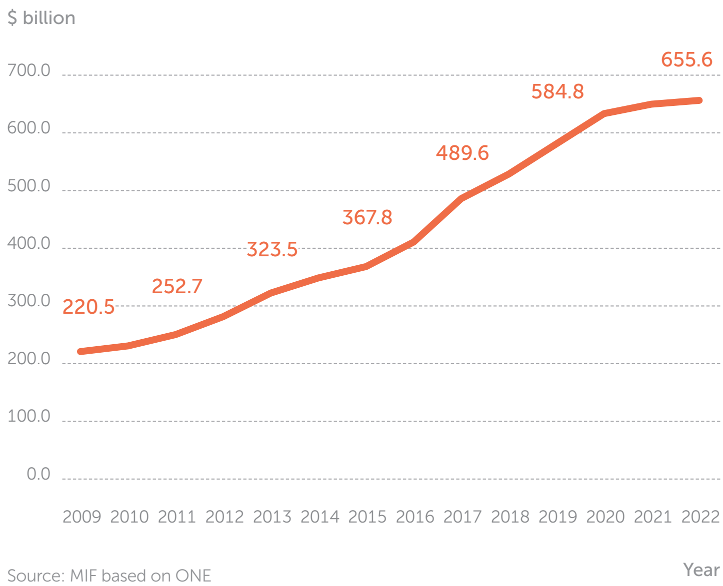
External public debt stock: tripled since 2009

Recent unforeseen and exogenous crises such as the COVID-19 pandemic and the Russia-Ukraine and Israel-Gaza conflicts have forced governments to increase public expenditure, while at the same time economic activity has shrunk with limited access to markets on very adverse terms. Consequently, the burden of debt and of debt repayments has increased massively, especially in low-income African countries.

The situation has reached a stage where the sheer amount and, more importantly, debt servicing costs and the structure of debt have become significant obstacles for Africa to bridge the financial gaps needed to meet development goals.

Africa's total external public debt has almost tripled since 2009, rising from $220 billion to $655 billion in 2022. This is the highest public debt stock Africa has had in over a decade.

Africa: total public and publicly guaranteed external debt (2009-2022)

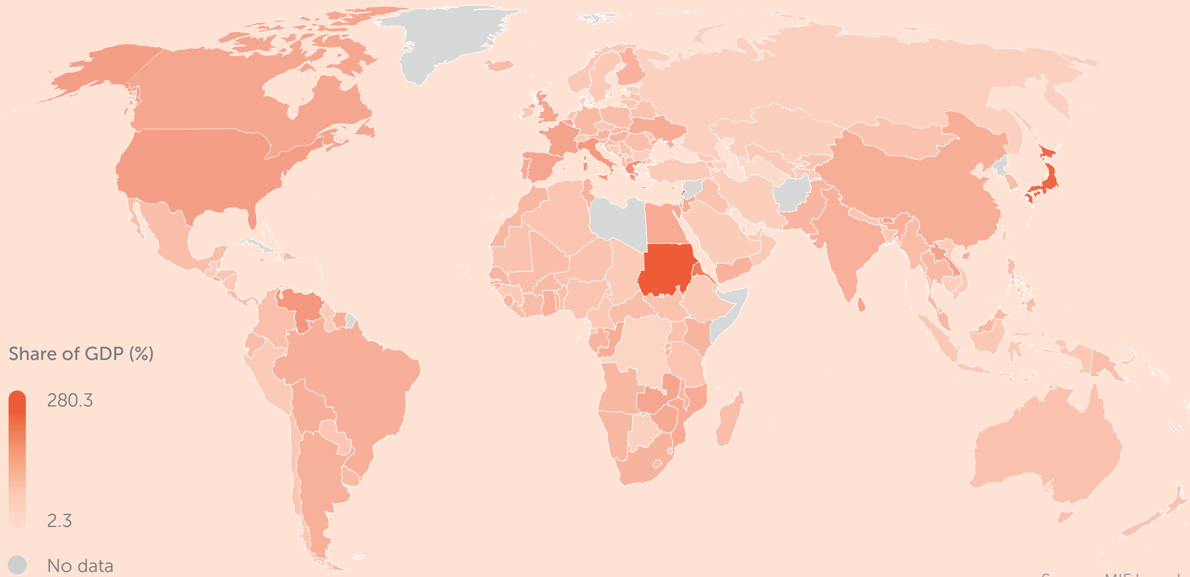


Source: MIF based on ONE

> We are at a critical juncture where most African countries are facing rising debt vulnerabilities, weak domestic resource and private capital mobilization, higher costs of borrowing, and "big funding squeeze" which, among other challenges, have serious ramifications on their fiscal sustainability and their ability to make critical investments.
>
> *Abdoul Salam Bello, Executive Director Africa Group II, World Bank*

Africa at risk of debt crisis due to debt servicing costs and structure

World countries: total public debt as a share of GDP (2024)



Source: MIF based on IMF

According to the IMF, the average debt-to-GDP ratio of Africa is 68.6%. in 2024. Based on that number, the continent remains far below many advanced economies like Japan (254.6%), the US (123.3%). Of the 52 countries for which IMF data is available, only two feature in the global top ten: Sudan and Eritrea with 280.3% and 207%, respectively.

Yet neither total debt stock nor debt-to-GDP ratio determine a country's extent of debt distress: based on analysis by Debt Justice, which includes criteria such as debt structure and debt payments in relation to revenue and exports, 28 African countries were "in debt crisis" as of 2022.

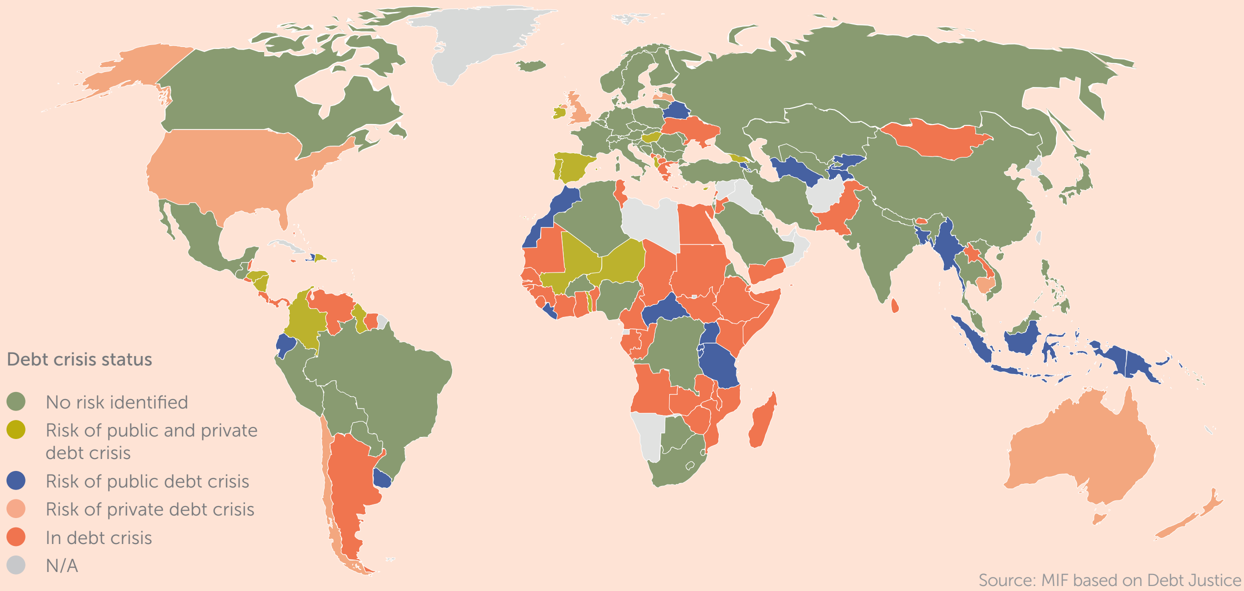
Sudan is the most indebted country globally with a debt-to-GDP ratio of 280.3%

Japan: the second most indebted country globally sustains investor confidence

Japan has the second highest debt-to-GDP ratios in the world at 254.6%. The country's accumulated debt is two and half times the size of its economy. Yet Japan's economy is able to sustain this high ratio due to various practices which include borrowing at very cheap rates and investing in risky, high-return assets while investor confidence also remains at an all-time high.

50 out of the 52 African countries for which data is available have a lower debt-to-GDP ratio than the United States

World countries: debt crisis status (2022)



Debt crisis: multiple definitions give different accounts of the debt story

Debt Justice presents a unique analysis in defining the status of a country in terms of debt, with five statuses: “No risk identified”, “Risk of public debt crisis”, “Risk of private debt crisis”, “Both”, and “In debt crisis”.

While the IMF focuses on whether or not a country can pay its debt, Debt Justice focuses on when debt payments undermine a country’s economy or the ability of the government to protect the basic economic and social rights of its citizens.

Of the 28 African countries that Debt Justice categorised as "In debt crisis" in 2022, the IMF acknowledges only eight of them as in debt distress: Congo Republic, Ghana, Malawi, São Tomé and Príncipe, Somalia, Sudan, Zambia and Zimbabwe.

In 2022, only 9 out of 54 African countries were in no risk of debt crisis

Launched in December 2023 by Egypt and UNECA, the Sustainable Debt Coalition brings together debtors and creditors advocating for comprehensive reform of the global sovereign debt architecture.

Debt Justice criteria for debt crisis status

Debt crisis	A large financial imbalance with the rest of the world: either a net international investment position of -30% of GDP or worse, or a current account deficit averaging over 3% per year for three years.	Large government payments on external debt: government external debt payments are greater than 15% of government revenue.
Risk of private sector debt		A large private external debt: private sector external debt stock over 40% of GDP or 150% of exports.
Risk of public debt crisis		External government debt payments projected by the IMF to exceed 15% of government revenue (over several years) with one economic shock OR government external debt over 40% of GDP or 150% of exports OR government external debt payments over 10% of revenue.

Debt and sovereignty: the "original sin"

Anne-Laure Kiechel, Founder and CEO, Global Sovereign Advisory

The increase in public debt in Africa, and the resulting rise in interest charges, is creating tighter constraints on national budgets. States and citizens may thus feel that they have lost control, that they are not responsible for the deterioration in public finances, and that they are suffering the consequences through cuts in public spending and investment.

On the government side, the sale of state-owned assets to the private sector is in some cases a form of loss of sovereignty, if its origins lie in the State's urgent need for financing.

On the citizens' side, there are just as many examples. Let's take the case of health care: despite the rise in spending induced by the Covid-19 pandemic, only 7.4% of the average African state budget was devoted to health care in 2021. This is less than half of the target set 20 years earlier by African Union member states under the Abuja Declaration. The weight of debt repayment expenditure is one of the reasons for these insufficient amounts dedicated to health.

The same applies to education. Admittedly, even before the Covid-19 pandemic, few African countries were meeting spending targets: whether in terms of the size of the economy (4% of GDP), of the budget (15% of total spending) or of spending per capita, only a dozen of the 52 countries for which data are available had achieved at least one of the Incheon Declaration spending targets during the 2017-19 period according to UNICEF. But education spending per capita fell in 2020 (-8% on average on the continent) at the time of the pandemic, without rebounding thereafter.

The issue of loss of sovereignty due to debt predates 2020 by a long way. By its very nature, debt always implies dependence on its creditor, and therefore a renunciation of part of one's sovereignty. In 1850, for example, an unpaid debt was one of the reasons why the British navy blockaded the port of Piraeus in Greece, and then occupied it a few years later.

In many other cases, the loss of sovereignty is less tangible but nonetheless real. As early as the second half of the 19th century, the US warned Japan about the risk of indebting itself in foreign currency. **The importance of a country's ability to issue debt in its own currency has been emphasized many times since, to the point of referring to this initial difficulty of emerging economies as “original sin”. As a result, they have to bear the exchange rate risk when they take on debt, an aggravating factor in periods of high volatility and currency depreciation**. Many African countries with flexible exchange rate regimes that were unable to issue government bonds on the international markets in 2022 and 2023 illustrate this risk. Before them, the crises in Latin America in the 1980s and 1990s, as well as the Asian crisis of 1997, highlighted this “original sin”. Following the latter, the ASEAN countries, Japan, China and South Korea decided to **accelerate the development of local currency bond markets**. Many of these countries now have deep and liquid local bond markets, thanks to the participation of a diversified mix of private and public, local and foreign investors. **This is the way forward for many African countries.**

> “
>
> Debt cancellation and restructuring should be the core solution to address the debt stress and financial pressure in African countries. It is of the utmost urgency to establish new financing mechanisms for African development.
>
> *Dr Arkebe Oqubay, Senior Minister and Special Adviser to the Prime Minister of Ethiopia*

Tackling African countries' 500% debt premium

David McNair, Executive Director for Global Policy, ONE

In 2023, net financial flows to so-called 'developing countries' turned negative. The amount of money being paid in debt service now exceeds aid and new debt issuances. And that is before we consider the impact of Illicit Financial Flows.

More than one in five emerging markets and developing countries paid more to service their debt in 2022 than they received in external financing. This could rise to more than one in three by 2025.

With China's economy faltering, and traditional donors spending more of their aid at home on in-country refugee costs, private investment to Africa has also plummeted from $41bn in 2021 to $22bn in 2022.

This is occurring at a time when the needs - and the potential - on the African continent are significant. Africa's population is booming as other regions struggle with ageing populations. Africa holds 60% of the world's solar potential and significant deposits of critical minerals essential for the clean energy transition.

That youth boom is fuelling a cultural renaissance. From the Afrobeats artists that now fill stadiums in Europe and North America to the high culture of the Venice Biennale.

So how do we channel investment towards harnessing these significant opportunities?

The widespread perception that African countries have too much debt is incorrect.

The truth is they have debt that is far too expensive. Analysis by The ONE Campaign showed that on average, African countries pay rates on Eurobonds that are 500% what they could achieve by borrowing from the World Bank.

To reduce the cost policy makers should prioritise three innovations in policy making.

First, efforts to **expand the balance sheets of the multilateral development banks and speed up their lending** is critical. Steps are already being taken to better leverage existing balance sheets, while the African Development Bank is innovating with a hybrid capital model that uses IMF Special Drawing Rights as collateral to raise low cost finance on capital markets. G20 countries should commit to accelerating these proposals now.

Second, we must prioritize **concessional finance to Low Income Countries in the form of the World Bank's Low Income Country fund, IDA**. African leaders have called for a **$120bn replenishment when IDA's shareholders meet in Korea in December.**

Third, we need innovations in how countries' Credit Ratings are conducted and the way in which prudential regulations put in place following the financial crisis to protect the Banking system are inhibiting common sense investments in green technologies across Africa.

These kinds of innovations are low cost, low risk and could yield significant payoffs in the long term.

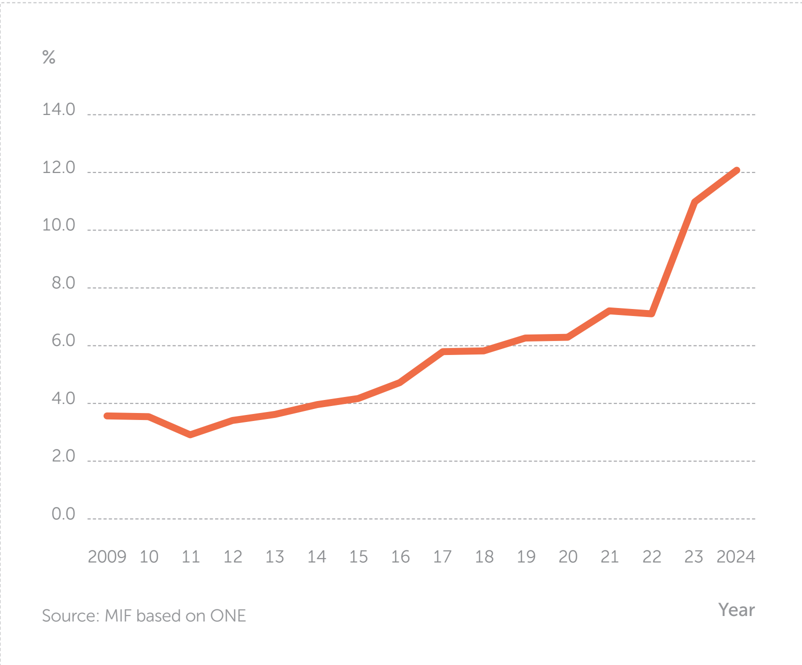
We simply need policy makers to have the foresight to implement them.

Debt servicing: a growing burden

The rise in debt servicing payments has placed a burden on Africa's public budgets at a critical time of expanding needs of social safety nets. External public debt servicing costs as a share of Africa's government spending, total revenue, total expenditures and exports are alarmingly high.

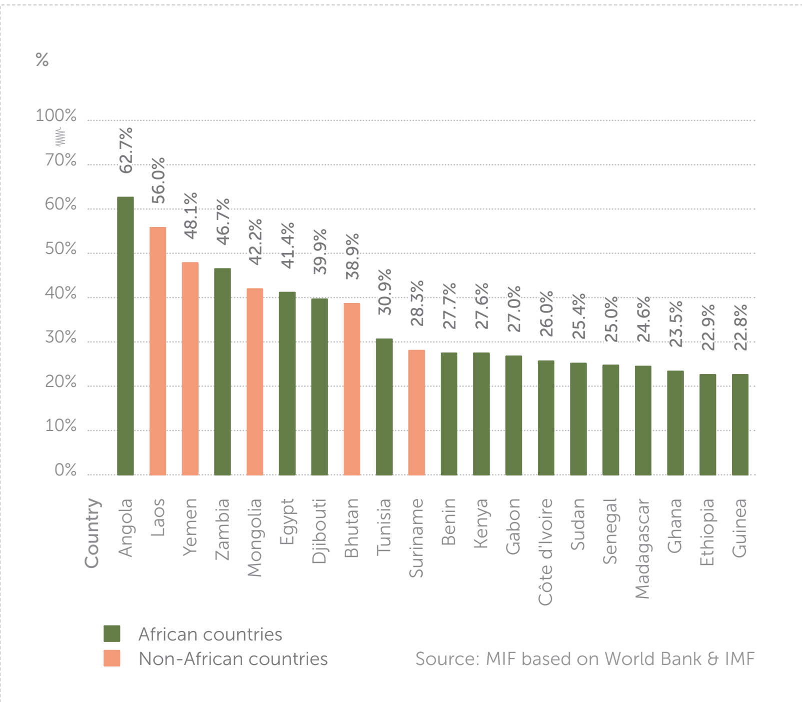
Africa's external public debt servicing costs as a share of government spending have more than tripled since 2009

Africa: external public debt servicing cost as a share of government spending (2009-2024)



> Countries have had to cut essential public spending, diverting development funds to debt servicing. This situation risks undermining the continent's growth potential, reducing its ability to withstand future shocks and, in the context of rapid population growth, slowing the convergence of per capita incomes in many countries.
>
> *IMF Regional Economic Outlook, April 2024*

Top 20 countries: external public debt servicing cost as a share of total revenue (2024)



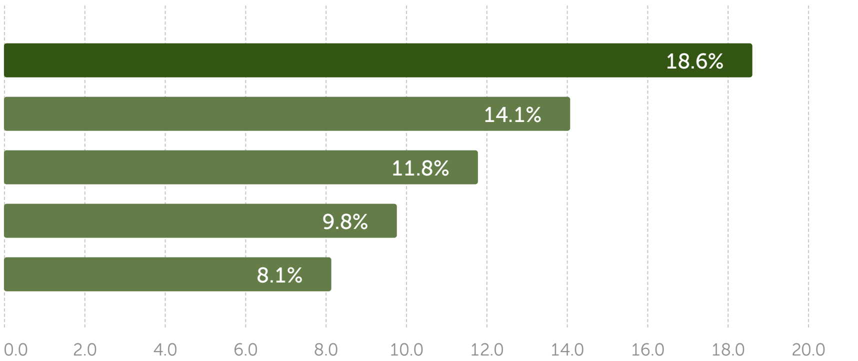
Debt servicing costs reduce climate investment capacity

According to the Debt Relief for a Green and Inclusive Recovery Project, 47 countries with a total population of over 1.1 billion will face insolvency problems in the next five years as they seek to ramp up investment to meet climate and development goals.

15 out of 20 countries globally with the highest debt servicing cost as a share of total revenue are African

Africa is the world region with the highest external public debt servicing cost relative to total revenue

World regions: external public debt servicing cost as a share of total revenue (2024)



Source: MIF based on IMF & World Bank

In 2024, Africa's yearly external public debt servicing costs amounted to 18.6% of the continent's total revenue, almost twice that of Europe and more than double that of Oceania.

Between 2010 and 2022, Africa's external public debt as a share of exports rose from 74.5% to 140%. Consequently, the rate at which the continent obtains the foreign currency necessary to service external public debt has grown slower than its debt servicing costs.

Africa finds itself in a tough position because of the substantial external public debt service payments due to be paid in the coming years.

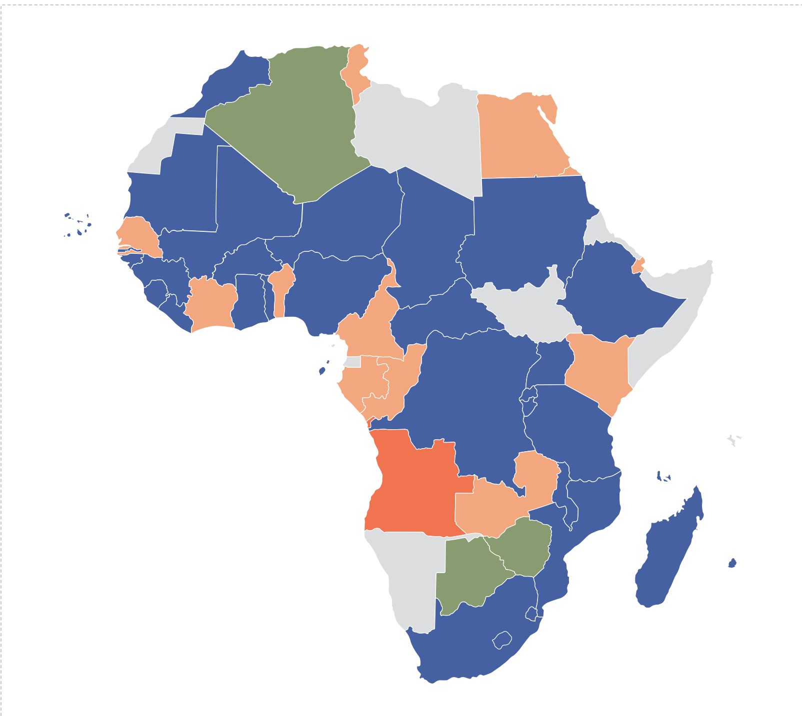
More than half of African countries have an external public debt servicing cost that is equivalent to between 5-20% of their total expenditure. Only three countries are under 5%, namely, Algeria, Botswana and Zimbabwe.

In 2021, Africa's yearly public debt servicing cost amounted to almost 15% of the continent's total revenue, five times that of Asia

25 African countries spent more public resources on net interest on debt service repayments than on health (2019-2021)

Angola has the highest external public debt servicing cost, amounting to 72.1% of its public expenditure

Africa: external public debt servicing cost as a share of expenditure (2024)



Less than 5%
5-20%
20-40%
Over 60%
No data

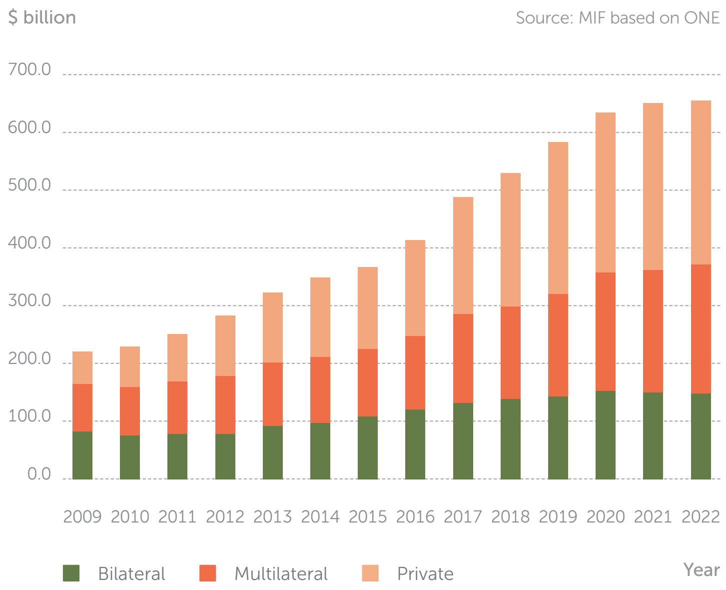
Source: MIF based on IMF & World Bank

Debt structure: its increasing complexity hinders current relief options

Africa's external public debt challenge is not entirely down to volume but also to structure. While in 2009, bilateral creditors owned most of Africa's external public debt, in 2022 it was mostly owned by private creditors. Indeed, the debt owned by private creditors has increased more than five-fold between 2009 and 2022.

In 2022, 43.1% of Africa's external public debt was owned by private creditors, as opposed to 24.8% in 2009

Africa: total external public debt owed by creditor type (2009-2022)



Debtor-creditor relationship imbalance

Private creditors own most of Africa's debt which has been the case since 2012. A large proportion of this debt is owned by bondholders, who specifically own 28.5% of Africa's external public debt alone.

As many African countries require restructuring of debt in the coming months and years, the composition of creditors are key in negotiations. Bondholders' participation in restructuring is voluntary which leaves debtor countries at their mercy.

This debtor-creditor relationship has been called out for favouring the bondholders and their responsibility to their parties, while the debtor responsibility to citizens is hardly acknowledged.

African Eurobonds: foreign currency and credit rating risks

Africa's debt structure has changed rapidly as borrowing from private creditors has increased, mostly in the form of Eurobonds. While Eurobonds provide much needed liquidity, they are issued in foreign currencies, exposing debtor countries to exchange rate risks that exacerbate existing vulnerabilities. In contrast to domestic debt, external debt cannot be inflated away and in the case of local currency depreciation, foreign debt becomes more expensive to service.

The increased issuance of Eurobonds with 10 years maturities, started in 2013 by African countries, results in a wall of sovereign debt repayments due in 2024-2025, adding further strain on budgets and ability to honour payments.

Honouring maturing debt is critical for further access to international capital as it indicates to the market the seriousness and efforts of a country in managing its own debt. However, successful return to the market and issuance of Eurobonds is, in part, dependent on favourable conditions and reasonable credit ratings.

Total outstanding African Eurobonds reached $136.2 billion in 2021, with 57% of the stock held by only four countries: Egypt, South Africa, Morocco and Nigeria

Bondholders own 2/3 of Africa's external public debt held by private creditors

Africa: top 10 private creditors by ownership share of external public debt (2022)

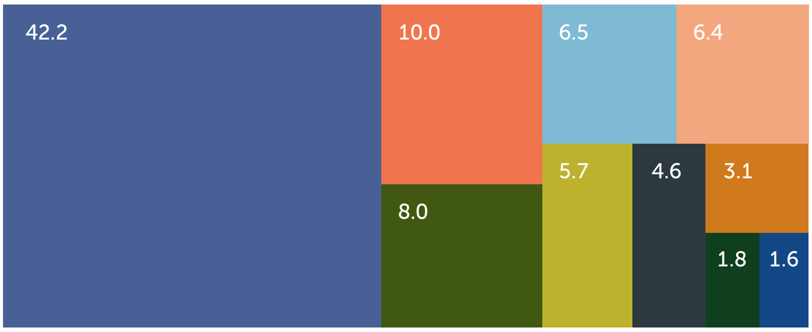
Bondholders	66.0
China	8.6
Multiple Lenders	6.5
United Kingdom	5.0
United Arab Emirates	2.4
France	2.0
United States	1.7
Israel	1.3
Switzerland	1.1
Netherlands	0.8

Source: MIF based on ONE

China owns most of Africa's public debt held by bilateral creditors

In 2022, bilateral creditors owned 22.7% of Africa's external public debt, down by almost 16% from 2009 (38.4%). China owned the largest share of Africa's external public debt held by bilateral creditors at 42.2%, followed by France (10.0%) and Saudi Arabia (8.0%).

Africa: top 10 bilateral creditors by ownership share of external public debt (2022)



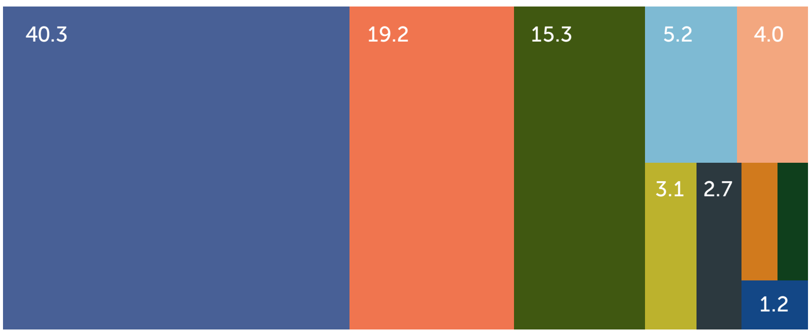
China	42.2
France	10.0
Saudi Arabia	8.0
Kuwait	6.5
Germany	6.4
Japan	5.7
United Arab Emirates	4.6
India	3.1
Russian Federation	1.8
United States	1.6

Source: MIF based on ONE

The World Bank's IDA owns most of Africa's external public debt held by multilateral creditors

In 2022, multilateral creditors owned 34.1% of Africa's external public debt, down from 36.8% in 2009. More than half was owned by the World Bank Group's IDA at 40.3% and International Bank for Reconstruction and Development at 15.3%.

Africa: top 10 multilateral creditors by ownership share of external public debt (2022)



World Bank-IDA	40.3
AfDB	19.2
World Bank-IBRD	15.3
European Investment Bank	5.2
Islamic Dev. Bank	4.0
Arab Fund for Economic & Social Dev.	3.1
African Export-Import Bank	2.7
International Fund for Agricultural Dev.	1.6
Eastern & Southern African Trade & Dev. Bank (TDB)	1.3
Multiple Lenders	1.2

Source: MIF based on ONE

African multilateral institutions owned one quarter of Africa's external public debt held by multilateral creditors: the AfDB, the African Export-Import Bank, the Eastern & Southern African Trade & Development Bank, the West African Development Bank, the Economic Community of West African States (ECOWAS), the Development Bank of the Central African States and the Central Bank of West African States.

Debt restructuring, debt forgiveness, debt swaps

The restructuring of debt currently has no universally recognised mechanism as all solutions depend on a voluntary agreement between debtor governments and their creditors.

Debt Service Suspension Initiative (DSSI): inclusion of private creditors is key

Created in response to Covid-19, the DSSI covered 32 African countries out of 48 and lasted until December 2021.

While the G20 called on private creditors to participate in the initiative on comparable terms, only one private creditor joined the programme. As a substantial portion of Africa's external debt is privately owned, the inclusion of more private creditors in future initiatives is key.

The G20's Common Framework: slow process, no common ground among multiple creditors

Launched in 2020 as a response to African countries in default, the Common Framework was quickly criticised for the slowness of its process.

One major obstacle is the 'compatibility of treatment' rule which states that no creditor should receive more favourable treatment than others. The diversity of Africa's creditors which range from China to France make it especially hard for common ground to be reached.

While Zambia has managed to strike a deal with bondholders as of March 2024, the delay in the debt restructuring deal lasting years leaves many African countries such as Ghana and Ethiopia with few good options.

Multilateral Development Banks: the need for more concessional loans

Multilateral development banks (MDBs) could have a greater role in alleviating the debt crisis, provided they strengthen their capacities. Indeed, concessional loans received by the poorest countries from MDBs in 2022 were smaller than the debt service these countries were paying.

During the second IDA21 replenishment meeting in Nairobi in April 2024, African leaders called for stable concessional finance for Africa (currently targeted at $60 billion during IDA20 until June 2025), and for a robust replenishment of IDA21, which is bound to be confirmed in December 2024.

Disagreements delay debt restructuring: Paris Club vs China

In recent years, debt restructuring has failed due to disagreements between creditors, namely the Paris Club and China.

While the Paris Club has accused China of refusing to adhere to traditional collective debt relief, the country seeks to restructure on its own terms as the dominant bilateral creditor. It is in Africa's best interest that creditors are aligned as disagreements will only delay much-needed debt restructuring.

The role of China is particularly key for Africa as it owns 8.6% of Africa's external public debt held by private creditors and is the continent's largest bilateral creditor.

The Finance for Development Labs proposal: delayed debt repayment for greater fiscal space

The Finance for Development Lab (FDL) is a non-profit, non-partisan think-tank dedicated to "building a fairer architecture for international finance". Its proposal focuses on addressing the disparity between short-term debt challenges and long-term investment requirements. With collaboration of debtors, creditors and MDBs, countries would be able to reschedule their payments. The delay in debt repayments would then create the necessary fiscal space for investment, financed by MDBs.

Debt-for-nature-swaps: a fast-growing sustainable debt market?

Debt-for-nature swaps are transactions in which creditors provide debt relief for developing countries that commit to environmental conservation. This proposal was first introduced in the 1980s by the World Wildlife Fund's Thomas Lovejoy aimed at debt-stricken countries who often cut government spending for the protection and preservation of the environment.

In 2015, Seychelles concluded a US$ 21.6 million debt-for-nature swap. Gabon was the first continental African country to launch a debt-for-nature swap in 2023, planning to buy up to $450 million of government debt in exchange for eco-friendly blue bonds.

With most climate-vulnerable countries being in Africa, debt-for-nature swaps could free up much-needed fiscal resources for governments with which to improve climate resilience.

The African Leaders Nairobi Declaration (6 September 2023), proposed granting African countries grace periods on interest payments lasting ten years to allow funds to be redirected from debt service to investment projects tackling climate change.

Somalia's debt: one of a kind

As of March 2024, Paris Club creditors announced the cancellation of 99% of Somalia's debt. Part of the debt will be waived on a voluntary and bilateral basis between the individual creditor countries and the rest will be under the Heavily Indebted Poor Countries Initiative (HIPC), run by the IMF and World Bank.

African countries' ability to successfully broker debt relief or debt restructuring is heavily dependent on who the creditors are. Public bilateral creditors own the largest share of Somalia's public debt at 85.5% and 6 out of the top 10 bilateral creditors to Somalia are part of the Paris Club, with the United States owning 50% of the country's external public debt owed to bilateral creditors. This is in sharp contrast to the African average.

Other countries with more diversified creditors including Paris Club and non-Paris Club countries may struggle to reach a similar deal due to inter-creditor tensions.

Among key challenges: high borrowing costs, punishing conditions and surcharges, defaults on partners' commitments

Africa's borrowing costs are too high

According to UNCTAD, African countries are paying eight times more interest on loans than their European counterpart Germany, and four times more than the US.*

African countries are also paying much higher interest rates to foreign bondholders and other lenders like China compared with international financial institutions such as the World Bank.

Between 2019 and 2021, 25 African countries spent more on interest payments than on health. Seven spent more on interest payments than on education.

* This is based on bond yields between 2022 to 2023 denominated in $.

IMF conditionalities and surcharges further restrict African budgets

IMF loans come with conditionalities, typically including policy packages that encourage austerity, privatisation, liberalisation and deregulation.

Out of 39 IMF programmes reviewed, 33 included measures of fiscal consolidation. Thirteen African countries underwent measures to either contain or reduce public wages. Although cuts to public expenditure mostly aim at improving effectiveness and transparency, some of these measures are criticised by human rights organisations for having a negative impact on low-income countries.

Surcharges are additional interest payments the IMF imposes on heavily indebted borrowing countries, according to the size and the repayment time of their loans. The IMF has long been criticised for additional fees on loans which place a 2% or 3% interest rate on borrowers as this diverts scarce resources from other necessary expenditures at a time when countries already face liquidity restraints. They apply to loans obtained via the IMF's General Resource Account (GRA) which handles most of the lending operations in high-and-middle income countries.

According to the Centre for Economic and Policy Research (CEPR), there have been growing calls for the IMF to suspend surcharge payments for multiple years, or to eliminate them all together.

Ten of the 23 countries that are predicted to be at high or moderate risk of paying surcharges soon are African. These charges effectively discriminate against and punish countries that are the most in need of IMF assistance.

In April 2024, UNSG Antonio Guterres called for a wholesale reform of the global financial system:

1. Enhance debt transparency, scale-up lending in local currencies and develop new debt instruments for fairer and faster restructuring processes;
2. Provide more affordable, long-term financing primarily through MDBs;
3. Increase developing countries' representation across the international financial system;
4. Temporarily suspend IMF's surcharges.

The IMF will charge over $2 billion per year in surcharges through 2025

For surcharge-paying countries, surcharges make up on average 36% of all charges and interest payments to the IMF – 40.2% on average for the five most indebted countries

On average, private external bonds carry interest rates of 6.2%

This vision and mission will test the sincerity of our ambition – it sets us on a journey that will require reimagined partnerships, a new way of working and thinking, an innovative plan to scale and replicate, additional resources, and optimism for what could be possible.

Ajay Banga, President, World Bank Group

The partnership between Europeans and Africans represents hope

H.E. Charles Michel, President, European Council

Wherever we are, wherever we come from, we are facing three fundamental shocks that shake up the world and have implications for all of us. The first shock is a shock to nature. Climate change is not a theory but a reality as many across the world suffer from natural disasters such as droughts and lack of access to clean water and food. The second shock is technological. It is our ability to introduce new technologies into our lives in a manner that ensures their outcome is virtuous for societies. Finally, the third shock are the repeated attacks we are witnessing on the multilateral system when today's challenges can only be sustainably dealt with when there is international cooperation.

In this context, I believe that the partnership between Europeans and Africans represents hope. Hope because leaders of the European Union and the African Union at the February 2022 Summit in Brussels agreed on a joint vision for our future based on mutual respect and trust. At the core is not only the strive to work together towards our common objectives for more peace and prosperity. An equally central question is **how we work together to tackle several complex and multi-dimensional issues ranging from the green and digital transitions, demography, inequalities, insecurity to managing migration in a responsible and respectful way**.

First, we need solid and bankable projects to respond to these different challenges. This requires investment into the necessary infrastructure. A recent example followed the tragic COVID crisis. We listened to our African partners regarding the need to put in place meaningful strategies for both vaccine production and the transfer of technology. This resulted in the launch of vaccine manufacturing and production capacities in Senegal, Rwanda, South Africa and Kenya, with the support of Team Europe which mobilised financial firepower from the EU, the European Investment Bank and Member states.

Secondly, adequate financing is a condition sine qua non. It is for this reason that the world's financial architecture must be fit for today's needs. The world needs more and faster finance; it also needs to mobilise innovative finance, the private sector, and private/public partnerships. **The reform of the Multilateral Development Banks is a priority: modernising their missions as well as strengthening their operating and financing models is a must**. The acceleration of the re-allocation of Special Drawing Rights and the replenishment of the IMF's Poverty Reduction and Growth Trust (PRGT) is also crucial. Financing decisions must also better take into account the impact of the global debt, especially on low-income countries.

In addition, Africa tapping into its own resources to generate revenues could also make an important difference. This requires good governance and a sound management of resources. The EU can provide support through its expertise, in areas such as taxation. It is also a reason why it is so crucial to implement Africa's free trade continental area. Economic integration across the continent can unleash opportunities for African jobs and growth.

Finally, inclusivity is a key component to solving this equation. It is essential that those concerned by the decisions that affect them have their voices genuinely heard. This is why the EU has been a strong advocate from the beginning for the African Union's G20 membership, and we celebrate the AU accession as a permanent member.

The Paris Pact for People and the Planet (4P)

Chrysoula Zacharopoulou, Minister of State for Development and International Partnerships, France

One year ago, the combined effects of the pandemic, conflicts and climate change were putting our Sustainable Development Goals under threat like never before, taking their strongest toll on Africa.

One year ago, facing this urgency, leaders from all parts of the world, both developed and developing countries, small island states and big emerging markets, gathered in Paris at the invitation of President Macron.

In Paris, we collectively agreed on two important principles, coined by H.E. Mia Mottley of Barbados and H.E. Wiliam Ruto of Kenya and other champion leaders: the climate and poverty agendas can only be fought as one, and ambition for our people and planet should prevail over any logic of division.

These principles translated into the Paris Pact for people and the planet (4P) that would soon become the basis for a community of global driving forces, willing to make the international financial architecture fit for purpose in the face of 21st century challenges.

The 4P community now brings together 55 partner countries, of which 23 are African countries. The 4P Special Envoy is a former African Head of State. Assisted by an independent P4 Secretariat, Macky Sall gives a face to this new ambition, helping to grow the political traction around its implementation.

The 4P members regularly gather to forge consensus ahead of major milestones, helping to ensure that the negotiations and discussions in other fora, from COP29 to the annual meetings of the IMF and the World Bank, converge to deliver a unified agenda for development, climate and nature, in line with the 4P principles.

The 4P also serves as a unique platform where each country can bring innovative solutions to the fore and use it as a matching place to find partners willing to engage and move these forward. **These "coalitions" range from identifying new solidarity levies for public goods, to biodiversity credits, including climate-resilient debt clauses and carbon markets. Each of these coalitions aims at doing its bit to ensure a global surge of financing for climate and development.**

Financing needs to achieve SDGs in Africa alone are daunting. The 4P can help answer this overarching question – Where is the money? – looking both at public and private sources, and **leaving no stone unturned**.

One year after the Paris Summit, significant progress has already been made on this path: the Bretton Woods institutions and the major regional development banks have accelerated the in-depth review of their actions to ensure that climate issues are better taken into account, as well as the release of additional financing, and the strengthening of the representativeness of major international financial bodies.

The next two years will be instrumental for achieving concrete results: the 4P intends to play its full part in supporting these discussions, so that we can all live in a world free of poverty on a liveable planet.

> **Changing the global governance system to create an enabling environment for African economic transformation is essential.**
>
> *Dr Arkebe Oqubay, Senior Minister and Special Adviser to the Prime Minister of Ethiopia*

> **We want a deal that does not bring the baggage and the toxic conversation of North versus South.**
>
> *H.E. William Ruto, President of Kenya*

FOREIGN DIRECT AND PORTFOLIO INVESTMENTS IN AFRICA: A COMBINED WORTH OF OVER $200 BILLION

Foreign Direct Investment (FDI) vs Foreign Portfolio Investment (FPI)

FDI involves an investor from one country establishing a direct business interest in another country. This typically entails either starting a new enterprise or buying a substantial stake in an existing one, usually defined as owning at least 10% of the company's equity. FDI provides a long-term commitment to the host country as it entails active participation in the management, joint venture and transfer of technology and expertise.

FPI is an investment by non-residents in overseas securities, such as stocks and bonds. Unlike FDI, FPI does not give the investor direct control over the businesses in which they invest. The primary purpose of FPI is to quickly earn a return on investment from changes in asset prices. FPIs are often more liquid and represent less risk than FDIs as they can be sold off quickly. They are generally short-term investments, with investors constantly trading securities based on their assessment of market conditions.

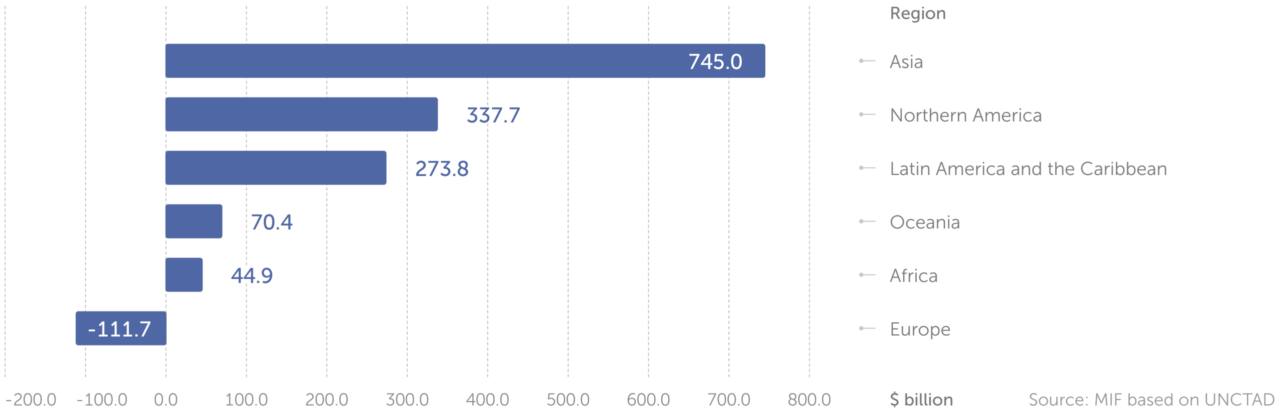
Type	Direct Investment	Portfolio Investment
Investment duration	• Long-term, seeking lasting presence in a foreign market • Strategic, active commitment to host country	• Short/medium-term – focused on gains from market fluctuations • Passive investment in financial assets, can be easily sold
Level of control	• Equity ownership and significant influence	• No ownership/lack of control – focused on financial returns
Nature of investment	• Investment in tangible assets like infrastructure	• Diversification of assets for investors • Investment in financial assets like stocks or bonds
Risk and return	• Higher risk due to long-term commitment • Not as dependent on market conditions	• Less risk, investors able to enter or exit positions • Returns based on market conditions
Influence on exchange rate	• Steady - FDI can cause slow appreciation of domestic currency	• More volatile - FPI influxes can cause sudden appreciation or depreciation of domestic currency
Potential benefits for host countries	• Transfer of skills and technology • Job creation • Increased tax revenue • Development of lasting infrastructure, factories etc.	• Increased liquidity and availability of capital • Reduce the cost of borrowing • Improve efficiency of financial markets • Signal confidence and stability
Potential problems for host countries	• Can lead to foreign influence in key domestic industries • Can crowd out domestic firms • Profit repatriation	• Financial instability - can lead to sudden in- and outflows that destabilise the economy • Dependency on external capital • Contagion effects

FDI to Africa: only 3.3% of global FDI

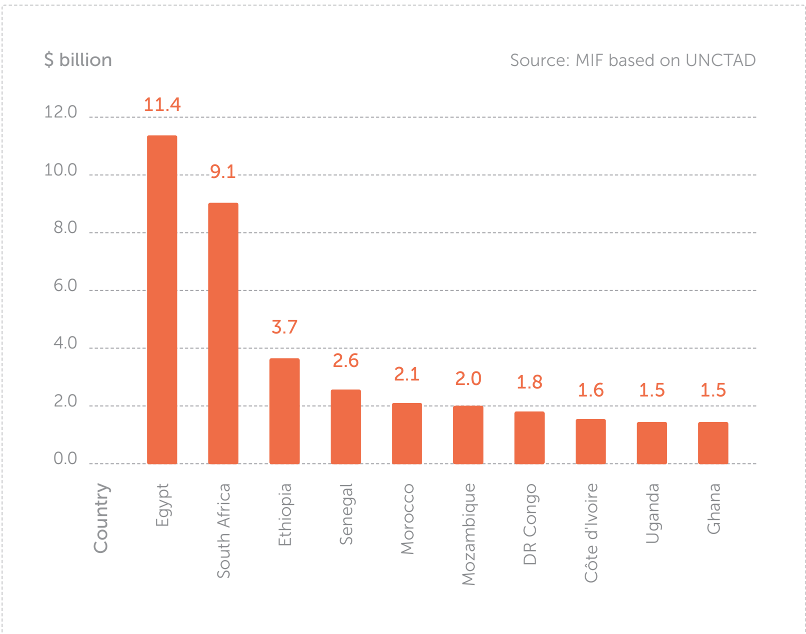
Africa gets the lowest FDI of developing regions, making up only 3.3% of global FDI

In 2022, FDI to Africa represented only 3.3% of total FDI

World regions: total inward flow of FDI (2022)



Top 10 African countries: recipients of FDI (2022)



64% of all FDI to Africa goes to only five countries: Egypt, Ethiopia, Morocco, Senegal & South Africa

FDI to Africa declined by 44% between 2021 and 2022

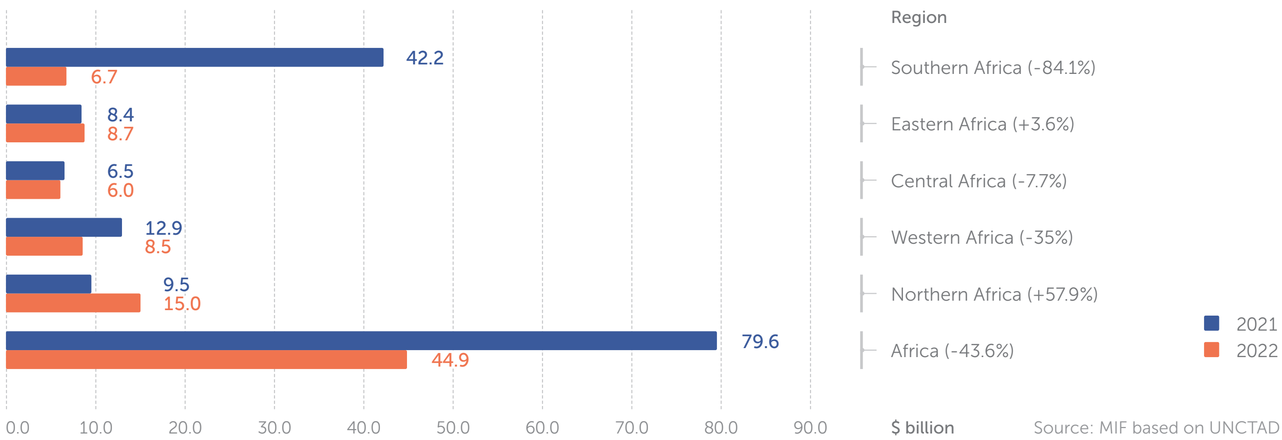
FDI inflows in Africa decreased to $45 billion in 2022, after an $80 billion peak in 2021.

The slowdown is primarily attributed to the global polycrisis including the COVID-19 impact, the Russia-Ukraine conflict, high food and energy prices and debt pressures. International project finance and cross-border mergers were especially affected by rising interest rates, tighter financing conditions and uncertain capital markets.

Africa's FDI flows remained nearly unchanged in 2023 at an estimated $48 billion. The region saw an increase in greenfield project announcements, particularly in Morocco, Kenya and Nigeria. However, a significant one third reduction in project finance deals – higher than the global average – raises concerns for the future of infrastructure financing on the continent.

FDI flows to developing countries fell by 9% to $841 billion in 2023

African regions: FDI received (2021-2022)



Source: MIF based on UNCTAD

Between 2021 and 2022:

- Southern Africa experienced the sharpest decline of 84.1%.
- Egypt saw FDI more than double to $11 billion, thanks to cross-border merger and acquisition (M&A) sales.
- In Nigeria, FDI flows turned negative to -£187 million because of equity divestments.
- FDI to Ghana fell by 39% to $1.5 billion.
- FDI to Ethiopia decreased by 14% to $3.7 billion, with the country remaining the second largest recipient of FDI in Africa.

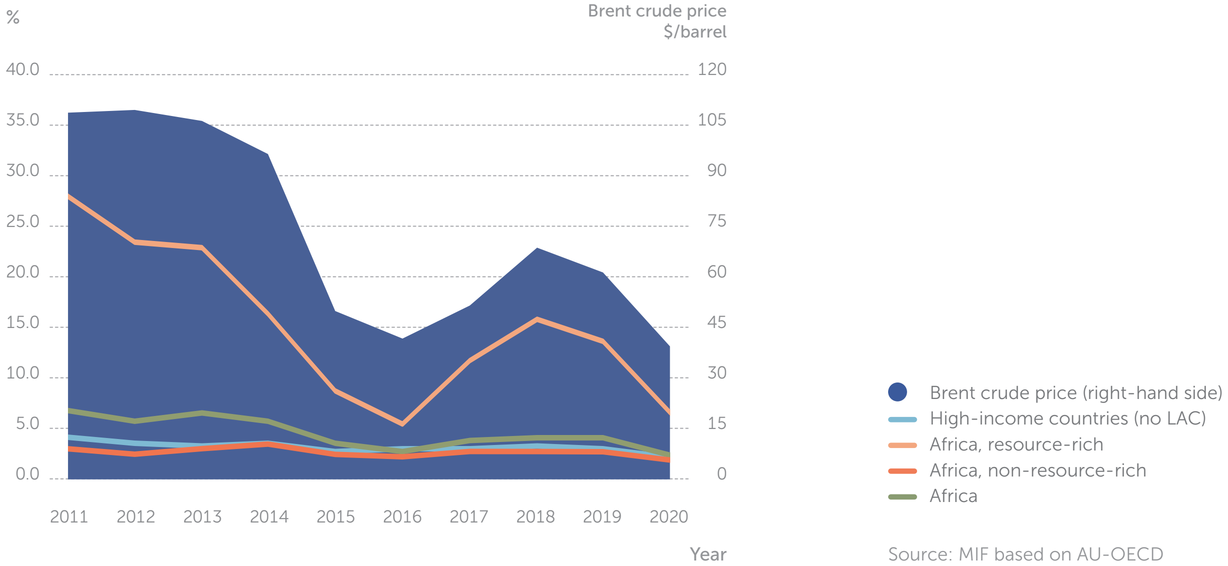
Africa has some of the highest rates of return on investment globally

According to the UN, FDI in Africa in 2023 can be seen as a paradox. Despite Africa providing some of the highest rates of return on investment between 2006-2011 (11.4%, compared to 9.1% in Asia and 8.9% in Latin America & the Caribbean), it still attracts the lowest share of FDI than any other region.

In 2019, the rate of return on all inward FDI in developing African countries reached 6.5%, higher than the rates in Latin America and the Caribbean at 6.2%, and higher than the 6% return in developed economies.

The Lucas paradox: global capital does not flow from rich to poor countries despite higher marginal returns in poorer economies

Selected country groupings: rates of return on FDI inflows & oil prices (2011-2020)



Source: MIF based on AU-OECD

Despite this, many factors disincentivise investment:

- Low public capital (poor infrastructure)
- Low human capital (absence of skilled, educated and healthy labour force)
- Low institutional capital (weak security and judicial systems)
- Weak property rights

Returns to FDI in Africa have narrowed compared to FDI in high-income countries:

- Narrowing FDI return differentials between developing and advanced economies have contributed further to declining shares of FDI inflows to developing countries.
- In Africa, the decline in FDI returns has been mostly driven by resource-rich economies due to a downward trend in oil prices from 2011 until prices rebounded in 2021.
- In contrast, FDI inflows to non-resource exporters (such as Ethiopia, Kenya, Madagascar and Mauritius) have been relatively more resilient.

In 2019, the rate of return on all inward FDI in Africa reached 6.5%, higher than the 6% return in developed economies

African FDI remains mainly concentrated in the extractives and energy industries

Historically, FDI inflows in Africa have been concentrated in the extractives sector. Between 2006 and 2010, resource extraction, petroleum and coal processing projects made up more than half of the estimated $236 billion greenfield FDI projects announced in Africa.

In Mozambique, three massive Liquefied Natural Gas (LNG) projects are planned, with a combined investment of $55 billion following the discovery of the reserve in 2010 (some estimates put the total investment as high as $100 billion). These investments are much greater than the size of the Mozambican economy, which has a GDP of $24.0 billion in 2024.

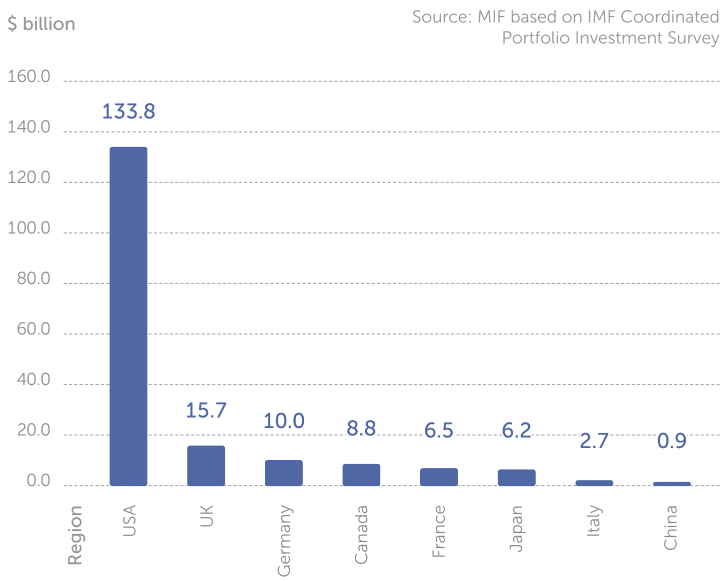
Extractives continue to attract FDI due to their critical role in the green energy transition. As highlighted in MIF's *Africa on the road to COP28* report, with the continent being host to 30% of the global mineral reserves, Africa is likely to receive a great deal more FDI in the mining sector in light of the global energy transition.

However, FDI spread to other sectors during 2003-2020. Greenfield FDI to Africa's manufacturing sectors accounted for 20.6% of total foreign investment on the continent and generated on average five jobs per $1 million invested – the highest ratio across all other sectors.

Renewable energy FDIs are concentrated in South Africa, Morocco, Egypt and Kenya, accounting for around 75% of all renewable energy FDIs in Africa since 2010, at $46 billion

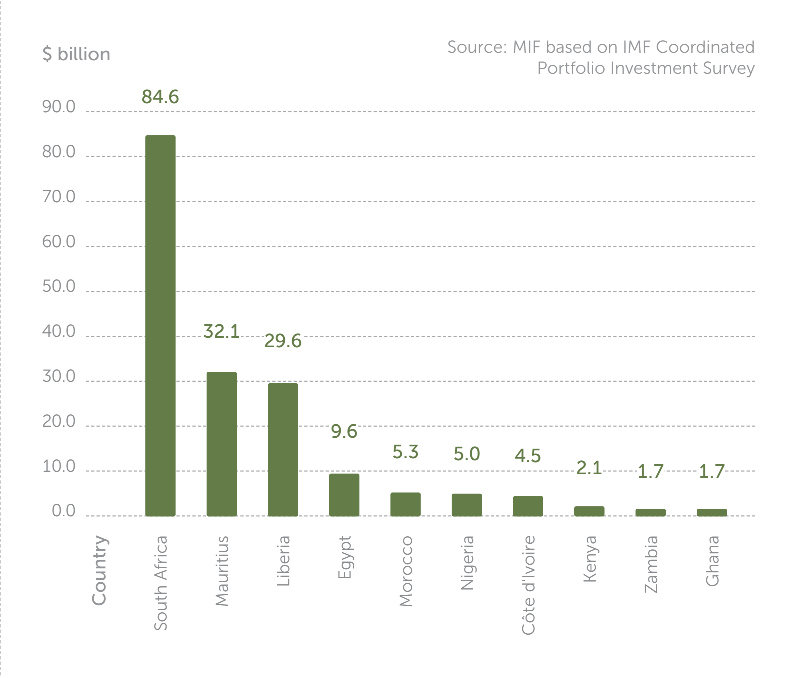
FPI in Africa: approximately $185 billion from G7 countries and China

G7 countries & China: total FPI in Africa (as of June 2023)



According to the IMF's Coordinated Portfolio Investment Survey (CPIS), the US currently holds the largest amount of FPI in Africa, with over $130 billion, followed by the UK and Germany with a combined investment of approximately $25.7 billion between them.

Top 10 African countries: FPI received from G7 countries & China (as of June 2023)



In 2022, South Africa, Mauritius and Liberia combined represented 79.3% of the total FPI in Africa from G7 countries and China

"Global investment far exceeds all estimates of the 'cost' of the SDGs. Today, only a small fraction of financial capital aligns with the climate goal and the SDGs. We need a global financial architecture that can reorient the entire financial system as clearly stated in Article 2.1.c of the Paris Agreement, the Addis Ababa Action Agenda, and the Montreal-Kunming Framework.

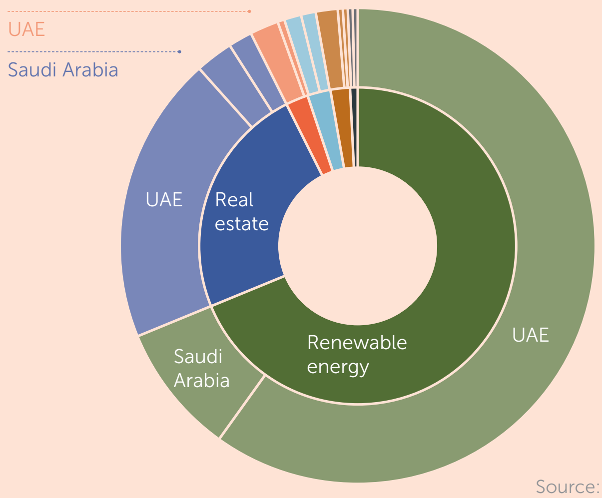
Rémy Rioux, Chairman of Finance in Common and CEO of Agence française de développement

Investment in Africa: the growing prominence of Gulf investors

Companies based in Gulf Cooperation Council (GCC) countries — including the UAE, Saudi Arabia, Kuwait, Qatar, Bahrain and Oman — announced 73 FDI projects in Africa worth more than $53 billion in 2023, according to the latest data from fDi Intelligence.

This significant upturn reflects an effort by oil-rich Gulf states to diversify away from hydrocarbons and to invest in emerging technologies. Green hydrogen will be vital for decarbonising hard-to-abate sectors such as shipping and steel but remains years away from full implementation.

Africa: investments from Gulf countries by type of project (2022-2023)



Source: MIF based on fDi Intelligence

Renewable energy projects made up the majority of Gulf investment in Africa in 2022 and 2023

The growth of Gulf investors in Africa coincides with investments from other emerging world economies. FDI by Hong Kong and China-based companies on the continent reached $38.5 billion in 2023 — an all-time high which aligned with the $38 billion committed by Western European companies.

Meanwhile, greenfield FDI from the US into Africa was less than $10 billion in 2023 — its highest since 2018, but lower than the Middle East and other regions, according to preliminary fDi Intelligence figures.

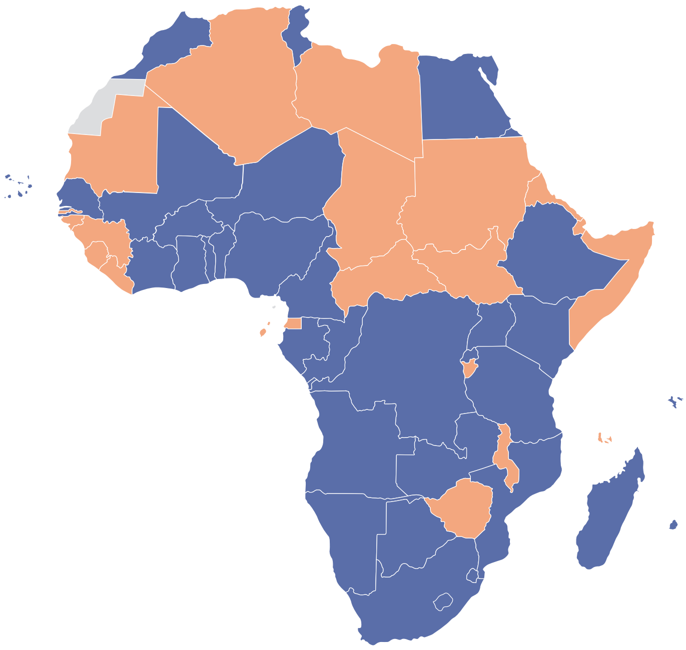
21 African countries have never received a sovereign risk rating

Credit ratings agencies (CRAs) are critical to determining the cost at which governments can borrow on international capital markets. At their core, sovereign credit ratings assess a country's willingness and ability to service its debts. They are typically done at the request of the country issuing a bond or other financial instrument. This rating is paid for by the issuer and the relevant information will be passed on to the CRA of their choice. As it stands, three CRAs control 95% of the global market, namely S&P, Moody's and Fitch.

South Africa was the first African country to receive a sovereign rating, in 1994 by Fitch. In 2023, 33 African countries have received a sovereign rating from at least one of the three agencies, leaving 21 African countries, representing 14.2% of the continent's GDP, with no rating.

Only 33 countries are graded by the 'big three'

African countries: credit rating status (2023)



CRA rated

Yes

No

Source: MIF based on Trading Economics

Only 33 African countries have been rated since 1994 by at least one of the three main rating agencies

Pervasive harmful stereotypes of Africa as an insecure destination are deeply engrained in international financial institutions and perpetuated through media coverage and 'objective' assessments done by credit rating agencies (CRAs). Media representation is a key determinant of investor sentiment and risk perception, particularly in the absence of in-country data. Higher risk perception increases the interest rate at which countries can borrow money from institutional or private lenders. According to Africa No Filter in 2023, negative media portrayals could cause Africa to lose up to $4.2 billion annually in 'overpaying' for interest.

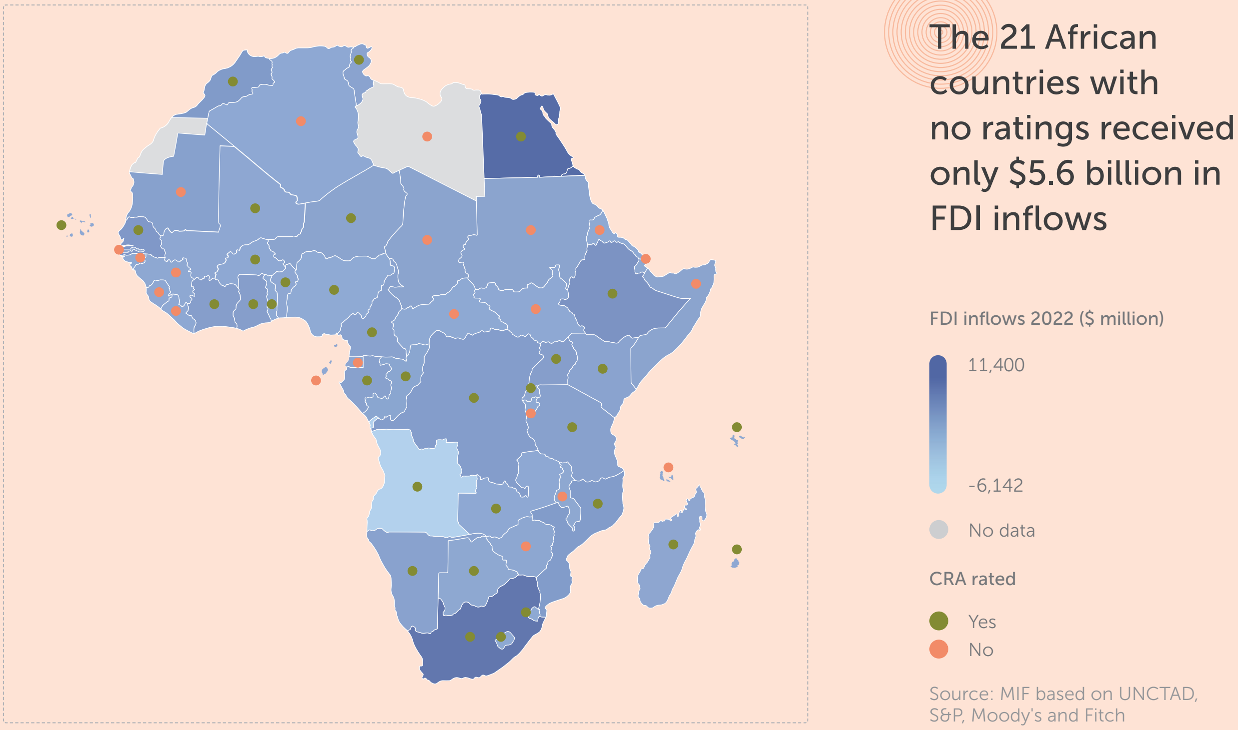
Could coverage of the remaining 21 countries yield additional FDI?

There is a strong positive relationship between influxes of FDI and credit ratings for African countries.

- The total amount of FDI inflows received by countries which have received at least one credit rating is almost $40 billion.
- The total amount of FDI inflows received by countries which have not received any credit rating is $5.6 billion.

In 2022, the 33 countries with credit ratings received a total combined amount of almost $40 billion in FDI inflow

African countries: credit rating status (2023) & FDI inflows (2022)



The 21 African countries with no ratings received only $5.6 billion in FDI inflows

Source: MIF based on UNCTAD, S&P, Moody's and Fitch

Top 10 African Countries: FDI inflows (2022) & credit rating from S&P, Moody's and Fitch (2024)

Country	S&P	Moody's	Fitch	FDI inflow (2022) ($ billion)
Egypt	B-	Caa1	B-	11.4
South Africa	BB-	Ba2	BB-	9.1
Ethiopia	SD	Caa3	RD	3.7
Senegal	B+	Ba3		2.6
Morocco	BB+	Ba1	BB+	2.1
Mozambique	CCC+	Caa2	CCC+	2.0
DR Congo	B-	B3		1.8
Côte d'Ivoire	BB-	Ba2	BB-	1.6
Uganda	B-	B3	B+	1.5
Ghana	SD	Ca	RD	1.5

Only two African countries classified as "investment grade"

Grade	Rating Classification	Fitch	Fitch-rated countries	Moody's	Moody's-rated countries	S&P	S&P-rated countries
Investment Grade	Prime	0		0		0	
	Upper medium grade	0	N/A	1	Botswana	0	N/A
	Lower medium grade	0	N/A	1	Mauritius	2	Botswana Mauritius
Speculative Grade	Speculative	5	Côte d'Ivoire Morocco Namibia Seychelles South Africa	4	Côte d'Ivoire Morocco Senegal South Africa	4	Benin Côte d'Ivoire Morocco South Africa
	Highly speculative	11	Angola Benin Cameroon Cabo Verde Egypt Gabon Kenya Lesotho Nigeria Rwanda Uganda	11	Angola Benin DR Congo Eswatini Kenya Namibia Rwanda Tanzania Togo Uganda	13	Angola Cabo Verde Cameroon Congo Republic DR Congo Egypt Kenya Madagascar Nigeria Rwanda Senegal Togo Uganda
	Substantial risks	3	Congo Republic Mozambique Tunisia	11	Cameroon Congo Republic Egypt Ethiopia Gabon Mali Mozambique Niger Nigeria Tunisia	2	Burkina Faso Mozambique
	Extremely speculative	0		1	Ghana Zambia	0	
	In Default	3	Ethiopia Ghana Zambia	0		3	Ethiopia Ghana Zambia

How to improve ratings: Moody's viewpoint

Marie Diron, Managing Director Sovereign Risk Group, Moody's

In recent years, a handful of Sub-Saharan African sovereigns have made good progress on reforms that if sustained could strengthen Moody's assessment of their governance and overall creditworthiness. Tanzania, Angola and Côte d'Ivoire, for instance, are growing revenue by **improving tax collection** through digitization efforts or the introduction of new taxes. Angola and eSwatini have implemented **fiscal stabilization laws** that will very gradually improve public spending efficiency, effectiveness and credibility.

Monetary reforms in Nigeria, Tanzania, and Angola are promoting price stability and access to foreign currency, boosting business, consumer and investor confidence. And by encouraging savings, the reforms could ultimately build a pool of domestic capital for investment and government borrowing.

Floating exchange rates could also act as automatic economic stabilizers during global shocks. Tanzania and Angola have streamlined their state-owned enterprises' governance, mitigating fiscal drain and competition obstacles. Both countries, along with Côte d'Ivoire, have made some progress **tackling corruption**. Sustaining these efforts will enhance institutional strength and equip these countries to better handle the common economic, social and financial risks faced by Sub-Saharan African sovereigns.

However, **credible track records of carrying out reforms and evidence that institutions can withstand external shocks** are needed for ratings to move higher up Moody's scale. For example, investment-grade sovereigns are capable of executing necessary fiscal, political and economic adjustments in response to both external and domestic social and political shocks to preserve creditworthiness.

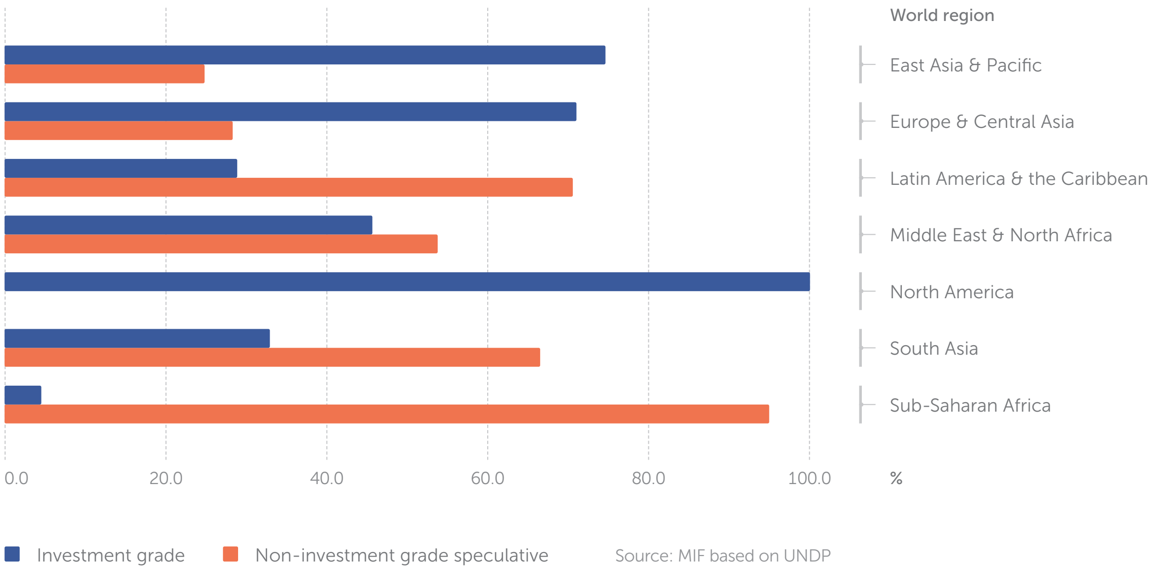
By contrast, broad institutional issues persist in Nigeria. eSwatini's resilience to external shocks or domestic politics remains untested. Social risks from inflationary or exchange rate pressures may disrupt Angola's reform efforts. Without structural institutional reforms, policy stability across administrations in Tanzania is uncertain. And despite Côte d'Ivoire's robust reform implementation track record, it continues to face political and social risks.

Africa has more "speculative" rather than "investment grade" rated countries

Only two African countries – Botswana and Mauritius – are deemed "investment grade". Both Botswana's and Mauritius' investment grades are certified by both Moody's and S&P. No country in Africa qualifies as "investment grade" according to Fitch.

The remaining rated African countries are mostly of "speculative" (non-investment) grade. This is a much higher proportion of countries compared with other regions. All countries in North America are "investment grade" while in Europe, Central and East Asia and the Pacific more than double are rated "investment grade" rather than "speculative".

World regions: share of investment and non-investment ratings by S&P (2023)



Source: MIF based on UNDP

Is there a perception premium?

In comparison with other regions, 62% of African countries have been downgraded since their first rating, a ratio twice as high as the global average (31%).

This prevalence of negative ratings in Africa has raised concerns. Five African economies were downgraded in the first half of 2023 despite the AfDB's projections of economic recovery.

As of October 2023, bond yields (cost of borrowing) are above 10% in at least seven African countries: South Africa (10.8%), Namibia (11.0%), Nigeria (15.0%), Uganda (15.9%), Kenya (16.7%), Egypt (25.6%) and Zambia (26.6%). No European countries pay over 10%.

- Both Nigeria and Kenya have challenged downgrades in 2023 – attributed by CRAs to unfavourable foreign exchange trajectories, growth of debt service and high yields on Eurobonds – due to a lack of contextual understanding on the part of the agencies.

Contrary to most sovereigns, African countries have historically been subjected to unsolicited ratings, where governments are not adequately consulted, resulting in ratings based on desktop research and analysts' perceptions from outside the continent as opposed to official and contextual data.

Risk perception is one of the main contributing factors for Africa's estimated $200 billion trade and investment gap

Bond yields are above 10% in at least 7 African countries: South Africa, Namibia, Nigeria, Uganda, Kenya, Egypt, Zambia

Furthermore, CRAs' ratings have a direct effect on a country's capacity to service its obligations. Of the 33 countries rated by at least one of the 'big three', 31 are of "junk" status. Research has shown that bond yields from countries with "junk" status are very sensitive to downgrades. A downgrade increases the chances of default as countries will have to raise the share of revenue dedicated to debt servicing, effectively turning a liquidity crisis into a solvency crisis.

Additionally, it takes on average seven years for a developing country to regain its previous rating.

Several African countries, institutions such as the AU as well as international partners such as the UNDP and independent experts, estimate that there is a 'perception premium' applied to Africa, reportedly often based on subjective assessments leading to worse ratings than for countries with similar economic fundamentals or political situations.

In fact, according to the UN, the African premium on global debt markets was estimated to be 2.9 percentage points higher than that of other non-African countries with similar macroeconomic situations.

Additionally, the UNDP estimates the full cost of such credit rating idiosyncrasies in Africa to be $74.5 billion in excess interest and foregone funding* – equivalent to 80% of Africa's annual infrastructure investment needs.

While the Afreximbank has consistently shown a strong profile, CRAs have repeatedly refused to upgrade its BBB-class rating to A-class citing "high-risk business environment".

According to UNDP, fairer credit ratings could save Africa $74.5 billion, equivalent to 80% of Africa's annual infrastructure investment needs

Quis custodiet ipsos custodes?

Rating methodologies have often been compared to a "black box", citing lack of transparency, deficiency in their robustness and opacity as to the respective weight of objective and subjective indicators.

According to CRAs' own methodologies, ratings are based on:

- An 'objective' step, where countries receive a rating based on governance, economic and fiscal indicators from projects such as the World Bank World Development Indicators and the IMF World Economic Outlook and Currency Composition of Official Foreign Exchange Reserve databases, as well as national statistics, provided by the issuer when they request a rating.
- A 'subjective' step often mirroring the framework of the first but based on judgements from CRAs' analysts which will notch the 'objective' rating up or down based on a set of pre-determined criteria. This second step will often result in African countries' ratings being downgraded from their 'objective' rating.

A common criticism of CRA methodologies refers to the fact that the indicators utilised penalise African economies based on economic metrics that are common across several African countries: a relatively large informal sector and high shares of foreign currency denominated debt, as well as the use of debt rescheduling or restructuring mechanisms to improve economic sustainability.

Additionally, data availability and reliability for Africa in the dimensions covered by credit ratings methodologies proves challenging. Research shows that Africa's data coverage by various international organisations is often fragmented, either not covering all countries or not covering enough data years over a time period, thus severely hampering accurate assessments.

According to the UN, the African premium on global debt markets is estimated at 2.9 percentage points higher than that of non-African countries with similar macroeconomic situations.

*over the life of various bonds

> Rating methodologies need to be updated to reflect the actual risk vs perceived risk of investments in EMDEs. Credit rating agencies and their methodologies are a constant topic of EMDEs. Improving on transparency of the process will help countries focus on addressing areas of weakness and as such improve their ratings (Songwe et al, 2024). The recent Fitch 2023 report begins to respond to this issue.
>
> - CRAs should boost transparency via enhanced regulatory and public disclosure requirements, and by incorporating independent review and input into rating decisions.
> - CRAs should integrate climate and nature risks and recognize the value of sustainability-linked financing leveraging input of specialized data, modeling, and analysis from existing platforms.
> - Governments should lower barriers to entry for new CRAs through harmonization and streamlining of regulation and encourage innovation in credit rating methodologies, processes and business models.
> - CRAs should clarify definitions of distressed debt exchange, disclose the models and assumptions underlying the counterfactuals and produce clear standalone criteria for rating uplift from credit enhancement.
>
> *Vera Songwe, Founder and Chair, Liquidity and Sustainability Facility (LSF), former Executive Secretary, United Nations Economic Commission for Africa (UNECA)*

CRAs are increasingly challenged by African stakeholders for their lack of contextual knowledge and relevant data on Africa. Analysts are mainly based in London or Hong Kong, lacking the necessary exposure to African countries for adequate ratings and perceptions of risk, which tend to be based on desk research, or virtual discussions, often leading to pessimistic assessments.

A key underlying issue seems to be the lack of African agency and ownership as well as concerning governance gaps within rating processes. Several experts have voiced the need for better consultative processes and the establishment of regulatory frameworks by African countries to ensure accountability and transparency of rating processes.

It has been suggested that the work of CRAs should be regulated through accountability measures such as fines if due diligence is not exercised when assigning credit ratings.

Both the US and EU have set up regulatory bodies such as the Office of Credit Ratings at the Securities & Exchange Commission and the European Securities and Markets Authority. But there is no such body for the African continent. Publishing calendars for ratings and ensuring ratings are publicised on Fridays after market closure could enable better frameworks for government consultations and avoid market shocks.

The UN also highlights the need for African governments to address the integrity and reliability of the data utilised, which in turn would help to reduce the perceptions of uncertainty.

Of the 'big three' rating agencies, only two - Moody's and S&P - have offices on the whole continent, both of which are in South Africa

Fitch's methodology cites "intangible" factors as a reason why they consider "advanced economies" able to sustain a much higher debt burden

The AU could collect data on the progress of projects financed through debt and subsequent repayments. If credit ratings do not reflect the work on the ground, the agencies could be held to account.

The AU is working with the African Peer Review Mechanism (APRM) to establish an African Credit Rating Agency (ACRA) that would provide complementary alternative rating opinions for the continent.

In July 2023, the APRM held a technical committee in Nairobi which endorsed the establishment of a private sector-driven ACRA based on self-funding and sustaining. The agency will also be providing environmental, social and governance scores and foreign direct investment ratings.

Following consultations with prospective shareholders and transaction advisers, the APRM, in collaboration with UNECA and with support from Open Society Foundations (OSF), organised a meeting on the operationalisation of the ACRA in Lusaka in March 2024.

The ACRA was announced to be launched on 31 December 2024 with an annual operational capital of $837,000.

To prevent political conflicts of interests, the AU is seeking funding from shareholders through equity capital from African financial institutions, rating agencies and private investors, as opposed to governments.

China and Japan have their own alternative rating agencies, Dagong Global Credit Rating Company and Japan Credit Rating Agency

“

Regardless of whether sourced from the public sector or the private sector, capital ultimately comes from the marketplace, where capital providers would only supply it with the appropriate security and return commensurate with the risks they take. Development finance for Africa has been predominately from the public sector (i.e. multilateral institutions) on concessionary terms, which are achieved by transferring certain risks to the donors. The public sector finance is important but limited by the size of available donors' contribution. **To attract capital from the private sector in a significant scale, we must find ways to mitigate these risks**. While there is a variety of market instruments of risk transfer which can be helpful, a more foundational solution would be to reduce the investment risks at the project level, for which good governance and strong institutions are essential.

Jin-Yong Cai, Partner, Global Infrastructure Partners, former CEO, International Financial Corporation (IFC)

Barriers to further investments

Despite its potential, Africa attracts the lowest share of capital from institutional investors compared with other world regions. Africa's share of global investment capital has remained low (below 1%), while global assets under management grew from $48 trillion in 2010 to over $112 trillion in 2021.

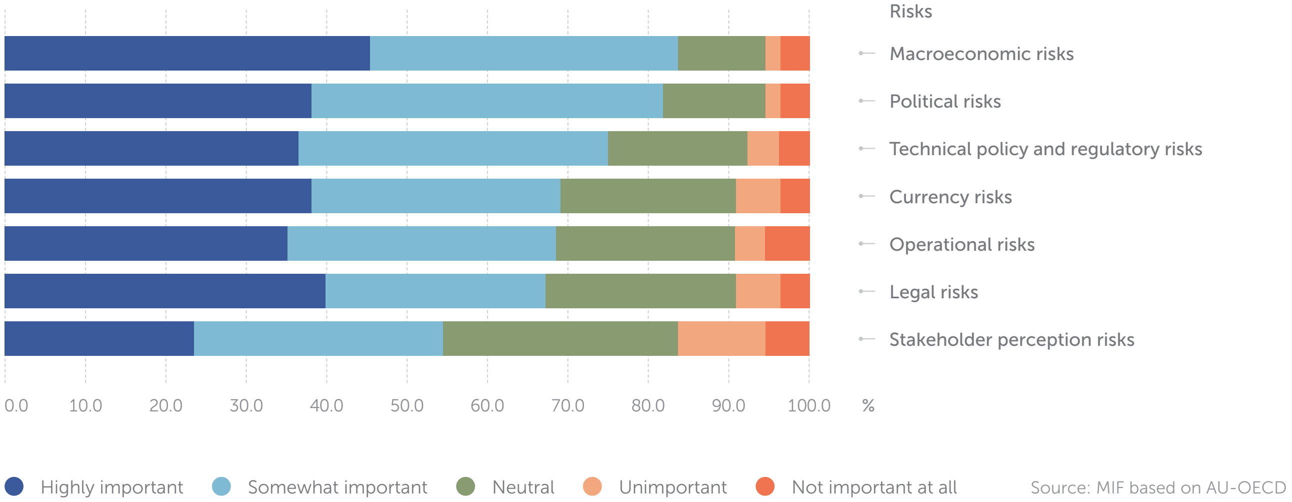
According to a 2022 AUC/OECD investor survey, several key factors are considered as key risks to investment in Africa.

For investors concerned with macroeconomic and political risk, portfolio investments offer short term, highly liquid investments with no responsibility to actively manage.

The risks identified by investors are the same factors being assessed by major credit rating agencies, further affecting the flow of capital to Africa.

"Political risks" are cited as key risks by over 80% of surveyed investors in Africa

"Which of the following risks have been most important for your investments in African countries?" (2022 AUC/OECD investor survey)



Source: MIF based on AU-OECD

The specific "dollarisation" burden

The United States is the world's largest economy and its monetary policy decisions have a significant impact on global financial markets. The dollar serves as the world's primary reserve currency and many global commodities are priced in dollars. Above everything, borrowing costs are determined by the US federal reserve rate as changes in US interest rates impact global financial conditions. Even if an African country's macro economic fundamentals and political situations were improving, if interest rates rise in the Global North, borrowing costs would be likely to go up. The rise in interest rates and borrowing costs since the pandemic has largely been due to central banks from the Global North raising rates again. Hence, the BRICS are seeking to create a multipolar international financial system less sensitive to fluctuations in the dollar.

- 23 African currencies registered their lowest historical valuation against the dollar in the first half of 2024.
- Since May 2023, the Naira has lost over 200% of its value against the dollar.
- From 2011 to 2022, the Tunisian Dinar lost 72% of its value against the Euro.
- The Ethiopian Birr lost half its official value since 2019.

Increasing the flow of private capital is a priority

Vera Songwe, Founder and Chair, Liquidity and Sustainability Facility (LSF), former Executive Secretary, United Nations Economic Commission for Africa (UNECA)

In an environment of heightened risk, financial sector distress could further prolong crises. The 2008 global financial crisis (GFC) exposed many regulatory and prudential weaknesses in the financial and banking sectors, and underscored the need for effective regulation and the importance of maintaining adequate capital buffers and liquidity in the system. Basel III is meant to address these issues. However, in a bid to preserve the soundness and stability of the financial sector, some of the regulations are proving detrimental to emerging market economies trying to raise resources. Improvements on these could allow for more private capital to flow to emerging markets and low-income economies.

Asset securitization was one of the main triggers of the 2008 financial crisis. Basel III therefore imposes larger liquidity coverage ratios on composite structures. In the Basel III regulation, blended finance is considered a securitization and therefore falls under such category. This is counter intuitive as blended finance tools are meant to improve the risk rating of the underlying asset. Therefore, such regulation, initially intended for the private sector when engaging with itself in developed countries, leads to a punitive result when extended to emerging market and developing economies (EMDEs).

Under Basel III, jurisdictional identity penalizes EMDEs. **A similar energy project undertaken in an OECD country requires less liquidity coverage than when undertaken in a non-OECD country. The system implicitly assigns higher risk to non-OECD jurisdictions and as a consequence increases the cost of projects or disincentives investors**. Other criteria could be used to assess the liquidity coverage ratio (LCR) for non OECD countries, such as previous experience investing in that sector or country. Many developing economies have undertaken PPP, IPP projects in the energy sectors and toll roads. These are areas where for example the risk assessment should be lower, and hence fiduciary and prudential regulations should not be onerous.

Aligning the loan periods with project development timeframes is a battle cry for many EMDEs. However, Basel III regulation still penalizes long term debt and investment instruments, imposing higher capital charges on the financial institution.

Banks, insurance companies, pensions and other investors are constrained from investing in EMDEs by regulatory capital requirements and rating agency methodologies which are driving up costs and slowing down capital deployment.

Reforming the regulatory capital and rating agency calculations to (i) ensure consistent treatment of transactions across jurisdictions and (ii) recognize the risk mitigation features of blended finance transactions and de-risking instruments could drive much more capital to LMICs. Some examples of these are:

- **Improve prudential banking regulation**: ensure conformity of the capital treatment across jurisdictions in the regulatory capital calculations for instruments such as A/B loans which carry preferred creditor status and currency control privileges, concessional capital and de-risking instruments provided by either MDBs/DFIs/ECAs or insurance companies. In addition, reform the capital rules such that the risk mitigation features of these products are appropriately represented within the calculations and result in reduced capital requirements for investments in EMDEs. A key issue is differentiating MDB instruments from private capital market instruments. The Basel Committee may wish to consider developing a more open definition of an MDB for use in this context rather than a closed list of qualifying entities.

- **Capital allocation targets for banks, insurance companies, pensions and asset managers**: discuss with regulators the intent to allocate a portion of capital for sustainable finance transactions in EMDEs within applicable risk frameworks and capital adequacy requirements with a goal that (i) banks allocate a portion of their Tier 1 capital [0.5%] by 2025 and [1%] by 2030, (ii) insurance and pensions allocate [0.5%] of Solvency capital by 2025 and [1%] by 2030 and (iii) asset managers allocate [1% to 5%] of their AUM by 2025 and [3-7%] for these transactions.
- **Rating agency assessments remain a contentious issue for many emerging market countries and especially high yield economies**. Insurance companies and pension plans are generally subject to solvency capital requirements which are in most cases linked to rating agency methodologies and asset ratings.

Developing and improving EMDE capital markets so they offer and have access to the same menu of instruments available to AE markets in a timely and cost effective manner is increasingly becoming a matter of urgency.

Deepening capital markets and inclusion of EMDEs in market instruments is a critical path for mobilizing resources. Inclusion in indexes compiled by stock exchanges, investment banks and other index providers is an important step for issuers, increasing their profile and opening access to a wider range of investors and access to capital. For example, JPMorgan's September 2023 announcement that it will include Indian government bonds in its emerging market indices is expected to lead to an inflow of around US$ 20-22 billion and positive impacts for fixed income assets denominated in Indian rupee.

Inclusion in international indices increases passive investment interest; the three major global bond indices have in excess of USD 5 trillion in assets under management. Inclusion in established indices is frequently treated as a proxy for stability transparency, and better governance and therefore major index investors are more inclined to pay attention.

Yet significant barriers to accessing these instruments remain: regulation of index administrators, requirements for specific detailed information, limited imposed by the local trading venue and risks associated with non-bank financial intermediation can inhibit EMDEs' access.

Addressing barriers to emerging market sovereign debt instruments being included in these indices should be a priority.

The African Leaders Nairobi Declaration: Africa's voice on debt, financing and multilateral system reforms

African Heads of State and Government gathered for the inaugural Africa Climate Summit (ACS) in Nairobi, Kenya, from 4 to 6 September 2023, hosted by the African Union Commission Chairperson H.E. Moussa Faki Mahamat and the President of Kenya H.E. William Ruto, Coordinator of the Committee of African Heads of State and Government on Climate Change (CAHOSCC).

"

50. We reiterate the decision 1/COP27 that states that global transformation to a low-carbon economy is expected to require investment of at least US$ 4-6 trillion per year and delivering such funding in turn requires a transformation of the financial system and its structures and processes, engaging governments, central banks, commercial banks, institutional investors and other financial actors.

52. We call for concrete, time-bound action on the proposals to reform the multilateral financial system currently under discussion specifically to:

i. Build resilience to climate shocks, including better deployment of the Special Drawing Rights (SDRs) liquidity mechanism and disaster suspension clauses.

ii. Re-channeling of at least $100billion of SDRs to Africa, including through institutions such as the African Development Bank which will be able to leverage the SDRs by three to four times. We also call for the formation of a group of SDR donors to expedite this rechanneling ahead of COP28.

iii. Propose for consideration a new SDR issue for climate crisis response of at least the same magnitude as the Covid19 issue (US$650 billion).

iv. Better leverage of the balance sheets of MDBs to scale up concessional finance to at least $500 billion per year.

v. Improve debt management, including: a. the inclusion of 'debt pause clauses', and b. the proposed expert review of the Common Framework and the Debt Sustainability Analysis.

vi. Provide interventions and instruments for new debt relief to pre-empt debt default to: a. extend sovereign debt tenor, and b. include a 10-year grace period.

vii. Decisively act on the promotion of inclusive and effective international tax cooperation at the United Nations with the aim to reduce Africa's loss of US$ 27 billion annual 10 corporate tax revenue through profit shifting, by at least 50% by 2030 and 75% by 2050.

viii. Put additional measures to crowd in and de-risk private capital, such as blended finance instruments, purchase commitments, partial foreign exchange (FX) guarantee and industrial policy collaboration, which should be informed by the risks that drive lack of private capital deployment at scale.

ix. Redesign MDB governance, to ensure a "fit for purpose" system with appropriate representation, voice, and agency of all countries.

54. We further note that the scale of financing required to unlock Africa's climate-positive growth is beyond the borrowing capacity of national balance sheets, or at the risk premium that Africa is currently paying for private capital.

55. We draw attention to the finding that inordinate borrowing costs, typically 5 to 8 times what wealthy countries pay (the "great financial divide"), are a root cause of recurring debt crises in developing countries and an impediment to investment in development and climate action.

56. We call for adoption of principles of responsible sovereign lending and accountability encompassing credit rating, risk analysis and debt sustainability assessment frameworks and urge the financial markets to commit to eliminate this disparity by 2025.

"

"Building bigger and better financial institutions: really?"

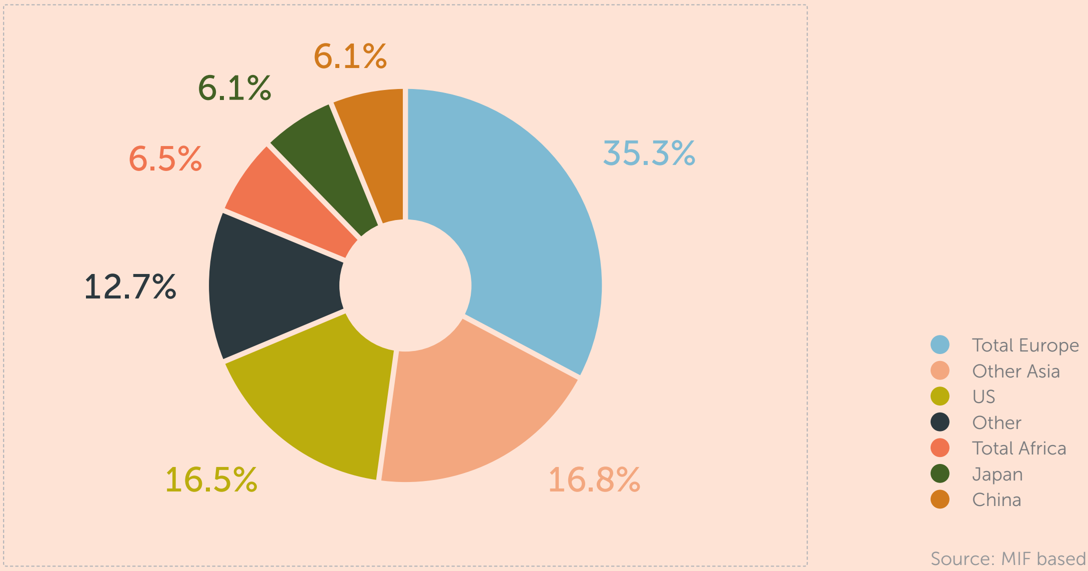
IMF quotas influence voting shares and Special Drawing Rights (SDRs) allocation

IMF quotas reflect countries' relative positions in the global economy and are denominated in SDRs. The formula for determining quotas includes GDP, Openness, Variability and Reserves, with GDP being the most significant factor (50%). These quotas determine each country's financial contribution to the IMF, the amount of loans they can access, their voting power in IMF decisions, and their share of SDRs allocation.

While voting shares allocation consider the rights of smaller countries, richer countries generally wield more influence in decision-making. **Europe alone holds nearly one third of voting rights, followed by Asia (excl. China and Japan) with 16.8% and the US with 16.5%**. Africa, despite comprising about 18% of the world's population, only accounts for 6.5% of IMF voting rights – only marginally more than China and Japan, respectively.

Africa, despite comprising about 18% of the world's population, only accounts for 6.5% of IMF voting rights

Selected world regions & countries: share of IMF voting rights (2024)



Source: MIF based on IMF

The COVID-19 pandemic highlighted the limitations of the SDR system in supporting poorer countries. IMF members with large quotas, already better equipped to handle costly public health crises, had access to significantly more SDR reserves than poorer countries, less resilient to global shocks. Of the additional $650 billion SDRs allocated in 2021, high-income countries received almost 70% of the total allocation. Africa, with a population exceeding 1.4 billion, received fewer SDRs than Germany, a country with a population of only 83 million.

The World Bank's new "playbook"

Under the leadership of its new president Ajay Banga, the World Bank Group initiated an evolution process at the 2023 Annual Meetings in Marrakech. This "playbook" entails establishing collaborative co-financing platforms together with other development banks, rolling out a new Crisis Preparedness and Response Toolkit, enhancing data transparency on investment risks in developing countries, and increasing the finance capacities of the International Development Association (IDA) and the International Bank for Reconstruction and Development (IBRD).

At COP28, the World Bank set ambitious targets, such as bringing renewable energy to 100 million Africans by 2030, and increasing climate finance to 45%, thereby unlocking an $40 billion annually by 2025, of which an annual $9 billion is additional.

The Group is actively working on shortening approval processes and launching the **One World Bank approach** in pilot countries to remove bureaucracy.

IDA21 replenishment: the need to triple concessional finance to Africa

In an open letter from April 2024, senior figures from philanthropy and advocacy organisations, including Mo Ibrahim, called on G20 leaders to reform the Bretton Woods institutions. They emphasised that polluters and those with the most resources should pay their fair share by tripling IDA investments and reforming tax regimes, and further advocated for the removal of burdensome debt to enable affected countries to spend on education, health and resilience.

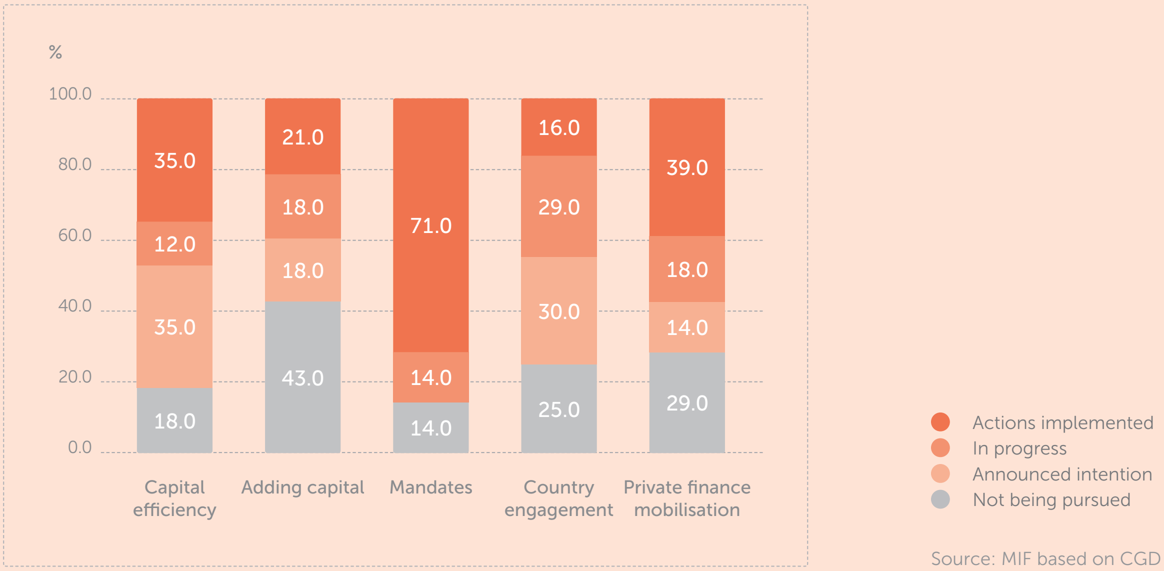
Similar demands were made by the Nairobi IDA Communique of April 2024, issued after the meeting of African Heads of State and Government. The communique reiterated the expected $60 billion allocation to Africa during IDA 20 (July 2022-June 2025) and calling for stable and predictable increases in concessional finance to the continent for IDA 21, that will be replenished in December 2024.

Progress still slow for about 60% of MDB reform agenda items

The Center for Global Development (CDG) tracks MDB reforms of AfDB, Asian Development Bank (ADB), Asian Infrastructure Investment Bank (AIIB), European Bank for Reconstruction and Development (EBRD), European Investment Bank (EIB) Global, Inter-American Development Bank (IDBG) and the World Bank Group across five categories: capital efficiency, adding capital, mandates, country engagement, and private finance mobilisation. **On average, progress remains slow for about 60% of all 28 agenda items**. Greatest progress across all banks has been made in expanding mandates to include global challenges and mobilising private finance, specifically through donor guarantees.

Progress remains slow for 60% of all MDB reform agenda items

Selected MDBs: progress across reform categories (2024)



Source: MIF based on CGD

Note: The selected MDBs included in this graph are AfDB, ADB, AIIB, EBRD, EIB Global, IDBG and WBG.

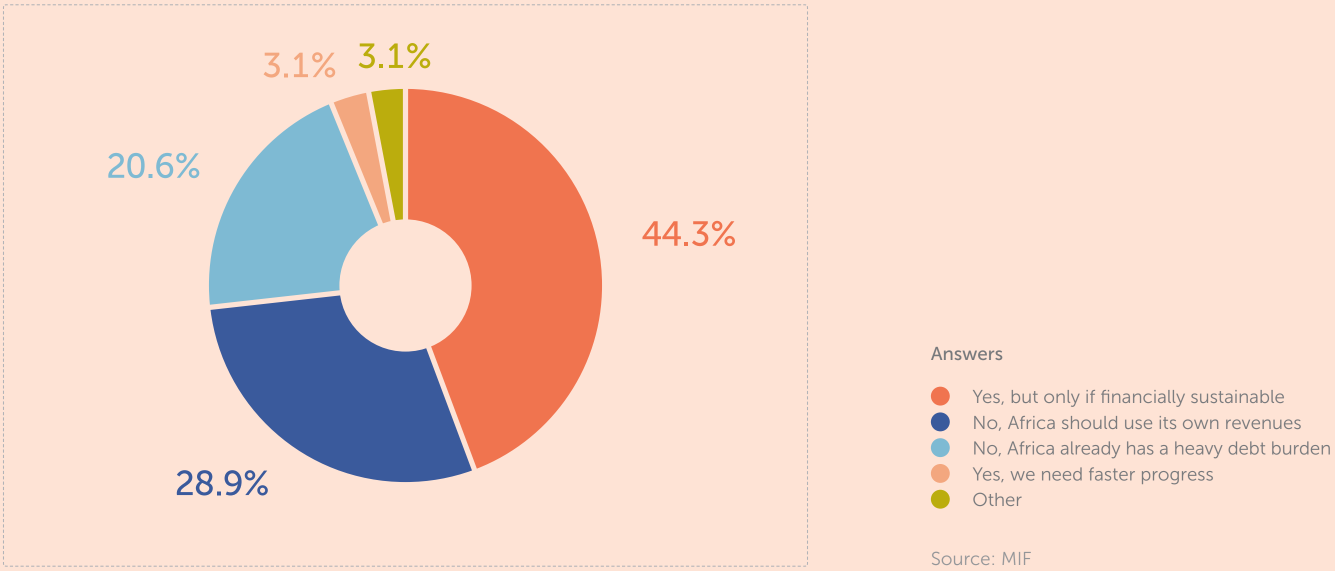
While all MDBs except the AfDB have fully reached their targets regarding mandates, ADB and IDBG are also the best performers in maximising capital efficiency and mobilising private capital. EBRD leads in adding capital, and AfDB in transforming country engagement. The World Bank Group performs at an average level, but especially lags behind in adding capital, with none of their intended reforms fully implemented to date.

2024 MIF Now Generation Network survey: Resources from non-African partners

A divided stance on borrowing: half of Africa's youth are against countries borrowing

- Almost half of respondents (47.4%) are in support of borrowing, with 44.3% conditioning it on financial sustainability and 3.1% quoting the need for faster progress.
- The other half of respondents (49.5%) were against borrowing. 28.9% advocated for Africa to use its own resources, while 20.6% cited Africa's already substantial debt burden.

Should African countries borrow more funds to achieve global development goals?

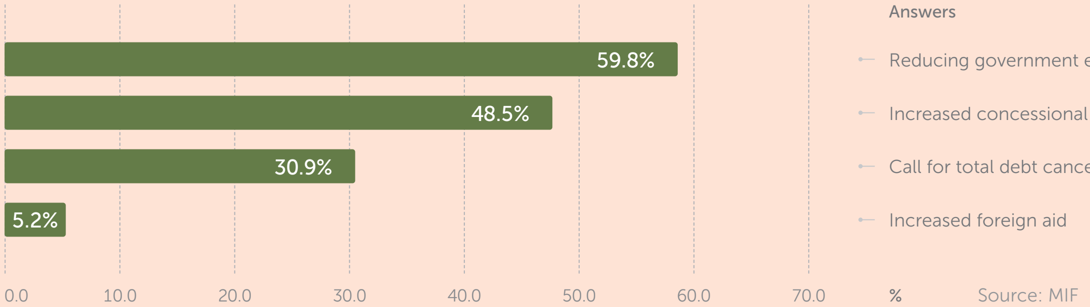


Source: MIF

Almost 60% of Africa's youth believe countries should reduce government expenditure to address the debt servicing costs

- Reducing government expenditure was the most selected option by more than half of respondents (59.8%)
- A notably high share of respondents (48.5%) called for increased concessional finance for African countries (lower interest rates, longer repayment periods, etc).
- About one third (30.9%) of respondents were in favour of total debt cancellation.
- Increased foreign aid was the least desired solution to debt servicing, selected by only 5.2% of respondents.

How should African countries combat the debt servicing problem?

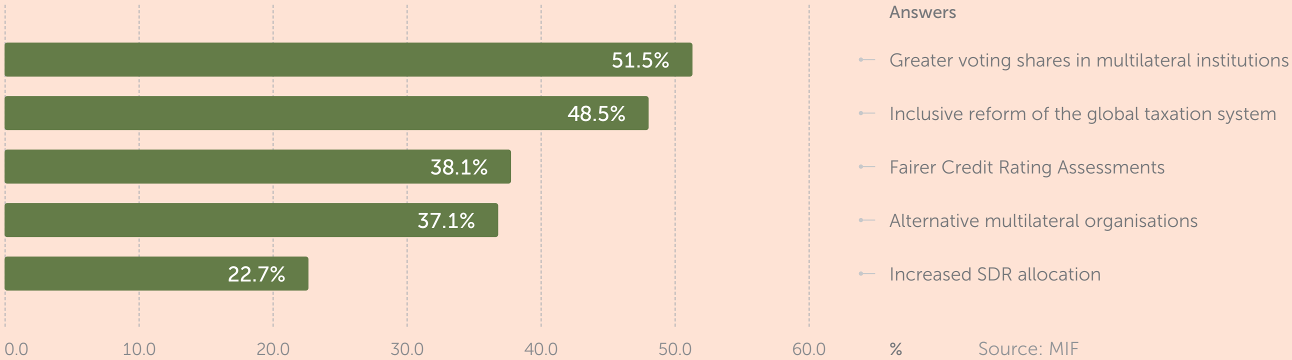


> Financing Africa's development involves a multi-pronged approach that includes leveraging local capital markets, engaging in public-private partnerships, expanding digital financial services, attracting foreign direct investment, utilising diaspora bonds and remittances, focusing on green finance, ensuring debt sustainability, and boosting intra-African trade through initiatives like the African Continental Free Trade Area (AfCFTA).
>
> *Mahassine El Amrani Omari, MSc International Development, University of Birmingham*

Africa's youth are calling for a more inclusive global financial architecture with greater African representation

- Unitedly, all respondents (100.0%) selected the need for more inclusivity in the global financial architecture.
- 48.5% advocated for inclusive reform of the global taxation system.
- 38.1% called for fairer credit ratings from the main CRAs.
- 37.1% recommended alternative multilateral financial organisations.
- The least selected option - 22.7% of respondents - was increased SDRs allocation.

How can the current global financial architecture function better for African countries?



I strongly believe that Africa's success is tied to unity. The existing continental financial giants such as the African Development Bank, the African Export and Import Bank (AFREXIM) and others could create an African Consolidated Investor Fund to finance African multinationals and small and medium-sized enterprises for value-adding projects. When this works, as was the case of Japan, African countries will receive a boost in investor confidence, despite increasing debt to GDP ratios.

Richard Adu-Gyamfi, Research Fellow, Doing Business in Africa Research Group, Reutlingen University

Africa as a continent has diverse resources that attract FDI. In the energy sector for example, the IEA says Africa has 60% of the best solar resources globally; however, the African continent has only reached 1% of its installed solar PV capacity. This demonstrates great potential for FDI. In order to ensure that other sectors also attract more FDI, deliberate effort needs to be made by the governments of the respective African countries to encourage investment in those sectors by creating more business-friendly conditions. This can be done by reducing bureaucratic obstacles and implementing proactive investment measures.

Modupeoluwa Ige, MBA Candidate, The London Business School

For debt cancellation to have a lasting impact and prevent countries from falling back into the cycle of debt, it needs to be paired with robust economic reforms, improved governance, better financial management, and enhanced revenue generation strategies. These measures should focus on increasing productivity, diversifying economies, and promoting sustainable development practices that are less reliant on external borrowing. Debt relief should also come with provisions that encourage investment in critical sectors such as education, healthcare, and infrastructure to spur long-term growth.

Valerie Jeche, International Development, Midlands State University, Zimbabwe

Chapter 03.

Domestic resources: unlocking Africa's own financial resources

Looking forward: African ownership

H.E. Moussa Faki Mahamat, Chairperson, African Union Commission

(Extracts of his Keynote at the 2024 AfDB Annual Meetings)

... All our Member States have been caught up in the spiral of ever more pernicious indebtedness, which keeps them under the yoke of creditors with suffocating demands despite the many promises to lighten this burden...

This excessive recourse to debt, although it can be explained by a set of endogenous factors, is also attributable to an external financing model combining development aid, debt relief, the promises of green financing and the attractiveness of African countries for FDI.

This model, set out in the 2015 Addis Ababa Declaration on Financing for Development, has subsequently been taken up by similar meetings, such as the one in Paris in June 2021.

The shortcomings of this [external financing] model have been established on the basis of objective data...

The contribution of external funding to Africa's development agenda has fallen far short of expectations, reflecting yet another injustice towards Africa...

The management of the international financial system, which is totally beyond Africa's control, imposes high financing costs on it, along with the negative impact of financial crises...

It is urgent to **work on an in-depth reform of international governance** in order to propose and adopt relevant solutions for countries faced with the problems of sovereign rating, excessive debt, the effects of climate change, tax evasion and illicit flows, the need to strengthen multilateral banks and so on...

The G20 is the appropriate forum for our institutions and our countries to effectively initiate, together, the process of **formulating common African positions** on the strategic issues at the heart of the reform of the global financial system. Particularly on the thorny issue of reforming the Bretton Woods institutions, reforming debt management mechanisms, financing climate change, and the international tax system, particularly in view of the developments underway with a view to adopting a United Nations Framework Convention on International Cooperation in Tax Matters...

To prepare for a possible reconfiguration of the international financial architecture, **it is up to us to carry out our own monetary and financial reforms without delay**. The implementation of the African Union's long-established financial institutions has suffered from much delay. The African Central Bank, the African Investment Bank, the African Monetary Fund and the Pan-African Stock Exchange – now is the time to adopt a concrete plan to get them up and running.

I also call for an ambitious replenishment of the resources of the African Development Fund. This is an instrument that provides the concessional financing that is essential for funding our economies...

> “
> **The time has come to take a practical look at identifying, without complacency, the various factors that are hampering the mobilisation of development finance in Africa...**
>
> *H.E. Moussa Faki Mahamat, Chairperson, African Union Commission*

The money is here (1)

Nardos Bekele-Thomas, CEO, African Union Development Agency (AUDA-NEPAD)

The economic landscape of Africa today presents a tapestry of paradoxes. While rich in resources and burgeoning with youthful populations and entrepreneurs, the continent continues to face systemic financial challenges that undermine its potential. As we navigate through these complexities, **we must critically examine the existing global financial model, explore innovative funding mechanisms**, and decisively advance towards realizing the vision of Agenda 2063

With a population of over 1.3 billion people expected to rise to 2.2 billion by 2043, the continent's youthful demographic presents a unique opportunity for economic growth and development. Africa's GDP has grown substantially, from US$1,132.5 billion in 1990 to US$3,055.3 billion in 2019, and is projected to reach US$8,724.4 billion by 2043. However, this growth is heavily driven by population increase rather than productivity gains. The continent's economy remains small as a portion of the global economy, constituting only 3.1% in 2019, despite representing 17% of the world's population. This disparity highlights the need for structural transformation to achieve sustainable development.

The global financial model, with its roots in Western economic philosophies, has often not been conducive to African realities. Predominantly, it benefits the 'creditworthy' and the 'stable,' leaving behind nations that do not meet these criteria but are in desperate need of investment.

Moreover, international aid and loans often come with strings-attached conditions that may not align with Africa's own developmental agendas or socioeconomic dynamics. This model has not only constrained the fiscal space necessary for growth but also perpetuated a cycle of dependency.

Substantial investment is required to achieve substantial structural transformation and realize the ambitious goals of Agenda 2063, which envisions an integrated, prosperous, and peaceful Africa, driven by its own citizens and representing a dynamic force in the international arena. The seven Moonshots outlined in the Second Ten-Year Implementation Plan necessitate US$8.9 trillion over the next decade, with an estimated shortfall of US$3.3 trillion. This gap highlights the **urgent need for innovative financing solutions**.

Traditional funding sources alone will not suffice. Stemming illicit financial flows, which cost the continent up to $60 billion annually, is crucial. Reforming global financial institutions to give African countries a more significant role in decision-making processes can help align global financial policies with Africa's needs. **Developing financial instruments to mitigate risks, such as currency hedging tools and insurance products against capital flight, and improving financial infrastructure are essential steps**. Promoting sustainable and inclusive finance through green bonds, fintech innovations, and expanding access to financial services, particularly in underserved areas, can drive growth.

We need innovative financial tools that leverage Africa's vast resources. Instruments like green bonds, diaspora bonds, and thematic funds targeting specific sectors such as renewable energy and infrastructure can mobilize domestic resources and harness the savings of the African diaspora.

'Africa Team' represents a strategic coalition of African states, private sector leaders, and development partners committed to transformative projects across the continent. This team approach enables us to pool resources, share risks, and multiply the impacts of our investments. The Africa Team initiative embodies the spirit of collaboration and coordination essential for mobilizing resources and implementing Agenda 2063. By leveraging the strengths of regional economic communities (RECs), member states, and international partners, the Africa Team aims to foster regional integration, economic cooperation, and sustainable development. AUDA-NEPAD's efforts in mobilizing resources through the Africa Resource Mobilization Campaign, developing infrastructure projects under PIDA PAP 2, and promoting innovation through digital transformation initiatives exemplify the collaborative approach needed to achieve Africa's development goals.

The money to finance Africa's future is right here on the continent and within the global African diaspora. It lies in our natural resources, our people, and our innovations. It is within the grasp of new, tailored financial instruments that respect our unique contexts and tap into our vast potential. Moreover, it resides in global partnerships that are based not on the old paradigms of aid but on mutual interest and respect.

As we move forward, we must advocate for a reformed global financial architecture that recognizes the distinct needs and contributions of African countries. By doing so, we can unlock new pathways for sustainable development that not only answer the question of "Where is the money?" but also "How can it best be utilized to transform Africa?"

Financing Agenda 2063: at least 75% expected to come from domestic resources according to the AU

The AU's Agenda 2063 is the continent's strategic framework for transforming Africa from 2013 to 2063. Agenda 2063 is divided into five 10-year implementation plans.

According to the AU in 2013, and reiterated at the last AU Summit in February 2024, financing for Agenda 2063 is generated from two categories: Domestic Resource Mobilisation (DRM) and External Financing Mechanisms (EFM).

DRM is meant to contribute 75-90% of the financing of Agenda 2063 on average per country, namely:

1. Enhanced fiscal resource mobilisation.
2. Maximisation of natural resource rents – agriculture, maritime and tourism.
3. Leveraging African institutional savings – pension funds, central bank foreign exchange reserves, sovereign wealth funds and capital market development.
4. Enhanced retail saving mobilisation through financial inclusion, namely:
    a. The curbing of Illicit Financial Flows (IFFs).
    b. The reduction of inefficiency and governance/corruption-based financial leakages and wastages.

The remaining 10-25% of Agenda 2063 financing will be financed through EFMs including:

1. Foreign Direct Investment (FDI).
2. Official Development Assistance (ODA).
3. Financial cooperation from emerging development partners such as BRICS countries, Arab and Gulf partners.
4. Public Private Partnerships (PPPs) and other forms of investment partnerships.
5. Leveraging of diaspora remittances and savings.
6. Improved access to the international financial markets.

"

The call for "African solutions to African problems" is loud, but it will only be respected when "Africa's problems are financed by Africa's resources". Political sovereignty must be backed by economic and financial sovereignty.

Akinwumi Adesina, President, African Development Bank Group

According to the AU, domestic resource mobilisation should ensure 75-90% of the financing of Agenda 2063 on average per country

"

The money to finance Africa's future is right here on the continent and within the global African diaspora. It lies in our natural resources, our people, and our innovations.

Nardos Bekele-Thomas, CEO, African Union Development Agency (AUDA-NEPAD)

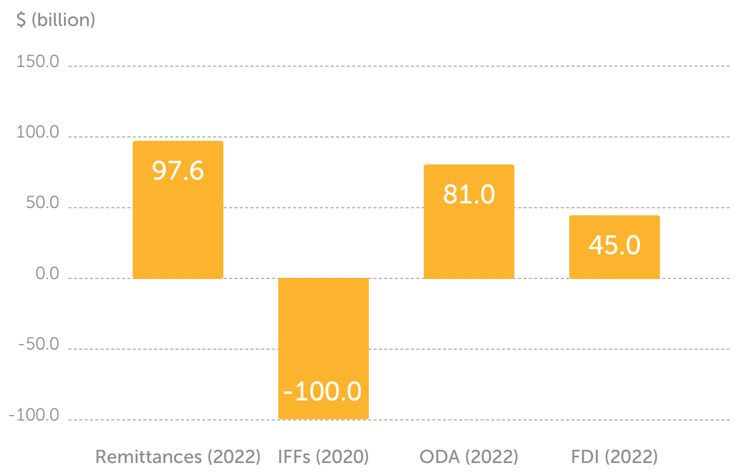
Africa loses up to $100 billion each year to IFFs

Illicit Financial Flows (IFFs) refer to the movement of money across borders that is illegal in its source (e.g. corruption or smuggling), in its transfer (e.g. tax evasion), or in its use (e.g. terrorist financing).

While not a purely African phenomenon, IFFs are particularly damaging in finance-scarce regions. They are relatively easy to define, but difficult to quantify, given their illicit nature. According to UNCTAD in 2020, estimates of IFFs leaving Africa on an annual average are almost $90 billion. The amount is higher than all FDI or ODA the continent is receiving.

Estimates of IFFs leaving Africa annually amount to about $100 billion

Africa: remittances, IFFs, ODA & FDI (latest data year 2020-2022)



Source: MIF based on OECD, World Bank & UNCTAD

The Yaoundé Declaration (2017)

Following the 2015 Mbeki Report, the Yaoundé Declaration is a call for action to tackle IFFs through international tax cooperation. The declaration urges the AU to begin high-level discussions on tax cooperation and IFFs and their link to domestic resource mobilisation.

As of March 2022, 34 African countries, as well as the AU Commission, have signed the declaration, although it is unclear how many have ratified it. It is officially supported by the OECD, France and the United Kingdom.

Published in 2015, the 15 key findings from the Mbeki Report on IFFs from Africa are still valid but remain barely implemented

In 2011, the UNECA established a High-Level Panel on IFFs out of Africa, chaired by former President Thabo Mbeki. Concluded in 2015 and adopted by the AU, the Mbeki Report presents 15 key findings and a comprehensive series of recommendations, organised under five categories:

- Commercial component of IFFs
- Criminal component of IFFs
- Corrupt component of IFFs
- Additional strategic measures by African states
- Further responsibilities of Africa's partners

Mbeki Report: 15 key findings

1. IFFs from Africa are large and increasing.
2. Ending IFFs is a political issue.
3. Transparency is key across all aspects of IFFs.
4. Commercial routes of IFFs need closer monitoring.
5. The dependence of African countries on natural resources extraction makes them vulnerable to IFFs.
6. New and innovative means of generating IFFs are emerging.
7. Tax incentives are not usually guided by cost-benefit analysis.
8. Corruption and abuse of entrusted power remains a continuing problem.
9. More effort needed in asset recovery and repatriation.
10. Money laundering continues to require attention.
11. Weak national and regional capacities impede efforts to curb IFFs.
12. Incomplete global architecture for tackling IFFs.
13. Financial secrecy jurisdictions must come under closer scrutiny.
14. Development partners have an important role in curbing IFFs from Africa.
15. IFF issues should be incorporated and better coordinated across United Nations processes and frameworks.

The implementation of the Mbeki Report appears to be variable but generally poor. The volume of IFFs from Africa has plateaued since 2015 and the return of historic IFFs from Europe to Africa is minimal. While African countries have introduced several laws, regulations and institutions to control IFFs, their effectiveness remains limited. IFFs remain a critical issue for all developing countries and the issue is recognised in SDG 16 *Peace, justice and strong institutions*, with its fourth target aiming at significantly reducing IFFs by 2030.

EU 6th Summit Final Declaration on IFFs

Commitment 3: "We commit to combatting IFFs and to addressing domestic tax base erosion and profit shifting (BEPS), and to cooperate in tax transparency. In this regard, we agree to continue cooperating to develop and consolidate the strategic capability in the fight against different types of IFFs including money laundering, the financing of terrorism and proliferation as well as those linked to fiscal governance systems and return of stolen funds and items from countries of origin."

Target 4 of SDG 16 *Peace, justice and strong institutions*, aims at "significantly reducing IFFs by 2030"

Better data and stronger capacities needed to tackle IFFs

IFFs are enabled, among other internal and external factors, by the relatively low availability of data, as well as weaknesses in tax structures or institutional capacity among African countries.

According to the OECD, the continent has a very low tax-to-GDP ratio of 15.6% lower than Asia-Pacific (19.8%), Latin America and the Caribbean (21.7%), and OECD countries (34.1%).

Africa's tax-to-GDP ratio (15.6%) is much lower than Asia-Pacific (19.8%) and Latin America and the Caribbean (21.7%)

Fighting Illicit Financial Flows: Tax Inspectors Without Borders, a concrete initiative

Pascal Saint-Amans, Co-Chair, AEF Working Group on IFFs, Advisor, International Tax Task Force

Following the global financial crisis in 2008, unprecedented progress has been made in tax cooperation. Bank secrecy was ended, and tax administrations now routinely exchange information on individuals as well as companies. Still, tax avoidance from large multinational companies in Africa remains a serious issue with huge amounts of money at stake. Part of the issue relates to the fact that tax rules are outdated, as is the case with traditional transfer pricing rules. The international community has started fixing them, including through a global minimum tax of 15%, but more needs to be done. Beyond the policy issue, developing countries often lack capacities to properly enforced current rules. Audit capacities, particularly for international transactions are limited, giving ground to increased illicit financial flows risks.

A very simple idea…

Against that background, Tax Inspectors Without Borders (TIWB), an initiative launched 10 years ago, could be seen as a poster child of a practical and effective response to concretely help African countries.

The philosophy of this initiative, jointly run by UNDP and the OECD, is very simple: seconding skilled tax inspectors to assist local teams to perform international tax audits. A country identifies a company it wishes to audit but has limited capacities to do so and does not want its tax inspectors to face armies of highly trained lawyers in an unequal conversation. The country can ask TIWB to supply a seasoned tax inspector, specialised in the activity sector of the company. The TIWB secretariat will find a skilled tax inspector and will deploy him/her in the country, the time of the audit. There is no substitution as there must be a local team. Rather, there is a **transfer of knowledge and know-how by "learning in doing" type of experience**.

…with amazing results

Since 2015, the initiative has resulted in almost US$ 4.5 billion of tax adjustments and the effective collection of over US$ 2.30 billion (US$ 1.82 billion in tax revenues in Africa) in additional tax revenues across 62 jurisdictions. Given the low cost of initiative (a light secretariat and volunteering tax inspectors) the return of investment is of US$ 100 recovered for every dollar spent.

Beyond revenue generation, TIWB's efforts strengthen capacities of developing countries for the long term. They have significantly contributed to domestic resource mobilization in developing countries, as part of the Sustainable Development Goals (SDGs), but also to fighting Illicit Financial Flows. There are even some deployments related to tax crimes, which have proved successful, as well as South-South deployments with Indian or Kenyan tax inspectors being deployed in some countries. TIWB is a perfect illustration that IFFs are **not a one-way street and must be tackled at both ends of the chain**.

More to come?

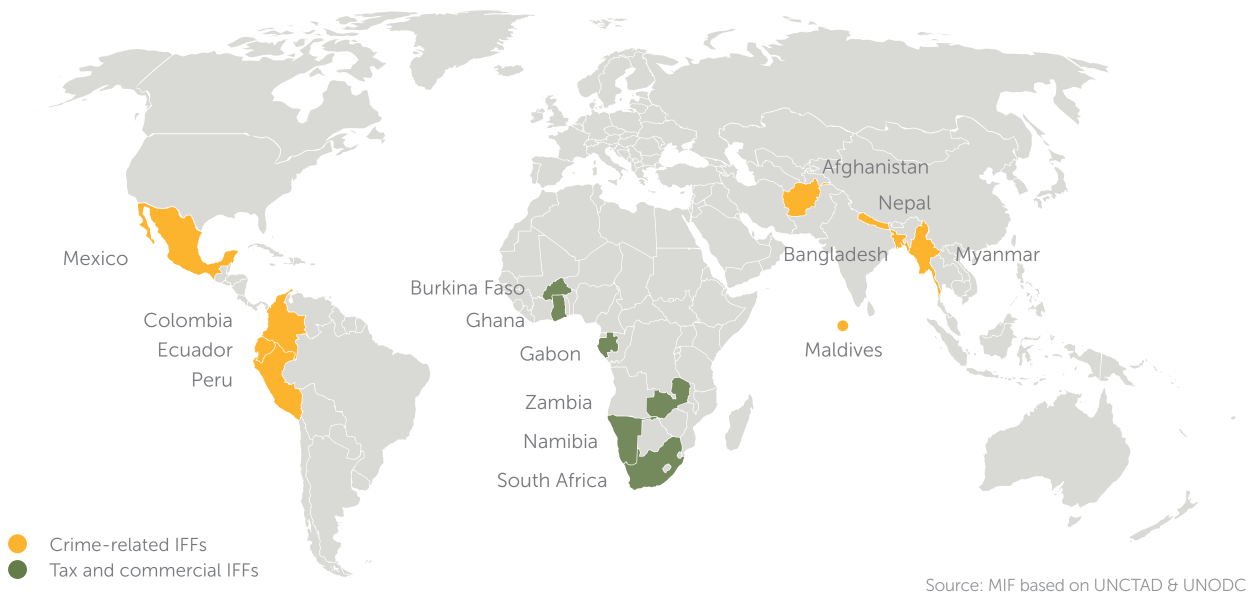
Drawing on this experience, it may be worth exploring whether other "down-to-earth" initiatives of this kind could be engineered and implemented to fight IFFs, a disease which harms the economic potential of Africa.

In conclusion, when addressing the question of "Assessing and unlocking Africa's own financial resources" TIWB initiative emerges as a key instrument. It has proven to be an invaluable tool for developing countries, particularly in Africa, in their efforts to enhance tax systems, increase revenues, and combat IFFs.

The success achieved highlights the initiative's potential to continue supporting beneficiary countries in reaching their development objectives and effectively mobilizing their domestic resources. This initiative stands as a model of innovative and successful international cooperation.

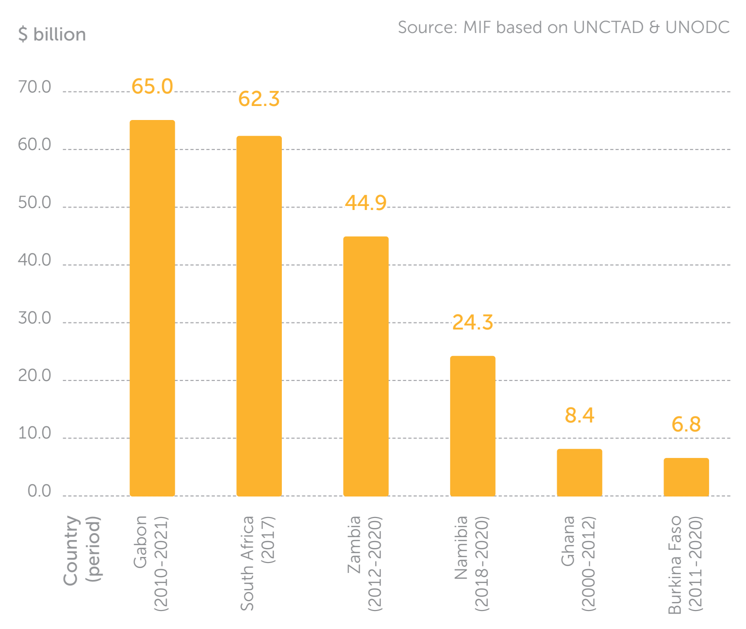
African countries track tax and commercially related IFFs

World countries: tracking of crime-related IFFs & tax and commercial IFFs (2000-2022)



According to an UNCTAD/UNODC pilot programme which monitored IFFs in Africa related to tax and commercial activities as opposed to crime-related activities in other regions, IFFs are not closely tracked by countries. While 11 African countries took part in the UNCTAD/UNODC pilot, only six provided figures on inward and outward IFFs through tax and commercial activities. Gabon tracked the largest amount of tax and commercially related IFFs, amounting to $65 billion between 2010 and 2021.

Selected African countries: inward and outward IFFs (2000-2021)



Outward IFFs emerge when resident illicit funds are used to buy goods and services from abroad (e.g. acquiring foreign financial or nonfinancial assets). **Inward IFFs** are generated if non-resident illicit funds are used in the country of interest (e.g. generated through drug trafficking in another country).

The low level of participation in the UNCTAD/UNODC programme highlights the challenges for accurately tracking and combatting IFFs in Africa: lack of transparency and the necessary institutional architecture for addressing IFFs and difficulty obtaining information and data remain key obstacles.

IFF enablers are mostly, but not all, outside the continent

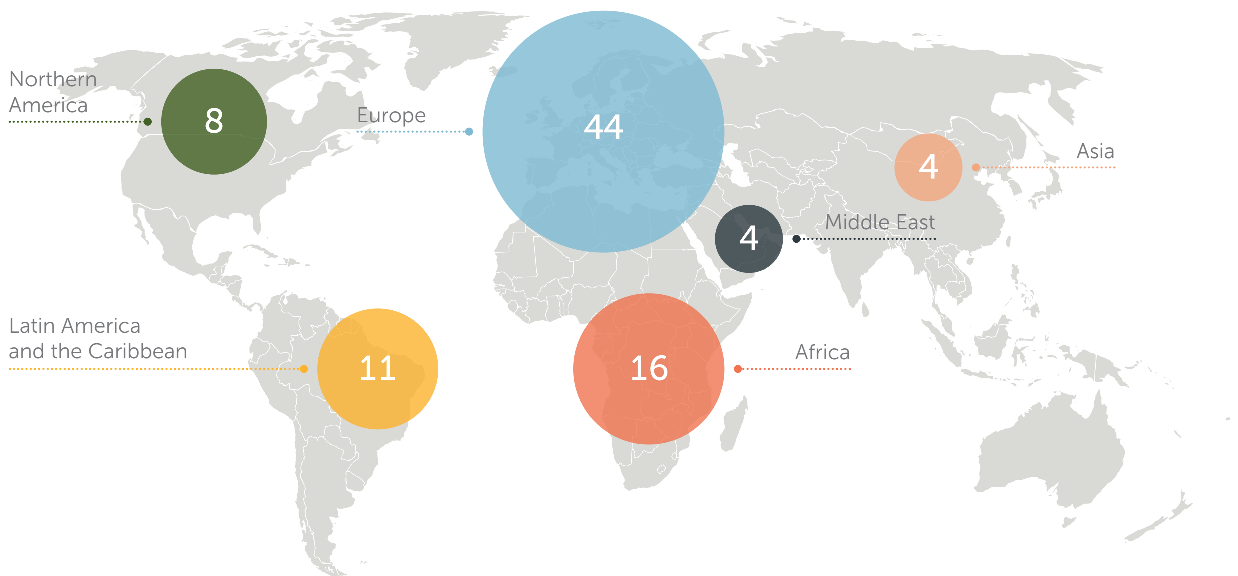
Transparency International (TI) undertook research to highlight the role of intermediaries in enabling IFFs out of Africa. In 78 cases covering 33 African countries, they identified 87 professionals and businesses that likely facilitated IFFs through either criminal involvement, negligence, or failure in addressing risks to their clients. In 88% of the cases an enabler was involved in that they provided services to clients abroad, highlighting the role of foreign enablers.

A handful of countries are linked to a high number of countries of origin for IFFs: The British Virgin Islands, Switzerland, the UAE and the US, as well as the UK with Nigeria and Portugal with Angola.

The TI report also highlighted the role of domestic enablers. The destination for 10.3% of African IFFs is sub-Saharan Africa, making Africa itself almost as significant a destination for African IFFs as Europe. Nigeria particularly stands out as having a higher number of domestic enablers involved in cases compared with other African countries.

The highest share of global enablers of IFFs from Africa are in Europe, but the second highest share comes from Africa itself

World regions: number & location of enablers of IFFs from Africa (2023)



Source: MIF based on Transparency International

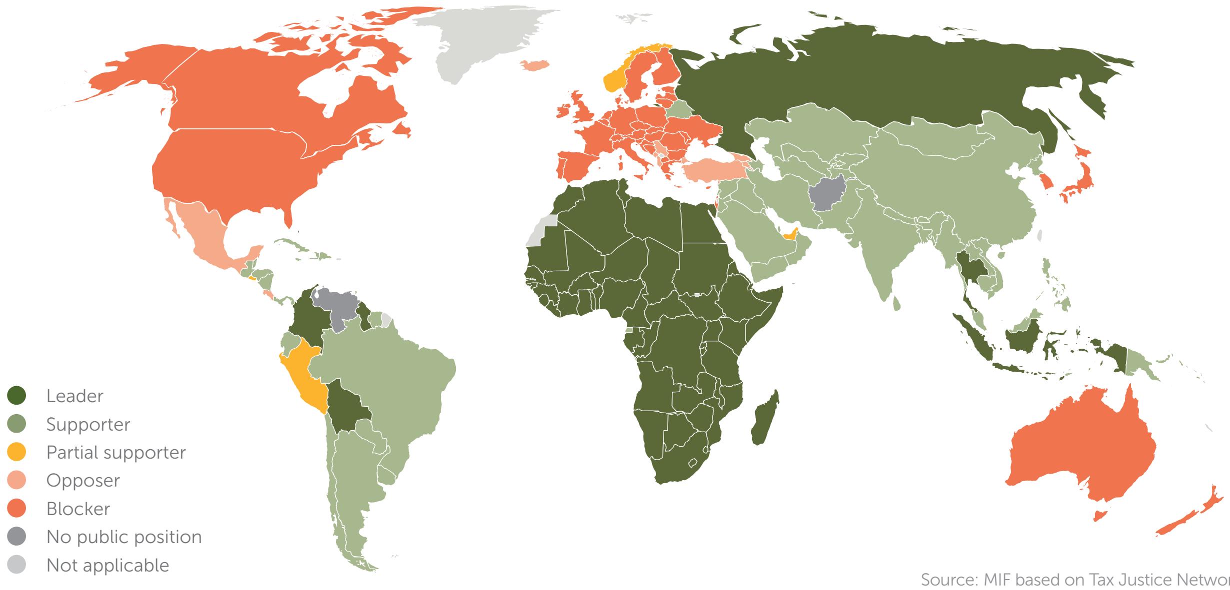
International cooperation is key to tackle IFFs

Origin countries in Africa cannot combat IFFs alone. Destination countries must take responsibility by ensuring their own national and local jurisdictions do not facilitate illicit flows. Particularly in Europe, where most of the enablers are found, international efforts such as adopting the UN Tax Convention often face resistance.

The global UN Tax Convention: Africa in the lead

Africa spearheaded bringing international tax cooperation to the United Nations through the UN Tax Convention. Proposed by Nigeria and backed by 125 countries, the November 2023 UN Resolution was opposed by the UK, Germany, Japan and the US, claiming similarity to OECD-led efforts.

World countries: stance on the UN Tax Convention (2023)



Source: MIF based on Tax Justice Network

The AU on IFFs

The AU has been raising the issue of IFFs for over a decade, since the 2015 Mbeki Report on IFFs from Africa. It emphasises actions needed by AU members to tackle commercial, criminal and corruption components of IFFs and highlighted the role of regional institutions and international partners.

The Africa Initiative, launched in 2014, has 33 member countries as of 2021 and has resulted in training for almost 2,000 African officials, a 26% increase in information requests and nine African countries recovering or identifying $255 million. In March 2023, the AfDB in collaboration with the Coalition for Dialogue (CoDA) launched a three-year $5.9 million project with the aim of improving regional coordination in response to IFFs.

The Africa-Europe Foundation Working Group on IFFs

Following the 6th EU/AU Summit Final Declaration (February 2022), which specifically mentioned the need to tackle together IFFs from Africa, the Africa-Europe Foundation, co-founded by the Mo Ibrahim Foundation, created in 2023 a Strategic Working Group (SWG) on IFFs.

Co-chaired by Pascal Saint-Amans, Advisor, International Tax Task Force, and former Director, OECD Centre for Tax Policy and Administration, and by Dr Adeyemi Dipeolu, former Economic Special Adviser to the President of Nigeria, and former member of the Mbeki High-Level Panel, the SWG has already produced a comprehensive assessment of the state of implementation of the 2015 Mbeki Report, and some initial recommendations, on which the SWG is currently working.

The Africa-Europe SWG on IFFs highlighted four key areas to prioritise.

Proposal	Rationale
1: Launch a new initiative to counter IFFs during South Africa's Presidency of the G20.	South Africa will assume the Chair of the G20 in 2025, a vital opportunity to elevate the challenges of IFFs in an international forum.
2: Recognise the variable progress countering IFFs across Africa as an opportunity to learn from and spread 'good practice'.	Several African countries have made notable progress in recent years: South Africa, Kenya, Mauritius, Togo, Nigeria and Ghana. These cases can provide evidence to be shared with other African states.
3: Amend the Financial Action Task Force (FATF) Review process to incentivise improvement, as well as to assess and penalise poor performance.	As Africa is over-represented in grey listed countries, FATF peer review could be complemented with preparatory reviews to highlight weaknesses/propose solutions.
4: Achieve granular and focus reform on specific activities which promise tangible results in combatting IFFs.	IFFs can be defined broadly but many African countries lack the public administration capacity. Specific reforms could make a significant impact to start.

The EU on IFFs

According to the Centre for Global Development (CGD) and the Brookings Institution, the EU often implements softer versions of international standards.

In November 2022 the EU Court of Justice issued a ruling against beneficial ownership registries, a key tool in fighting IFFs. However, some EU countries removed public registers of beneficial ownership, effectively hindering anti-IFF efforts.

The global **Anti-money laundering facility (AML)** was established in 2017 with a $22.0 million budget for six years. A 2021 report by the European Court of Auditors reviewed the efforts of the EU, the European Banking Authority (EBA) and the European Central Bank (ECB), finding institutional fragmentation and poor coordination.

The **Anti-money laundering and financial investigations capacity in the Greater Horn of Africa (AML/THB)** was launched in 2020, funded by the European Union's Emergency Trust Fund for Africa (EUTF) for €5 million across three years. The project aims to improve coordination and investigation of cross-border crimes starting in nine countries in the Greater Horn of Africa. It has now extended to 16 countries.

The **Organised Crime West African Response to Money (OCWAR-M)** is a four-year project launched in 2019 with the aim of contributing to the application of international standards against money laundering. It has a budget of €6.75 million and activities across 16 countries.

G20/OECD BASE Erosion and Profit Shifting (BEPS) project was launched in 2013 to tackle tax avoidance with 138 countries and jurisdictions collaborating as of July 2023 to ensure a more transparent tax environment.

Multi-Donor Action on Good Financial Governance in Africa launched in 2020 following the Mbeki Report, is a €7 million joint AU/EU and GIZ action to enhance efforts to combat IFFs in Africa and strengthen the AU's capacities to coordinate anti-IFF policies.

The money is here (2)

Amadou Hott, Special Envoy of the President of the AfDB for the Alliance for Green Infrastructure in Africa, former Minister of Economy, Planning and International Cooperation of Senegal

We welcome the recent positive developments regarding the reform of the financial architecture with innovative solutions such as SDRs rechanneling through MDBs, callable and hybrid capitals, etc., being supported and tested. These are extremely important instruments for MDBs to mobilize substantial and competitive financings for Africa. However, the various crises and geopolitical tensions over the last years have certainly led to a decrease in ODA to Africa when these resources are needed more than ever and should be increased and better targeted to accelerate the achievement of the SDGs. Broadly speaking, **more concessional resources are needed**, hence the call for support to IDA and ADF's replenishments.

African countries are also implementing solutions to mobilize and attract further resources for their own development. These need to be encouraged.

Improving domestic resources mobilization: Africa's tax ratios remain among the lowest globally. By broadening the tax base, strengthening governance in revenue collection and supporting the transition to more formal economies while leaving no one behind, nor losing competitivity, African countries can generate additional revenues.

Combating illicit capital flows: including through stronger governance and cooperation with partners to fight illicit financial practices like profit shifting by multinational companies to low-tax locations. Indeed, international cooperation on taxation is critical to prevent revenue losses due to illicit financial activities. The newly secured AU seat in G20 and the partnership with OECD countries are particularly relevant in this context. The payment of a minimum corporation tax as currently pushed by the G20 is a good start. However, it must work for the continent, and we need to ensure that when value is extracted from or generated in Africa, the minimum tax is paid on the continent.

Enhancing natural resource governance: by improving transparency, accountability, and governance in managing natural resources, countries can generate more financial resources. Also, not only is it important to sign balanced contracts for countries, but the execution of these contracts need to be closely monitored over their lifetime to ensure that the countries are actually and effectively benefiting from them. Capacity building and technical assistance are critical, in some cases.

Attracting private sector investment through innovative financing mechanisms like blended finance, PPPs, and risk mitigation strategies, in partnership with MDBs and partners countries. The private sector has a significant role to play in accelerating infrastructure development and economic growth in Africa, by providing substantial capital, without impacting governments' debt as well as by fostering transfer of skills. Improving business environment and investing in capacitated local project preparation and development facilities is important to reduce the risks and costs of projects, accelerate their execution and enhance investment opportunities. However, credit risk agencies and investors need to review their perception of risk on the continent.

Properly valuing governments' assets and managing them commercially: Some solutions:

i. asset recycling opportunities whereby countries can receive upfront capital from the private sector instead of future incomes from public revenue-generating assets, such as toll-roads, airports, etc. Monetized proceeds can, then, finance other social projects,

ii. transferring some assets to sovereign funds that can leverage them to raise more resources and actively manage governments' shares in strategic and/or profitable companies. **Local sovereign funds are also important** to unlock the origination of more bankable projects as they can play the role of honest broker between the private and the public sectors, being competent local players, ran as commercial entities but with access to governments.

African development banks: an agenda for action

Samantha Attridge, Senior Research Fellow, ODI

In the world of development finance, the spotlight has often shone on multilateral banks, leaving National Development Banks (NDBs) in the shadows. Yet, these institutions are pivotal to a nation's growth and structural transformation. NDBs, with their local market expertise, can effectively assess and price risks, utilising their development focus to mobilise local private investment through patient, risk-tolerant capital.

The urgency for a unified system that capitalises on the strengths of all public development banks cannot be overstated. The 'Finance in Common' initiative promises to breathe new life into development finance with its forward-thinking and cooperative ethos.

Africa stands to benefit immensely from this paradigm shift. However, the continent's NDBs are plagued by a reputation for subpar governance and financial performance, casting them as unappealing partners and hindering their capacity to attract significant investments. Our research finds a different reality, one which features high performing NDBs, as well as NDBs who are undergoing reform. The critical question is not the viability of NDBs but optimising their effectiveness.

Many African NDBs must pirouette away from political strings to truly thrive. The key? Institutional autonomy. By depoliticising executive appointments and empowering boards to lead the selection process, we can minimise the heavy hand of state intervention.

A robust board of directors, brimming with independent members, is not just a governance gold standard; it's a financial fortifier. It's time to bolster the backbone of these banks, ensuring they're well-capitalised and poised for impactful investments. This isn't just about having deep pockets; it's about having the capacity to drive transformative change.

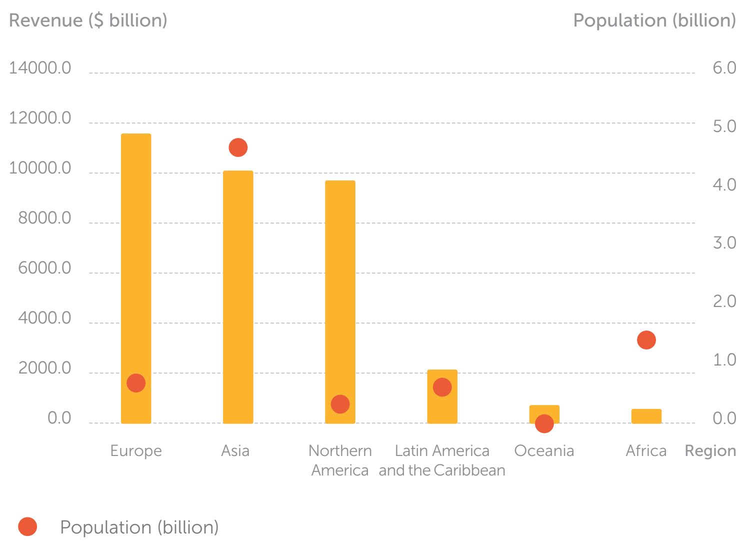
Yet, for many African NDBs, the veil of secrecy remains a stubborn stain on their ledger. Transparency isn't just a buzzword; it's the bedrock of trust and accountability. We must shine a light on the operations of these banks, demanding the publication of audited financials and annual reports. Only then can these institutions step out of the shadows and into their role as catalysts for sustainable development.

African NDBs stand at a crossroads. To harness their full potential, governments must embrace independence, ensure robust capitalisation, and banks must commit to transparency. With these steps, they can help drive sustainable development. The Finance in Common Summit presents an excellent opportunity for Public Development Banks (PDBs) to forge new, synergistic partnerships. Smaller African NDBs should capitalise on their local insights and networks to identify investment opportunities. In turn, larger NDBs, regional DBs, and MDBs can provide access to more affordable, long-term capital. Moreover, larger development banks have a crucial role in enhancing the capacities of their smaller counterparts.

> The trillions are already there. It would start by recognizing that most investment is private and domestic. The world's 530 public development banks (PDBs), grouped in Finance in Common (FiCS), manage USD 22.5 trillion, mainly through national development banks. They are local investors and originators, with a counter-cyclical role. PDBs can initiate where private finance cannot, creating investable pipelines and functioning markets for private capital.
>
> Africa has almost 20% of the world's PDBs, but only 1% of total assets, too small to address its challenges. This calls for a better integration of African PDBs into the financial system.
>
> *Rémy Rioux, Chairman of Finance in Common and CEO of Agence française de développement*

Africa has the lowest government revenues of all world regions

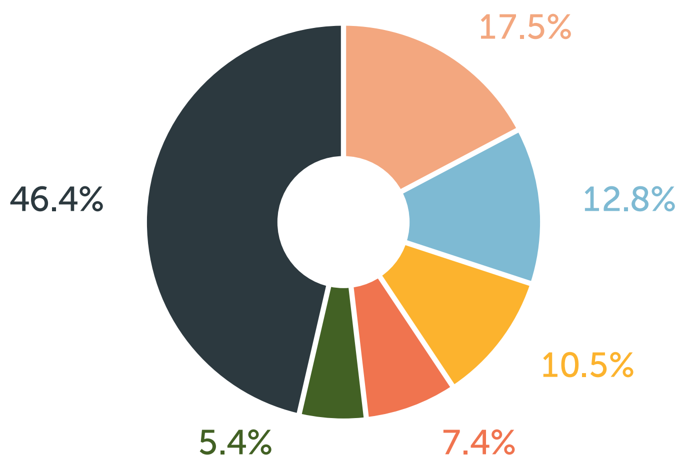
World regions: total revenue & population (2024)



Source: MIF based on UNDESA & IMF

Africa's total revenues in 2024 ($578.6 billion) are only 5% of Europe's, with a population twice the size (1.4 billion)

Top 5 African countries: share of total African revenue (2024)



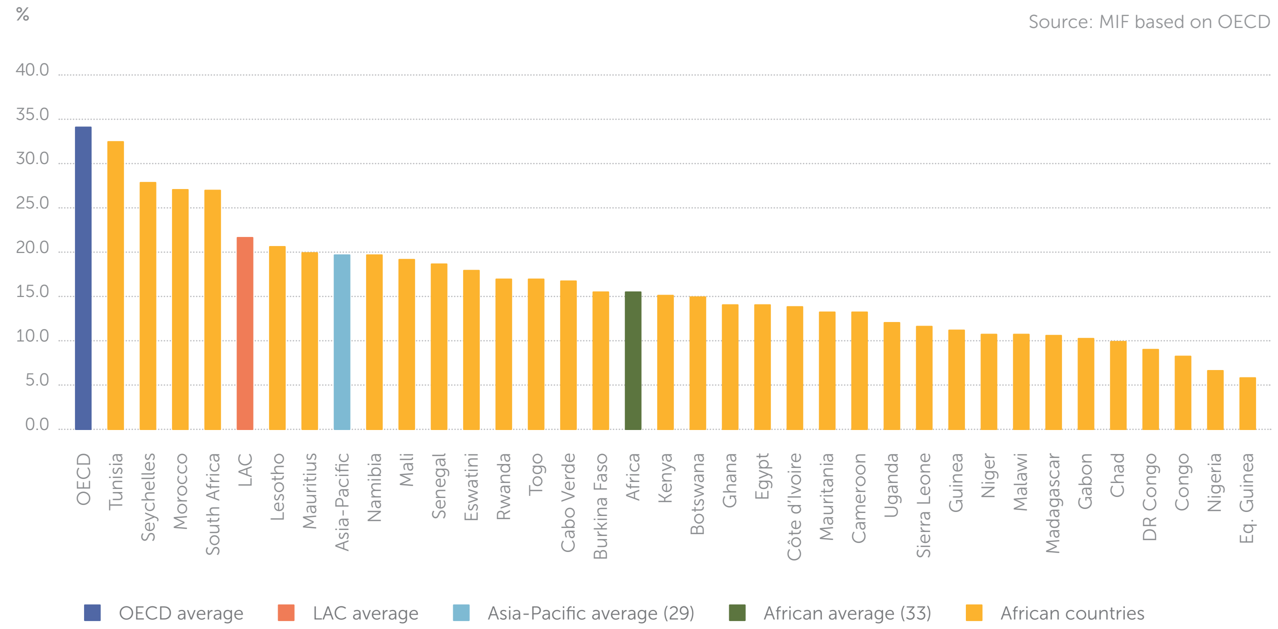
In 2024, only 5 countries account for over half (53.6%) of Africa's total revenue: South Africa, Algeria, Egypt, Morocco and Nigeria

Country
- South Africa
- Algeria
- Egypt
- Morocco
- Nigeria
- Rest of Africa

Source: MIF based on IMF

Africa's tax revenue relative to GDP: half that of OECD countries

African countries: total tax revenues as a share of GDP (2021)



According to the latest IIAG (2022), on average on the continent, *Taxation Capacity* has stagnated over the decade 2012-2021, and *Efficiency of Revenue Mobilisation* has declined significantly since 2017.

For 33 African countries the average tax to GDP ratio is 15.6% in 2021, about half the average for OECD countries (34.1%)

In 2021, only six African countries have a tax to GDP ratio of ≥ 20%: Mauritius (20.0%), Lesotho (20.7%), South Africa (27.0%), Morocco (27.1%), Seychelles (27.9%) and Tunisia (32.5%).

"

African policymakers have no other choice but to increase tax revenues.

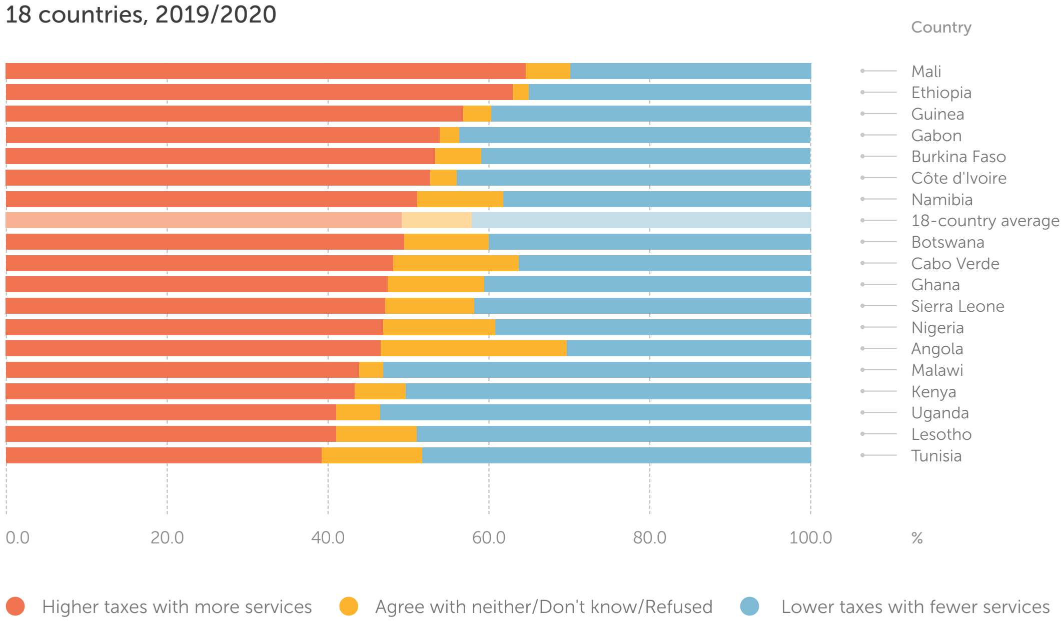
Abebe Aemro Selassie, Africa Director, IMF

Tax to GDP ratios in resource-rich countries such as Nigeria and DR Congo are below 10% (6.7% and 9.1%, respectively)

Almost half of African citizens favour paying more taxes in exchange for more public services

The 2019/2020 Afrobarometer surveys revealed that an average of 49% of respondents from 18 African countries favour paying higher taxes in exchange for more public services. Furthermore, 61% of surveyed citizens believe that their governments have the right to make people pay taxes.

Higher taxes with more services vs. lower taxes with fewer services, 18 countries, 2019/2020



Source: MIF Based on AfroBarometer

Potential levers to increase tax revenue

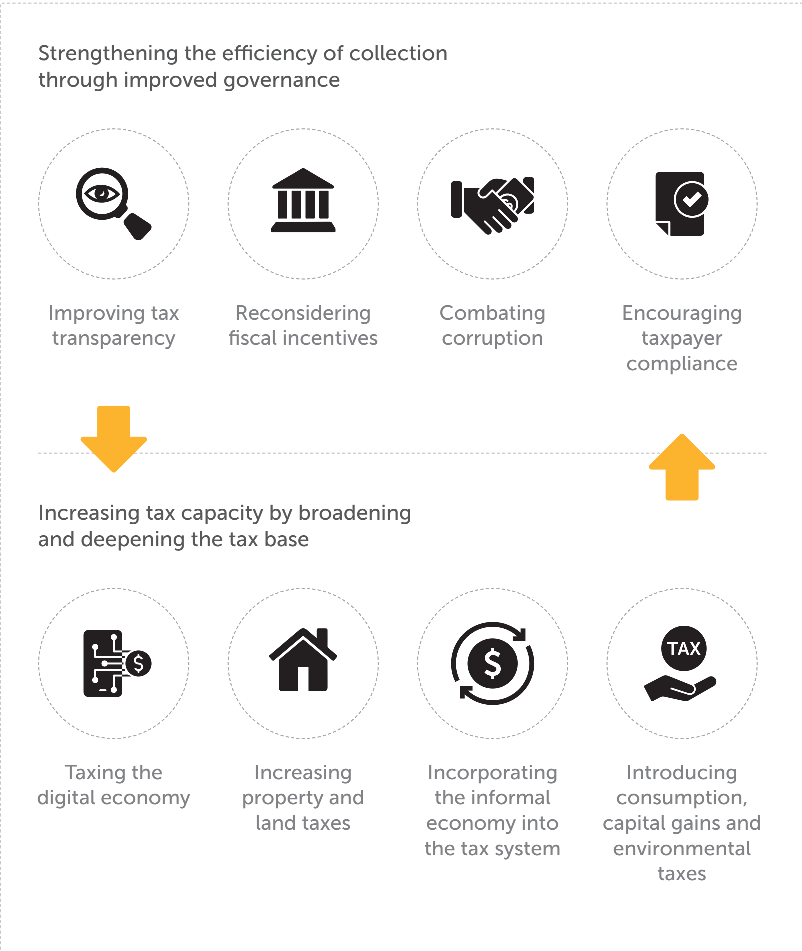
1. **Improving tax transparency:** implementing the OECD's tax transparency standards can combat the negative impacts of IFFs. These measures empower authorities to track and recover additional incomes, with African countries identifying over $1.82 billion of foregone revenue between 2009-2022.
2. **Reconsidering fiscal incentives:** African fiscal incentives for foreign investors lack effectiveness without stable business climates. Estimates from Global Tax Expenditures Database show sub-Saharan Africa loses 1.8% of GDP annually to corporate tax incentives, with $46 billion foregone in 2019.
3. **Formalising the informal economy:** formalising economic activity ensures governments can collect tax revenue and provide legal protection. According to the IMF, the informal economy contributes between 25% and 65% of GDP in sub-Saharan Africa. According to International Labour Organization (ILO) estimates, Africa has the highest composition of informal employment across all world regions, accounting for 85.8% of all employment in 2018, or 71.9%, excluding agriculture.

In 2019, fiscal incentives for foreign companies represented a loss of $46 billion in corporate taxes for Africa

4. **Taxing the digital economy:** in 2020, the African Tax Administration Forum (ATAF) proposed legislation to levy taxes between 1-3% on gross annual digital services revenue. Between 2019-2024, several African countries introduced digital sales taxes while others applied VAT to digital services.
5. **Property and land taxes:** despite rising property and land prices in Africa, official valuations remain weak or inexistent. In 2015, 14 countries reported average property taxes at 0.5% of GDP, significantly lower than the OECD average of 1.9%. This implies the need for improving information and legal frameworks on land ownership.
6. **Improving the transparency of aid taxation:** a 2022 report by the Platform for Co-operation on Tax (PCT) found that ODA tax exemptions are costing aid-dependent African countries up to 5% of GDP. Some countries lose over 1% of GDP from indirect taxes, e.g. VAT.
7. **Other levers:** encouraging taxpayer compliance, adjusting tax rates, tackling tax evasion, and broadening the tax base by introducing consumption, capital gains and environmental taxes (including carbon, energy fossil fuel, transport and resource taxes).

ODA tax exemptions are costing aid-dependent countries up to 5% of GDP

Potential levers to increase tax revenue



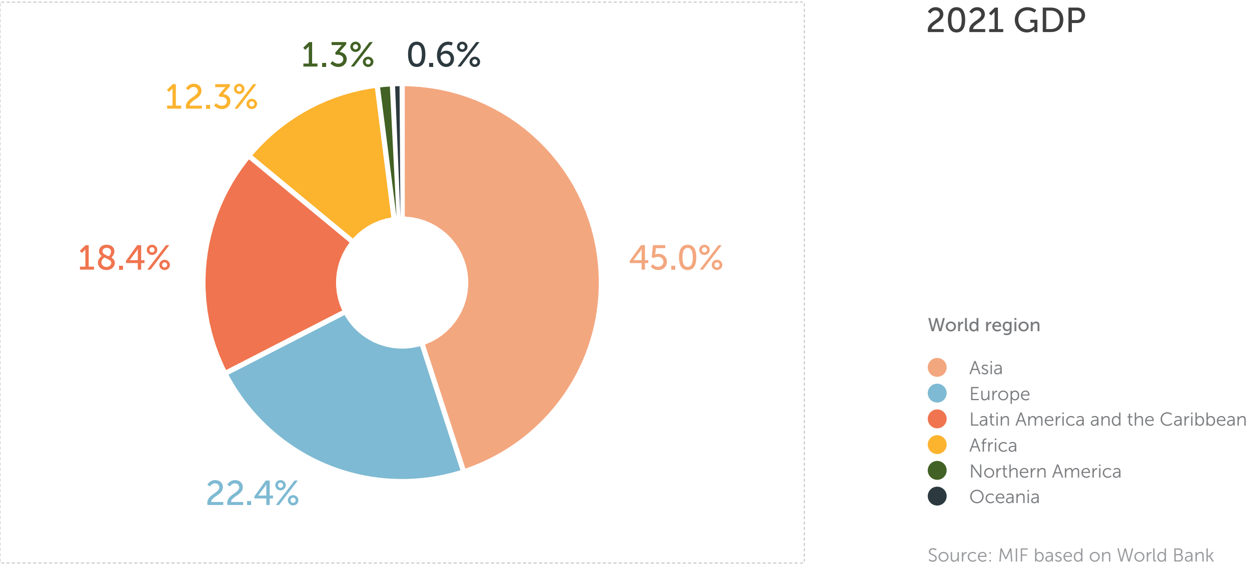
LEVERAGING REMITTANCES, SOVEREIGN WEALTH AND PENSION FUNDS: A COMBINED WORTH OF ABOUT 15% OF AFRICA'S GDP

Africa accounts for 12.3% of global remittances, with nearly $100 billion in 2022

Approximately 160 million people born in Africa currently live and work outside the continent. Their remittances support the living costs of an estimated 200 million relatives, representing a key source of foreign currency. Compared to other regions, Africa accounts for 12.3% of global remittances of which Egypt, Nigeria and Morocco receive 61.1% combined. The ratio of remittances relative to Africa's economy makes them an important income source.

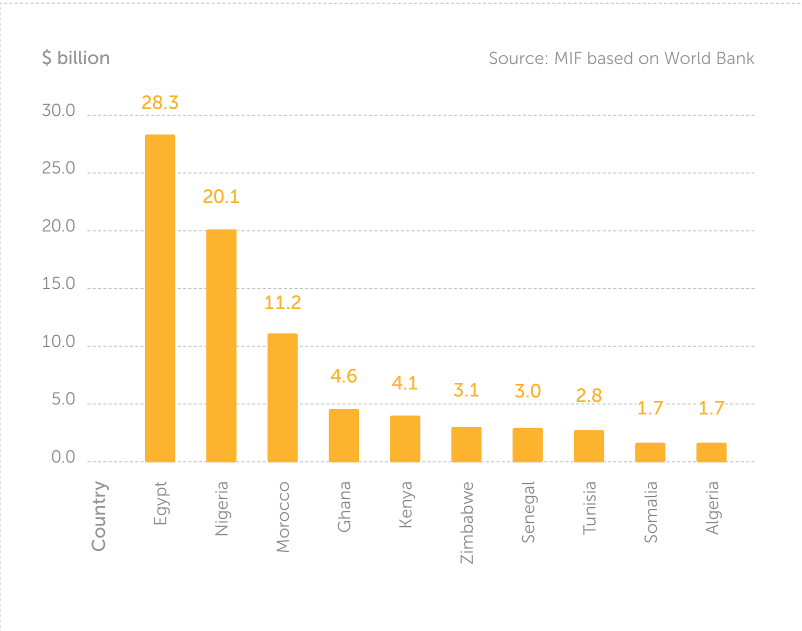
Between 2005 and 2022, Africa's remittances have more than tripled to reach $97.6 billion, equivalent to 3.5% of the continent's 2021 GDP

World regions: share of total world remittances (2022)



Source: MIF based on World Bank

Top 10 African countries: remittances inflows (2022)

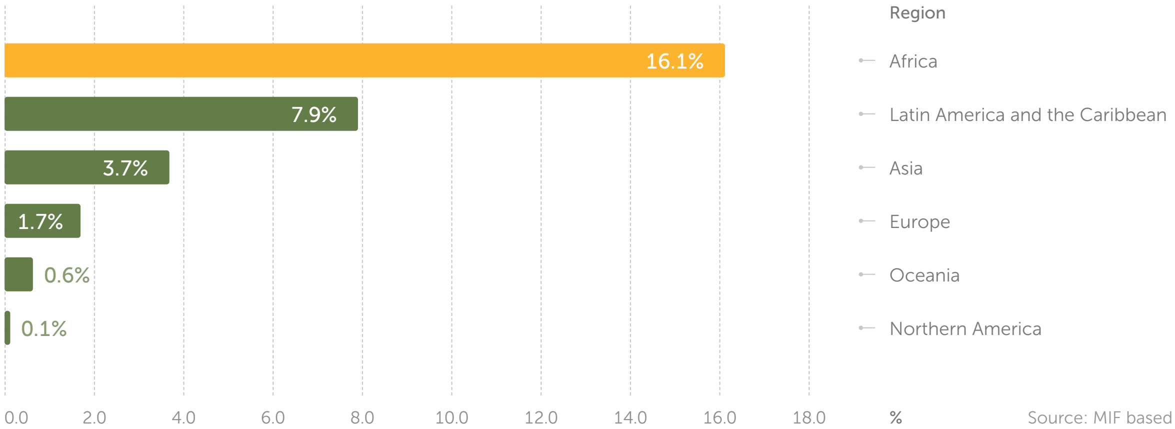


Egypt is the largest recipient of remittances in Africa, with $28.3 billion in 2022

In 2022, Africa's remittances of $96.7 billion represented 3.5% of the continent's GDP, the highest of any world region.

In 2022, for 19 countries remittances accounted for at least 4% of their GDP. In four countries – Gambia, Lesotho, Somalia and Comoros – this exceeded 20%.

World regions: remittances as a share of total revenue (2022)



Source: MIF based on World Bank

Africa: the most expensive region to send money to

Remitscope reports a 9% average fee to send remittances to Africa, compared to the global 6.2% average. This is three times higher than the target in SDG 10 *Inequality*, which states that transaction costs for migrant remittances must be reduced to less than 3%.

Remittances account for over 16% of Africa's total government revenue in 2022, twice as much as in Latin America and the Caribbean, the region with the second highest share (7.9%)

When properly accounted, hard currency remittances could be leveraged to improve a country's creditworthiness and sovereign risk ratings by credit rating agencies. They could also function as a source of foreign exchange.

Remittance flows could also be used as collateral to improve ratings of sub-sovereign borrowers. Several banks in developing countries have been able to raise more than $15 billion since 2000 from international capital markets via remittance-backed securities.

As a share of Africa's total government revenues, remittances to the continent are equivalent to more than taxes received

Africa's sovereign wealth funds: an estimated combined worth of $120-130 billion, the lowest of any world region

Sovereign Wealth Funds (SWFs) are state-owned investment vehicles which use a combination of balance of payment or fiscal surpluses, transfer payments and revenue from resource exports.

> SWFs should endeavour to evolve with a country's needs and should have multiple objectives including both financial performance and economic development. For example, they can provide strategic short-term liquidity in times of crisis or serve as long-term developmental vehicles that align with a country's overall macroeconomic objectives.

They have been used by African governments to cushion the impacts of public spending, stabilise economies, facilitate infrastructural and technological development and prioritise diversification.

The data landscape for African SWFs is patchy, and Africa attracts little investment

Different sources provide different figures for both the number of active African SWFs as well as their respective Assets under Management (AuM):

- Global SWF records count 15 SWFs in Africa across 14 countries with a combined worth of $120-130 billion in 2023, the second smallest of any world region.
- The Sovereign Wealth Fund Institute (SWFI) and the International Forum of Sovereign Wealth Funds (IFSWF) identify 31 and 18 SWFs across 21 and 18 countries, respectively.
- Despite the relatively low overall value of Africa's SWFs, the growth of AuM has increased by 76% between 2015 and 2020, while the number of investors grew by 54%.

African SWFs function mainly as stabilisation funds

- Fiscal stabilisation and intergenerational wealth transfer are the main objectives for African SWFs, with domestic investments lower down on their list of priorities.
- Most African SWFs function as stabilisation funds and invest in low-yield assets that can be sold quickly to provide liquidity during economic crises.
- Access to data and transparency among African SWFs is often inadequate. Many funds either do not publish detailed portfolio breakdowns or only provide brief descriptions.

Africa's first SWF, The Pula Fund, was established by Botswana, one of the global diamond producers, as early as 1994

African SWFs are worth $120-130 billion and are the second smallest of any world region in 2023

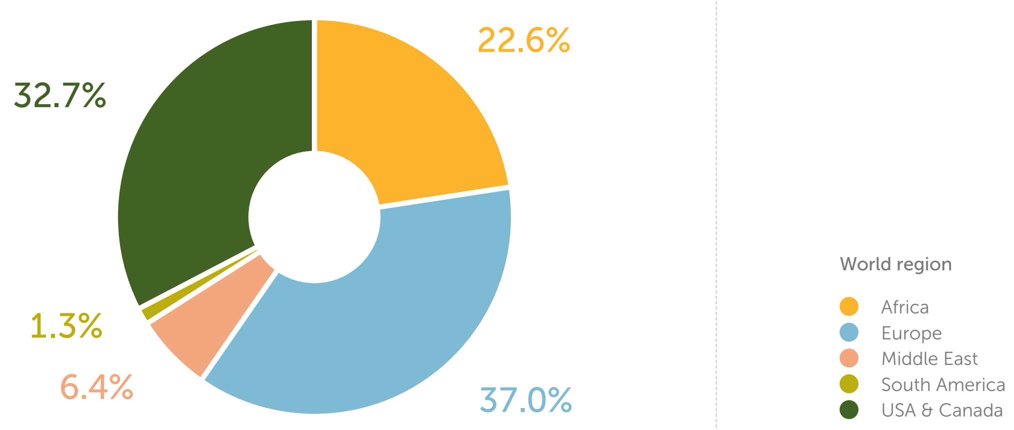
Types of African SWFs

Type of Fund	Examples in Africa	Primary Focus	What they invest in
Stabilisation Funds	Botswana's Pula Fund, Namibia's Welwitschia Fund, Algeria's Revenue Regulation Fund, Ghana's Stabilisation Fund	To act as a buffer mechanism which can cover fiscal deficits and allow governments to spend without increasing debt.	Tend to invest in low-yielding, liquid assets like stocks and sovereign bonds with an investment grade rating – often US Treasury bonds as these can be sold quickly in a crisis.
Strategic / Development Funds	Gabon's FGIS, Angola's FSDEA, Ethiopia's Investment Holdings	Focused on stimulating domestic development by investing a portion of their equity in local companies with growth potential. May include infrastructure investment, such as power plants. Any foreign investment will include the equity of companies that can partner with domestic companies to build joint ventures.	Tend to make anchor investments in local projects. Mainly invests in illiquid assets such as equity positions in start-ups and newly privatised companies.
Savings / Intergenerational Funds	Fundo Soberano de Mozambique, Lagos State Wealth Fund	Less focused on short-term liquidity, more on creating value for future generations. Aims to transfer current resource wealth to future generations. Governments may make withdrawals at future dates when targets are reached.	Mostly illiquid assets such as investment-grade bonds of long duration, corporate debt, private equity, and commercial overseas property.

The Libyan Investment Authority (LIA)

The LIA, under UN sanctions since 2011, is the largest African SWF with a portfolio of 72 companies across 26 countries. Investments in Africa make up just over 22%: business and real estate assets (19.3%) and fund investments (3.3%). More than a third of the LIA's investments go to Europe.

World regions: portfolio distribution of Libyan Investment Authority (2019)

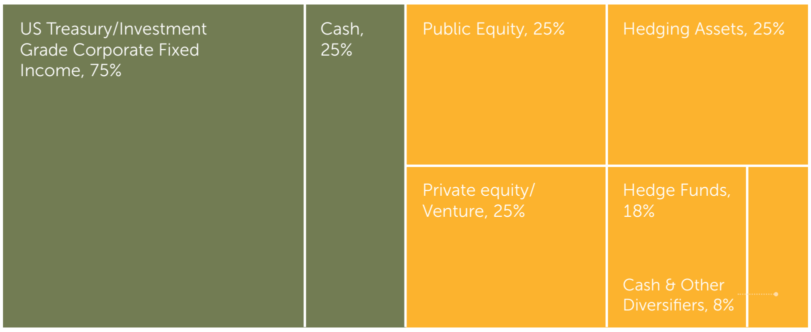


Source: MIF based on Libya Investment Authority

The Nigeria Sovereign Investment Authority (NSIA)

The NSIA comprises a mix of short-term liquid assets and longer-term illiquid assets, with some infrastructure and development investments. Within its Stabilisation Fund, the NSIA has prioritised US Treasury bonds, which comprise the largest portion of the NSIA's assets.

Nigeria Sovereign Investment Authority: portfolio distribution (2022)



Stabilisation Fund ($300 million)
Future Generations Fund ($1 billion)

Source: MIF based on NSIA

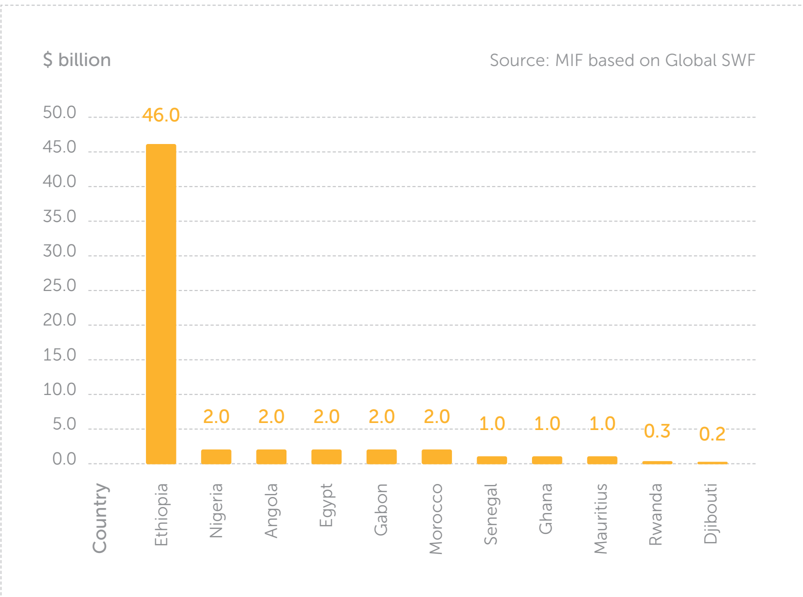
* Percentage breakdowns for the Infrastructure Fund were not available from NSIA

The African Sovereign Investors Forum (ASIF)

In 2022, several leading UAE SWFs and the Kuwait Investment Authority (KIA) joined the African Development Bank and the SWFs of different African countries to create the African Sovereign Investors Forum (ASIF), an investment promotion platform. ASIF focuses on mobilising capital and equity, promoting sustainability and improving logistics and interconnectivity across the continent.

Ethiopia's SWF, Ethiopian Investment Holdings, owns Ethiopian Airlines, Ethio Telecom and almost 30 other state-owned enterprises

African Sovereign Investors Forum attendees: Assets under Management (2022)



African SWFs’ limits and opportunities

African SWFs face criticism for either a lack of transparency surrounding their investments or for a lack of investment on the continent itself. The IFSWF has identified three focus areas for improvement:

1. **Governance:** robust, independent governance is key to attracting private capital. African SWFs must appear as peers to international investors, aligning interests and ensuring transparency to foster public trust amid scepticism towards government institutions.
2. **Social Impact:** to gain legitimacy, governments must make tangible impacts on citizens’ lives. African SWFs should collaborate on projects of significant financial and social scale to attract large international investors.
3. **Environment:** African sovereign wealth funds should aim to mitigate climate change outcomes such as food and energy insecurity, which drive conflict and ill-health.

The Santiago Principles: best practices set by global SWFs

Resource-rich countries such as Norway and Kuwait, two of the first countries to establish SWFs, can provide important examples of best practice for Africa’s developing SWFs. These SWF served as crucial safeguarding mechanisms against the “resource curse” which often sees countries which acquire a sudden increase in wealth, mostly from natural resource exports, struggle to safeguard their economies from inflation and instability.

Best practices for SWFs use are codified in the Generally Accepted Principles and Practices (GAPP) of Sovereign Wealth Funds, established by the OECD and the IMF in 2008 and are known as the Santiago Principles.

Key practices for all SWFs:

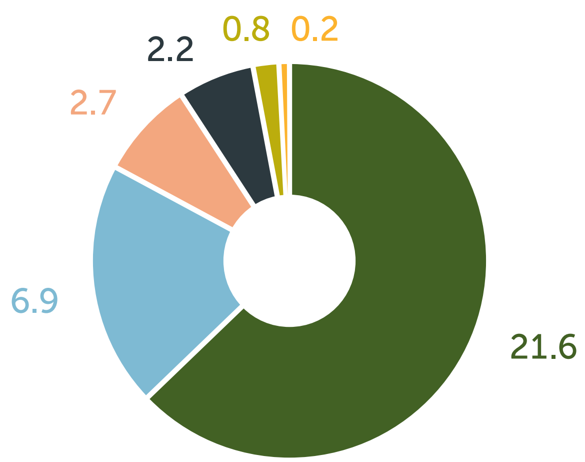
1. **Transparency, governance and long-term sustainability:** SWFs should disclose their investment strategies, performance and risk management to the public and stakeholders.
2. **Clear communication and good governance:** these create trust and help mitigate any concerns about the fund's objectives. SWFs should have well-defined mandates, with oversight mechanisms in place to prevent political interference and ensure alignment with policy.
3. **Prudent investment practices:** SWFs should employ a disciplined approach to asset allocation, considering risk tolerance, liquidity needs and market conditions. Diversification across asset classes, geographies and industries mitigate risk and enhance returns.
4. **Environmental, social, and governance (ESG) factors:** these can also contribute to better risk-adjusted returns and align with broader societal goals.

With still less than 6% of its population over 60 years old, Africa's pension funds remain quite small, at less than $206 billion

Pension funds are any type of fund, scheme or programme that provide retirement income for citizens. Pension funds tend to have large quantities of capital to invest and are often primarily seeking safe assets that yield consistent returns.

According to the OECD, pension funds' assets are defined as assets bought with the contributions to a pension plan for the exclusive purpose of financing pension plan benefits. The pension fund is a pool of assets forming an independent legal entity.

World regions: total investments by pension funds in $ trillions (2022)



At $205.9 billion in 2022, Africa's pension fund assets are the smallest at global level

World region

- Northern America
- Europe
- Asia
- Oceania
- Latin America and the Caribbean
- Africa

Source: MIF based on OECD

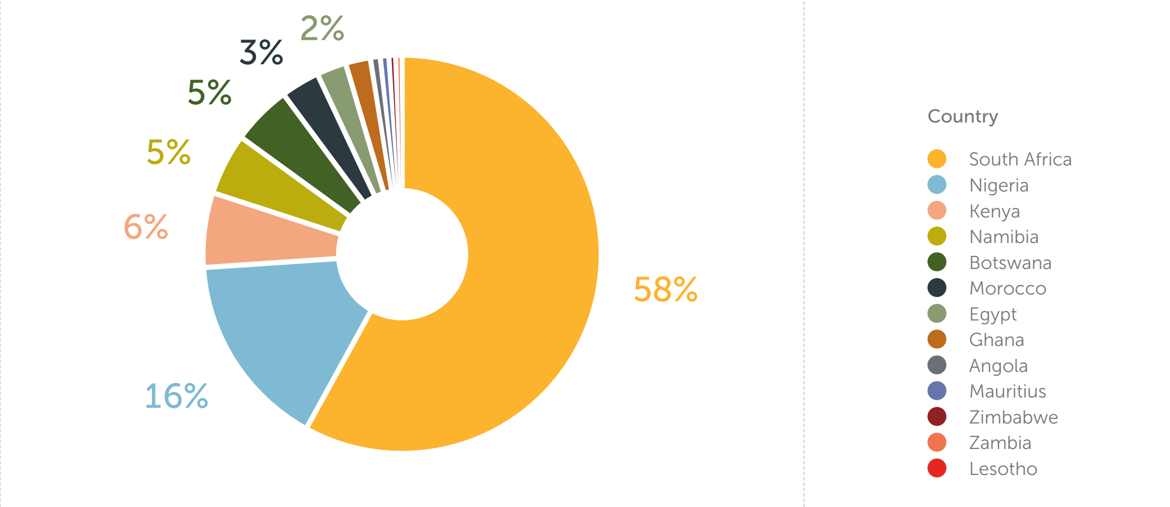
Africa's total pension fund assets stand at approximately $205.9 billion, the lowest of any world region. This is around ten times smaller than Asia's total pension assets. People over the age of 60 represent 5.6% of Africa's population, compared to 14.7% in Asia. With 24.7% of the population over 60, Northern America leads global pension fund assets with over $20 trillion.

Albeit still small, African pension funds have grown rapidly, multiplying by almost seven times in recent years from approximately $30.7 billion in 2012 to $205.8 billion in 2022.

According to the OECD, only 13 African countries have a public pension fund, totalling around $205.9 billion. 41 countries do not have one, according to OECD data.

Africa's largest pension fund is South Africa's, with assets worth around $119.4 billion. This is nearly 60% of Africa's total pension assets and almost four times larger than the second largest pension fund of Morocco at $32.5 billion. It ranks 24th at global level.

Selected African countries: share of Africa's public pension funds (2022)



Source: MIF based on OECD

Pension funds could help fill infrastructure and climate investment shortfalls

With their long-term outlook and stable cash flows, pension funds are well suited for investing in projects that require longer periods of time and large amounts of resources, such as infrastructure and climate-resilience projects.

Development projects can provide investment opportunities for pension funds

According to the Africa Financial Industry Summit in 2022, pension fund managers are conservative in allocating capital, opting mostly for safe assets like government and corporate bonds. Still, there are several ways in which governments can encourage pension funds to invest in key development areas: use of local currency to finance infrastructure projects, as well as cooperation between regulators and investors to support the emergence of innovative and more attractive financial assets.

The combined worth of Africa's pension fund assets is smaller than Brazil's total pension fund assets, but still equivalent to 4.3% of the continent's GDP

African pension funds are growing but attract little international capital

Risk perceptions and information shortages lower investor confidence and increase the cost of capital in Africa more than in any other world region. Africa's share of global investment capital has remained low at below 1%, even though global Assets under Management grew from $48 trillion in 2010 to over $112 trillion in 2021.

Africa's share of global investment capital is below 1%

Three main barriers for African pension funds

1. **Lack of investable assets:** the size of investable assets across Africa is much smaller than those available on international stock exchanges, often encouraging pension funds to invest their funds outside the continent.
2. **Risk perception:** a 2018 study found that surveyed pension funds and SWFs are open to investing in African infrastructure projects provided that they are revenue-generating. This suggests that many investors are mandated to select projects with secure revenue streams, avoiding risks.
3. **Inadequate regulatory frameworks:** in Nigeria, the 2006 Regulation of Pension Fund Assets led to increased AuM, reaching $32.3 billion by 2020. In Namibia, the revised 'Regulation 29' framework introduced in 2017 has helped overcome underdeveloped capital markets by enabling domestic pension funds to invest in unlisted companies through special purpose investment vehicles.

> It is great to think that Africans themselves can invest their own resources on their own continent's future. This will not only ensure key African ownership but will also convince potential external investors that investing on the continent is indeed worthwhile.
>
> *Pascal Lamy, Vice-Chair of the Paris Peace Forum, former Director-General, WTO*

SPOTLIGHT

African High-Net-Worth Individuals (HNWIs): $2.5 trillion worth of liquid investable wealth

According to New World Wealth's 2024 Africa Wealth Report, there is currently $2.5 trillion worth of liquid investable wealth across the continent. This figure is comprised of the liquid assets of 135,200 high-net-worth individuals (HNWIs) with liquid investable wealth of $1 million or more living in Africa, along with 342 centi-millionaires worth $100 million or more, and 21 US dollar billionaires. Strikingly, this $2.5 trillion of investable wealth is comparable to the $2.8 trillion required to meet the financing gaps identified in African countries' NDCs. This dormant potential source of financing could be channeled into African SWFs, venture capital, private equity and other Africa-focused investment vehicles. Further, African private equity firms expressed a desire in 2024 to unlock the assets of SWFs and to collaborate on long-term investment projects.

The number of millionaires in Africa is set to increase by 65% over the next 10 years to just over 223,000

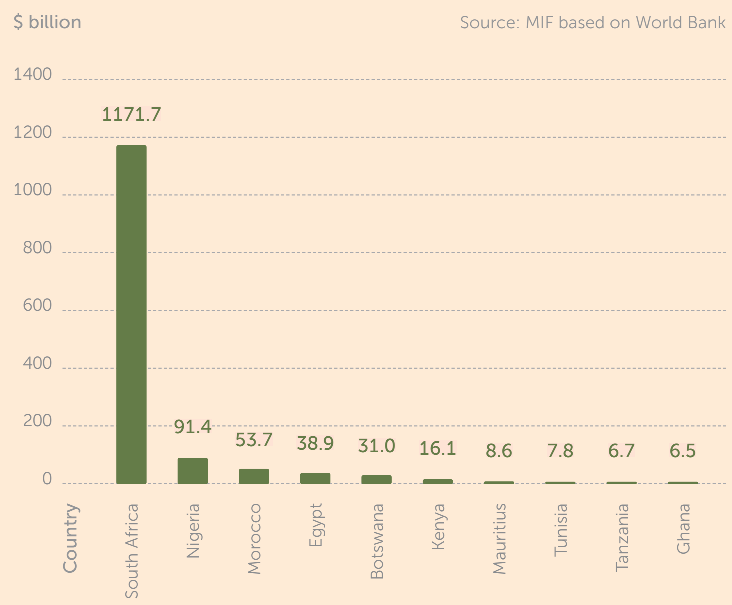
African Stock Exchanges: only 2% of the global stock market capitalisation

Africa's stock exchanges are growing but remain small by international standards

The Africa Stock Exchanges Association (ASEA) is the body of stock exchanges in Africa represented by 25 Exchanges, covering 37 countries. With over 1,100 listed companies it has a total market capitalisation value of over $2 trillion. However, this value is disproportionately dominated by South Africa, Morocco, Egypt and Nigeria while large economies such as Ethiopia are still in the process of forming a stock exchange.

In 2022, South Africa's and Nigeria's stock exchanges combined represented 87.5% of Africa's total market capitalisation

Selected African countries: market capitalisation of listed domestic companies (2022)



"Africa's huge and rising financial needs, including climate financing are a clarion call to Africa to develop a pan African capital market as an anchor to domestic resource mobilization. This is where the money is to mainly come from.

H.E. Albert M. Muchanga, Commissioner for Trade and Industry, African Union Commission

Sustainable bonds to leverage finance for climate and development: One of the most promising tools to unlock significant capital for sustainability-related investment is green and social bonds. Green bonds have raised $2.5 trillion globally in 2023, however Africa's market represent only about 1%. Green bonds have been successfully issued by public institutions in Nigeria, South Africa, The Seychelles, Morocco and Egypt. The AfDB in increasingly engaged in the sustainable bond market, including issuing over **$10 billion worth of green and social bonds in 2023** for the fight against climate change and reinforcing socio-economic development in member countries, and partnering with the **Global Green Bond Initiative** to collaborate on technical assistance to promote green bond markets in Africa.

All of Africa's 29 stock exchanges have a market capitalisation of around $1.6 trillion, significantly smaller than the New York Stock Exchange (NYSE) at $25 trillion.

Alphabet, the parent company of Google, has a market capitalisation of approximately $2.1 trillion as of May 2024, more than all of Africa's stock exchanges combined.

Financing Innovation: Venture Capital's Key Role in Africa

Tarek Mouganie, Founder and Group CEO, Affinity Africa

There is a new kid on the block in the African investment landscape and hopefully it is here to stay.

In 2023, foreign direct investments (FDI) into Africa totalled $48 billion (3.5% of the global share), foreign aid came in at $42 billion (18.8% of the global share) and development financing (DFI) at approximately $8 billion (13.4% of the global share). On a continent with 17.9% of the world's population, of which 70% are under the age of 30, there is an urgent need for more investments to support job creation.

Within FDI, venture capital (VC) has seen a big increase in recent years. VC funding in Africa totalled $3.6 billion in 2023, an average annual rise of 450% since the early 2010s and a total of $17 billion since 2019.

VCs play a crucial role in driving innovation by taking risks. By providing capital to young transformational companies, they drive their new strategies, establish products and bring resources to grow and scale – a practice that has long been elusive in Africa. And this is sorely needed.

Until recently, financing into the continent was limited when it came to start-up risk. DFIs were restricted given accountability to taxpayers, providing grants as a workaround or investing in established, larger and profitable businesses like their private equity counterparts. Foundations, charities and foreign aid investors typically used an impact led approach and only took risk where needed. However, they often put purpose ahead of profit and sustainability, creating an element of dependency.

VCs provide early-stage funding to help entrepreneurs take their ideas from concept to reality. Their agility and risk appetite create innovators and help them build, verify and scale, creating new technologies, industries and markets. VC funded start-ups invest in research and development, upskill labour forces and create vital infrastructure. In some cases they encourage the development of new regulation and policies such as open banking in the UK and EU.

But taking risks can come at a price.

Firstly, VCs operate in complex environments where regulation and policy can impede growth. With high-profile start-up collapses in the Global North, the relaxation of corporate governance amongst VCs has become clear. This is a particular issue in regulated sectors like fintech, where fiduciary responsibilities are more pronounced.

Secondly, despite the nascent market, Africa is only 1.3% of global VC funding, of which a paltry 23% were contributions made by African VCs in 2022. This international exposure is a risk in itself. From the rise of VC funding in 2019, it reached a peak of $5.2 billion in 2021. Since then, international investors have pulled out to focus on their markets, leaving African startups in limbo about follow-on capital.

Finally, **mitigating risk to unlock VC investing in Africa is critical**. This is especially so for a continent whose economies are less resilient and where systemic implications can hit harder compared to more developed nations with greater funding options. Local knowledge is needed to navigate the opportunities presented, something incumbent investors have decades of experience with and do well, albeit in a less agile and more bureaucratic fashion.

Out of adversity, comes opportunity.

Since the decline of VC funding, positive trends have emerged. We have seen the largest Africa-dedicated VC funds; some standalone and others within international VCs. We have also seen DFIs and foundations investing in local VCs, a blended approach to taking risk and encouraging innovation.

We hope this asset class is not only here to stay but that it flourishes. VCs enable innovation as well as social and economic growth, something that must be encouraged. For African VC funding to grow, it must be responsible, collaborative, and by players that understand the local context on the ground.

Africa's growing position in the world

Africa's demographic potential: the world's youngest population and one fourth of global workforce

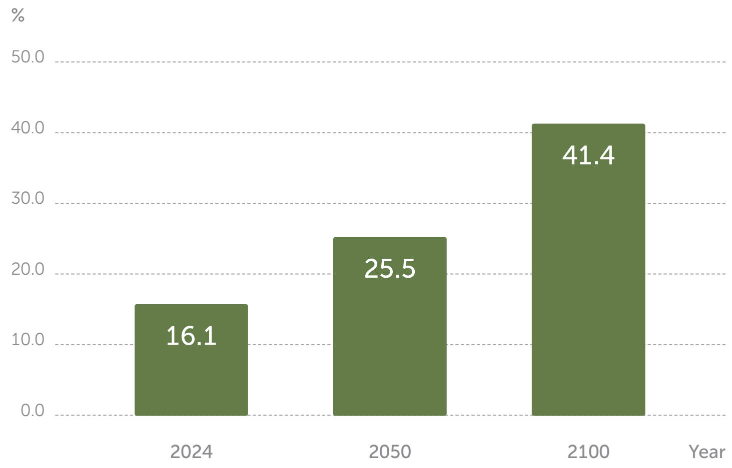
Total population: Africa currently makes up almost a fifth of the world's population (18.3%). By 2050, it will rise to around a quarter (25.5%) and to over a third by 2100 (37.8%).

Youth: (15-34) make up almost 60% (59.6%) of Africa's working-age population.

Working-age population: by 2050, Africa will account for a quarter of the global labour force and over 40% by 2100.

Dependency ratio: by 2055, Africa will potentially have the lowest dependency ratio, with around 59 dependants per 100 working age people, three quarters that of Europe.

Africa: share of global working age population (2024-2100)



Source: MIF based on UNDESA

By 2100, Africa will account for over 40% of the global working-age population

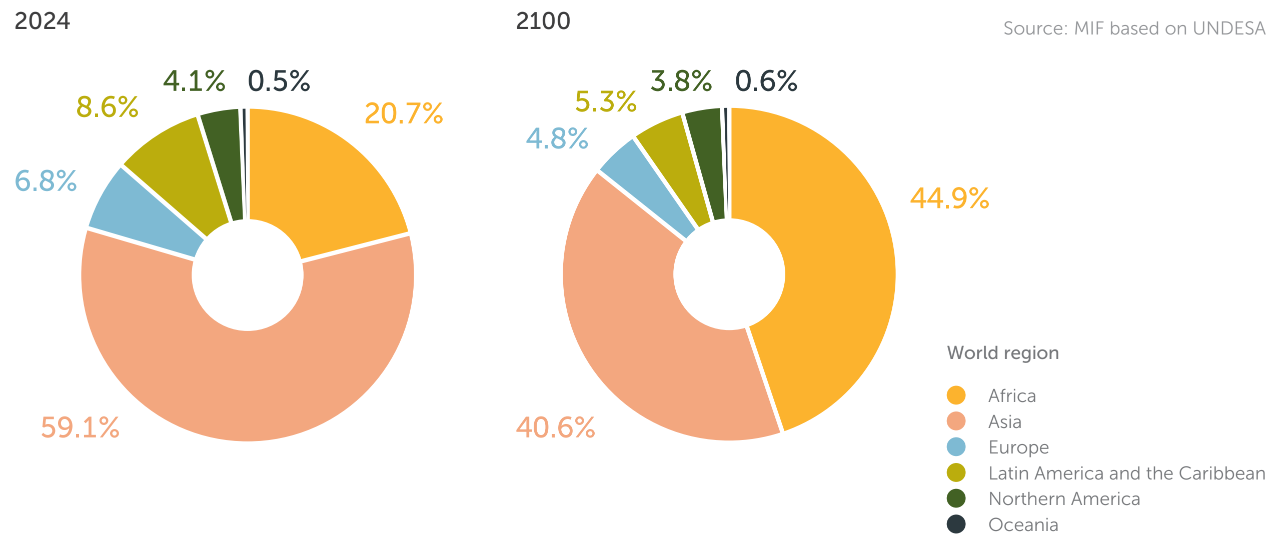
But there are hurdles to overcome:

Youth unemployment: one in four young people in Africa's economies are not in employment, education or training (NEET).

Brain drain: according to Ichikowitz Foundation 2022 Africa Youth Survey, about half of respondents aged 18-24 would consider leaving their native country in the next three years due to lack of employment and education opportunities.

By 2100, Africa's youth will make up almost 50% of the world's youth, surpassing Asia

World regions: share of global youth population (15-34 years)



Source: MIF based on UNDESA

Nine out of the 20 fastest growing economies globally are African

Top 9 African countries: projected real GDP growth (2024)

Rank Africa	Rank global	Country	Real GDP growth (%)
1	4	Niger	10.4
2	5	Senegal	8.3
3	6	Libya	7.8
4	7	Rwanda	6.9
5	9	Côte d'Ivoire	6.5
5	9	Djibouti	6.5
7	13	Ethiopia	6.3
7	13	Gambia	6.2
9	17	Benin	6.0

Source: MIF based on IMF

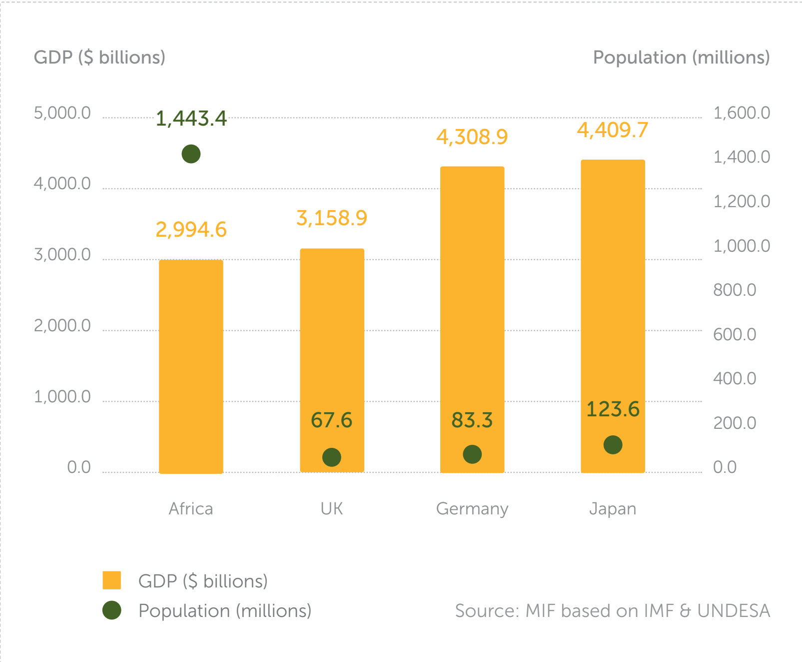
Even with the combined setbacks of COVID-19, the Russia-Ukraine conflict, the Israel-Gaza conflict and general global economic downturns, real GDP in African economies is projected to grow by 3.5% and 4.0% in 2024 and 2025, respectively, above the global projected average of 3.2% per year for both years.

The continent is set to remain the second fastest-growing region after Asia.

6 out of the world's 10 fastest growing economies in 2024 are in Africa

Despite being home to 1.4 billion people and with an abundance of natural resources, including 65% of the world's arable land and the largest reserves of critical minerals, Africa still only accounts for about 3% of global annual GDP. Increasing Africa's share of global economic activity means investing in its human capital, boosting domestic productivity, and leveraging revenue gaps.

Africa & selected world countries: GDP & population (2023)



While hosting 18% of the world's population, Africa still accounts for 3% of global GDP in 2023

In 2023, the annual GDP for the whole African continent combined was just over $3.0 trillion, lower than those of the UK, Germany and Japan individually.

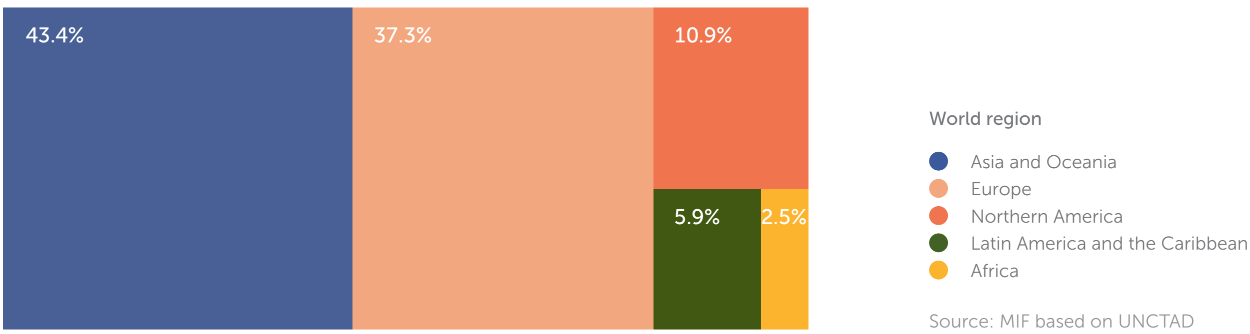
GDP per capita was less than $2,200 per year, the lowest of any world region and almost 18 times less than the EU average.

Upgrading Africa's place in global value chains

Currently, Africa's global value chain involvement remains predominantly in mining, resource-based exports and light manufacturing sectors, with minimal representation in advanced manufacturing and services.

Africa accounts for less than 3% (2.5%) of global exports value in 2023

Selected world regions: share of global exports value (2023)

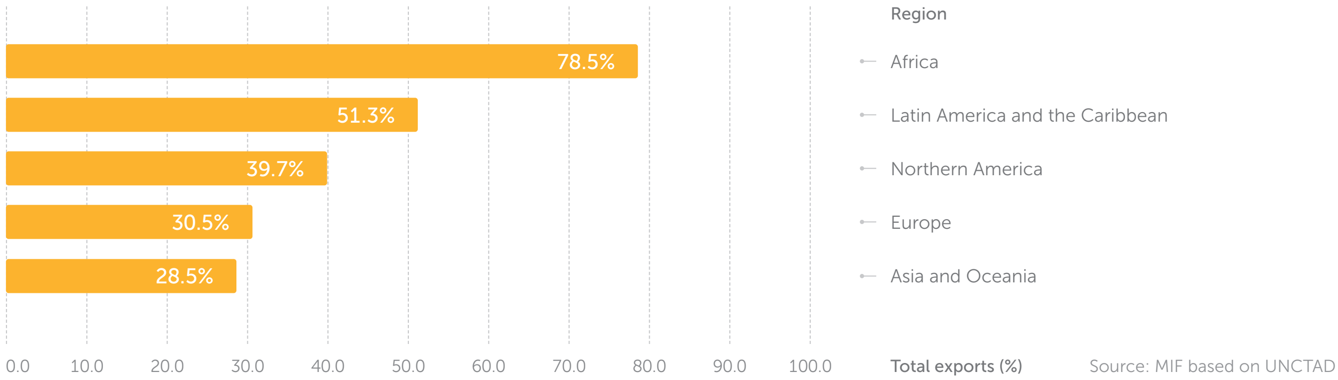


Source: MIF based on UNCTAD

In 2022, primary commodities (raw materials in an unprocessed state) make up 78.5% of African exports, more than twice the share in North America and more than three times the share in Europe or Asia.

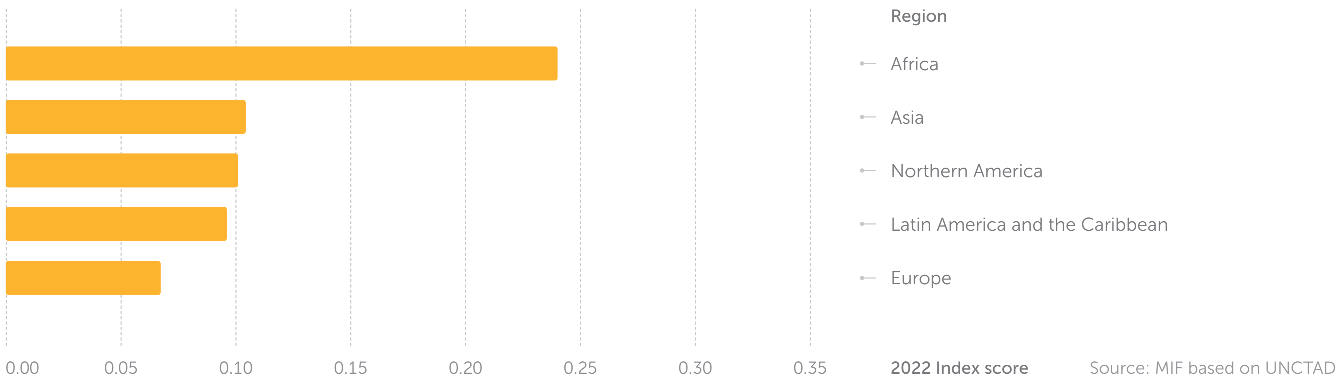
In 2022, primary commodities still account for over 3/4 of Africa's exports, a far higher share than in any other region

Selected world regions: primary commodities, precious stones & non-monetary gold exports (2022)



Due to the large share of primary commodities, Africa's exports are the least diversified of any world region, leaving government export revenues vulnerable to global shocks.

Selected world regions: Product Concentration Index, exports (2022)



Large, capital-intensive extractive economies have low job creation potential, especially when minerals are primarily transported from pit to port.

In Nigeria, the continent's largest crude oil producer, only 0.5% of the population work in extractives compared to 34.7% in agriculture, forestry or fisheries in 2020.

In 2022, Africa's exports are the least diversified of any world region

Without diversification, African countries risk limited benefits from global value chains. Northern and Southern Africa lead the continent's participation in global value chains for electronics, metal products and machinery, while manufacturing economies mainly serve as sources for cheap labour and intermediate goods.

Africa has 215 processing facilities of which the most are plants (117), followed by smelters (47), refineries (45) and concentrators (6). South Africa and the DR Congo have the largest number of processing facilities hosting over half of those on the continent. Of the total minerals processed, copper (37.21%) leads the way.

Nigeria: Africa's top oil producer imports 95% of its refined oil

Nigeria, Africa's leading oil producer, faced significant impact from rising oil prices caused by the Russia-Ukraine conflict due to its reliance on refined oil imports. A member of the Organisation of the Petroleum Exporting Countries (OPEC), Nigeria imports 95% of refined petroleum, lacking capacity for domestic refining despite abundant oil resources.

About a third of Europe's gasoline exports in 2023 went to West Africa, with the biggest share of exports ending up in Nigeria. Gasoline trade from Europe to Africa is currently worth $17 billion a year.

Inaugurated in 2023, once fully operational the Dangote refinery is predicted to produce around 650,000 barrels of refined oil a day. At full capacity, this would meet 100% of the country's need for gasoline, diesel, kerosene and aviation jet fuel with 40% of the oil products created available for export.

The **EU's Critical Raw Minerals Act**, came into force in May 2024, states that the EU should boost its own processing capacity to allow for the processing of 40% of the region's critical mineral needs for the energy transition. As Africa possesses most of the minerals necessary for global energy transition, countries should push back on the ambitions of export markets and instead advocate for an expansion of local processing and link them to investments in industrial sectors.

Western Africa: largest cocoa production in the world but farmers still in poverty

Western Africa produces 75% of the world's cocoa beans, with Ghana and Côte d'Ivoire contributing 60% of the global output alone. In 2022, the revenue of chocolate companies reached $206 billion, and the industry is set to earn in $263 billion in revenue by 2030. Yet cocoa farmers often earn less than the World Bank's poverty threshold of $2.15 per day.

The exploitation by extractive companies, often offering low prices to producers, have also triggered human rights and environmental abuses in cocoa-producing countries, including child labour and trafficking.

Driven by dwindling cocoa crops mainly due to the climate change impact, recent cocoa price surges prompted several countries to increase producer prices. Ghana increased their state-guaranteed cocoa prices to farmers by two-thirds in 2023, and Cameroon by 25%.

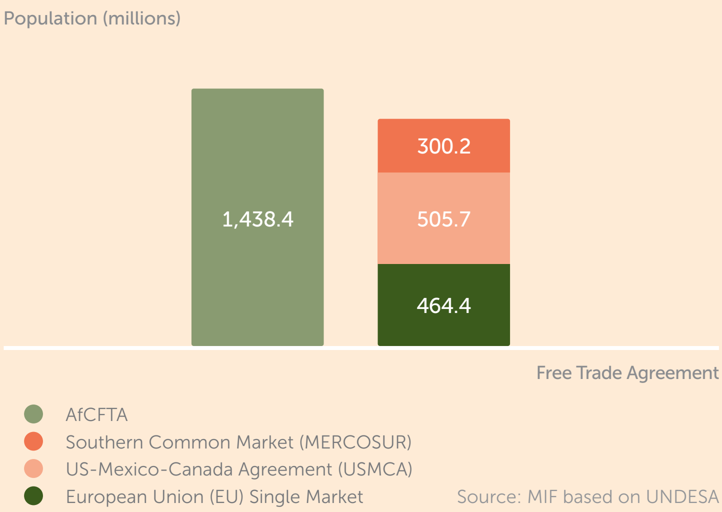
Regional integration: markets and value chains are crucial

Boosting regional value chains is crucial for growth and domestic resource mobilisation, yet regional value chains accounted for just 2.7% of Africa's total value chain participation in 2019 compared to 26.4% in Latin America and the Caribbean and 42.9% in developing Asia.

The African Continental Free Trade Area (AfCFTA): a potential to be the world's single largest market

With a potential market of over 1.4 billion people, the AfCFTA can build local value chains by boosting intraregional trade, especially in manufactured goods, and creating value and knowledge transfer.

Selected Free Trade Agreements: total population covered (2023)



Source: MIF based on UNDESA

Only 14.1% of African countries' exports within the region, as opposed to 68.5% in Europe and 62% in Asia & Oceania

The AfCFTA is expected to raise Africa's income by up to $450 billion by 2035, increase exports by $560 billion, primarily in manufacturing, and lift 30 million Africans out of extreme poverty.

Africa Trade Exchange (ATEX), a digital trade platform which has been established on the back of the AfCFTA, is set to increase the value of intra-African trade by 400% when fully implemented.

The African Commodity Strategy (AU Agenda 2063)

The African Commodity Strategy is a flagship project under the AU's Agenda 2063. It aims to identify, formulate and implement policies and programmes that will enable African countries to add value, extract higher rents from their commodities, integrate into global value chains and promote vertical and horizontal diversification anchored in value addition and local development.

Monetising Africa's green assets

Africa's critical minerals are key for the global green transition

With the green revolution, Africa's critical resources are in higher demand than ever from the rest of the world. Africa holds 30% of the world's mineral reserves, many of which are critical for renewable energy and low-carbon technologies. For the continent to make the most of this, it will have to not just produce raw materials but to manufacture, design and refine to access higher value chains. According to the World Bank (WB), to meet the expected rise in global demand, production of minerals and metals such as lithium, graphite and cobalt will need to increase by nearly 500%. This cannot be achieved without Africa's resources.

Mineral	Leading uses
Cobalt*	Batteries/EVs
Bauxite*	Solar
Graphite*	Batteries/Solar/ Nuclear
Platinum Group Metals (PGMs)*	Green hydrogen
Manganese*	Batteries/Solar
Chromite*	Geothermal/Solar/ Wind
Copper	Geothermal/Hydro/ Solar/Wind
Lithium*	Batteries/EVs
Uranium	Nuclear

* listed as a "critical mineral" by the EU or IEA.

African countries: selected low carbon minerals (2021-2022)

Morocco (2022): over 2/3 of global **phosphate rock** reserves

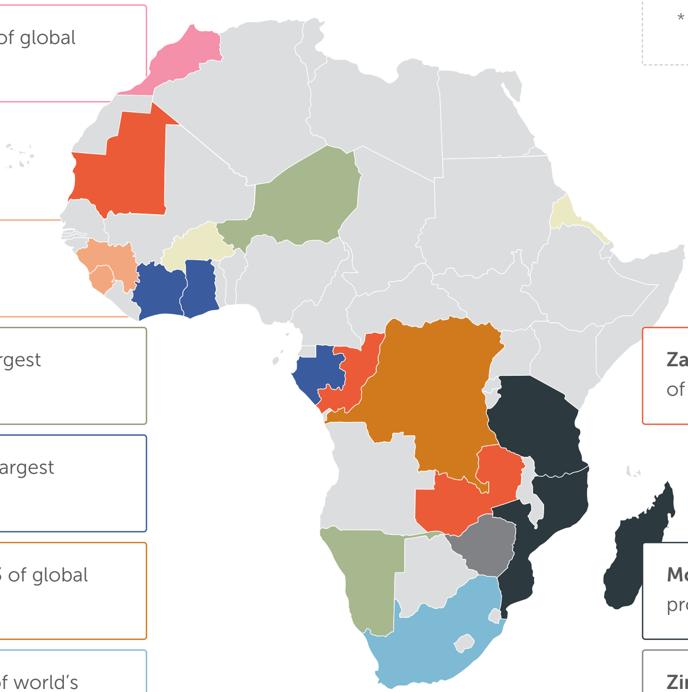
Guinea (2022): world's largest **bauxite** reserves

Niger (2021): world's 2nd largest exporter of **uranium ore**

Gabon (2022): world's 2nd largest producer of **manganese**

DR Congo (2022): over 2/3 of global **cobalt** production

South Africa (2022): 90% of world's **platinum group metal** reserves



Zambia (2021): world's primary exporter of unrefined **copper**

Mozambique (2022): world's 2nd largest producer of **graphite**

Zimbabwe (2021): world's 3rd largest exporter of **chromium ore**

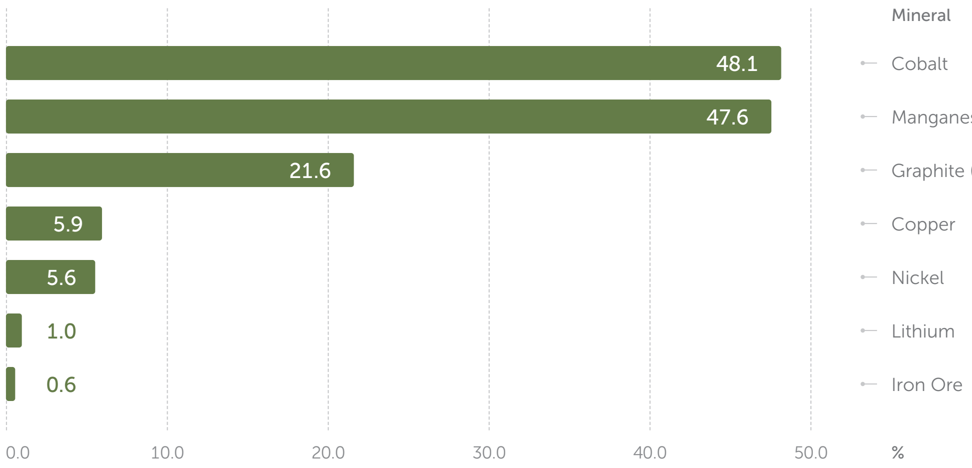
- Zinc
- Copper
- Manganese
- Cobalt
- Bauxite
- Graphite
- Phosphate rock
- Uranium
- Platinum Group Metals
- Chromite

Source: MIF based on Atlas of Economic Complexity, United States Geological Survey & World Nuclear Association

Africa's share of global mineral reserves is critical for the green global economy

African lithium to make up at least 10% of global supply by 2027 - from DR Congo, Ethiopia, Ghana, Mali, Namibia and Zimbabwe

Africa: share of global mineral reserves (2023)



Source: MIF based on UNCTAD

According to UNCTAD, Africa's global reserves are fundamental to the green revolution especially in the market of electric vehicles. Yet in the automotive supply chain, between 2018 and 2020, Africa accounts for only 4% of the supply of auto parts and 43% of the supply of raw materials in this industry.

Africa requires significant investment in renewable energy if the continent is to capitalise on the shift and demand for green resources. It must look beyond exploration and extraction and become a destination for refining and manufacturing materials and parts necessary for the green technologies.

More than 70% of the world's cobalt is produced in DR Congo, yet Chinese companies account for 68% of the global cobalt refining capacity. Around 80% of the DR Congo's cobalt output is owned by Chinese companies which produce higher value products such as batteries.

70% of the world's electric batteries are produced in China

Despite Africa's crucial global mineral reserves for electric vehicles, the continent only accounted for 4% of the global supply of auto parts between 2018 and 2020

Current green value chain projects in Africa

DR Congo-Zambia agreement around battery creation: both countries signed a historical cooperation agreement aimed at developing value chains in electric battery and clean energy sectors and creating jobs and training opportunities for millions of young people.

Lobito Corridor: in February 2023, Angola, Zambia and DR Congo signed an agreement linking mining areas such as Katanga province and the Zambian copper belt to allow all three countries to transport metals used to make electric vehicles and wind turbines from inland mines to ports cutting the transport times from weeks to days.

The Africa Green Hydrogen Alliance: Egypt, Kenya, Mauritania, Morocco, Namibia and South Africa have agreed to intensify collaboration and production of green hydrogen for domestic use and export through regulatory policies, capacity building, financing and certification.

The South African Power Pool (SAPP): created in August 1995, SAPP is a 12-member, inter-governmental Memorandum of Understanding (MoU) for the formation of an electricity power pool to be a fully integrated, competitive energy market and provider of sustainable energy for the South African Development Community (SADC) and beyond.

Green industrial policies and restrictions on raw exports

Indonesia: export ban on unprocessed nickel sees 40% increase in FDI

Since 2020, Indonesia has progressively banned the export of nickel ore, requiring nickel to be processed for export to strengthen domestic facilities. This has brought back the added value of nickel's supply chain and created employment. As a result, $21.6 billion in Foreign Direct Investment (FDI) has entered Indonesia in the first half of 2022, 40% more than in the same period in 2021.

Since 2020, around 42% of sub-Saharan African countries have implemented restrictions on raw exports or Special Economic Zones (SEZ) with regards to transition minerals.

In 2022, Zimbabwe, which has Africa's largest lithium reserves, imposed the Base Minerals Control Act, a ban on raw lithium ore exports. Zimbabwe hopes to satisfy 20% of the world's total lithium demand.

Namibia followed suit in June 2023, banning the bulk export of unprocessed minerals including lithium, graphite and cobalt insisting that minerals mined within the country had to be processed there.

Green hydrogen

Green hydrogen technology has been hailed as a replacement for fossil fuels in hard-to-abate carbon-intensive sectors such as cement, steel, fertilisers, plastics and transport.

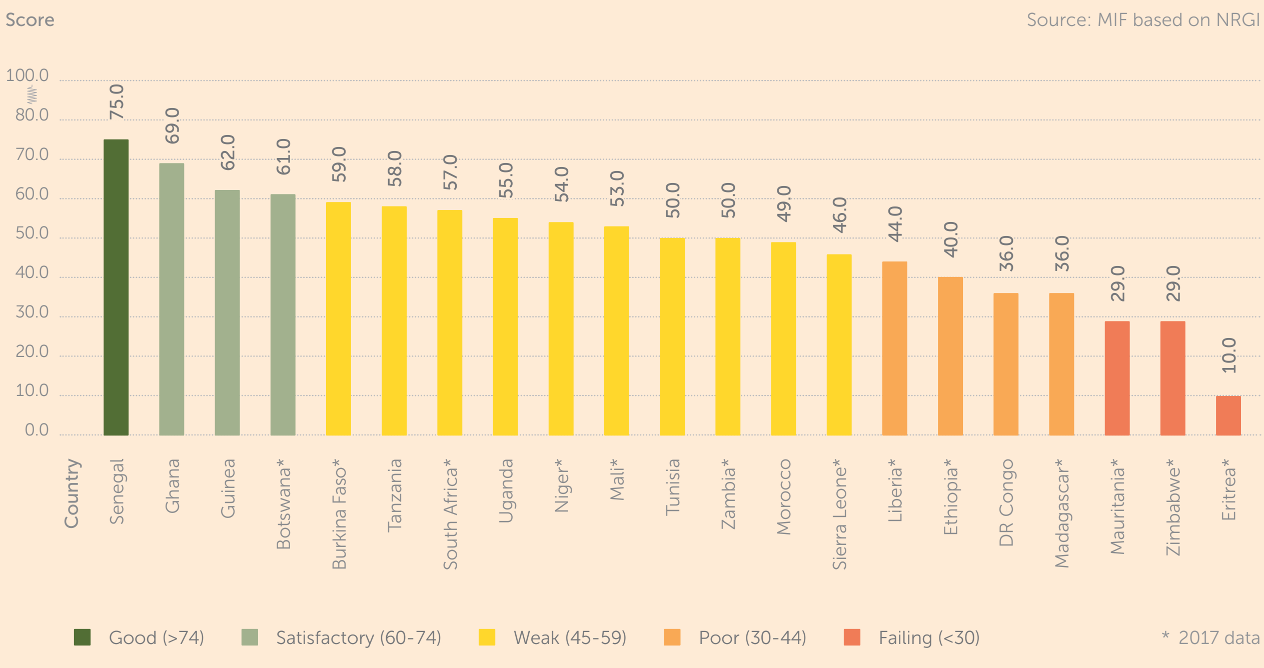
Africa is expected to be a preferred location for the green hydrogen economy due to its greater land availability, easy access to water sources and port facilities. Many African countries are already tapping into this potential: Namibia is aiming to produce 300,000 tonnes per year by 2026 and Mauritania signed two large-scale projects in 2022 with 40 gigawatts of capacity, enough to power the whole country for over a month.

The priority for African governments must be providing access to reliable energy for all. It is key that the temptation to develop green hydrogen predominantly for export does not distract from this goal.

Leveraging Africa's natural resources wealth: governance is key

Africa Mining Vision (AMV): adopted in 2009 by the AU, the AMV is the key continental framework to promote mineral resource-based development. The initiative is overseen and coordinated by AMDC and aims to integrate sustainable development into a single African market, harness the potential of diverse stakeholders such as artisanal mining communities, and optimise Africa's finite mineral wealth.

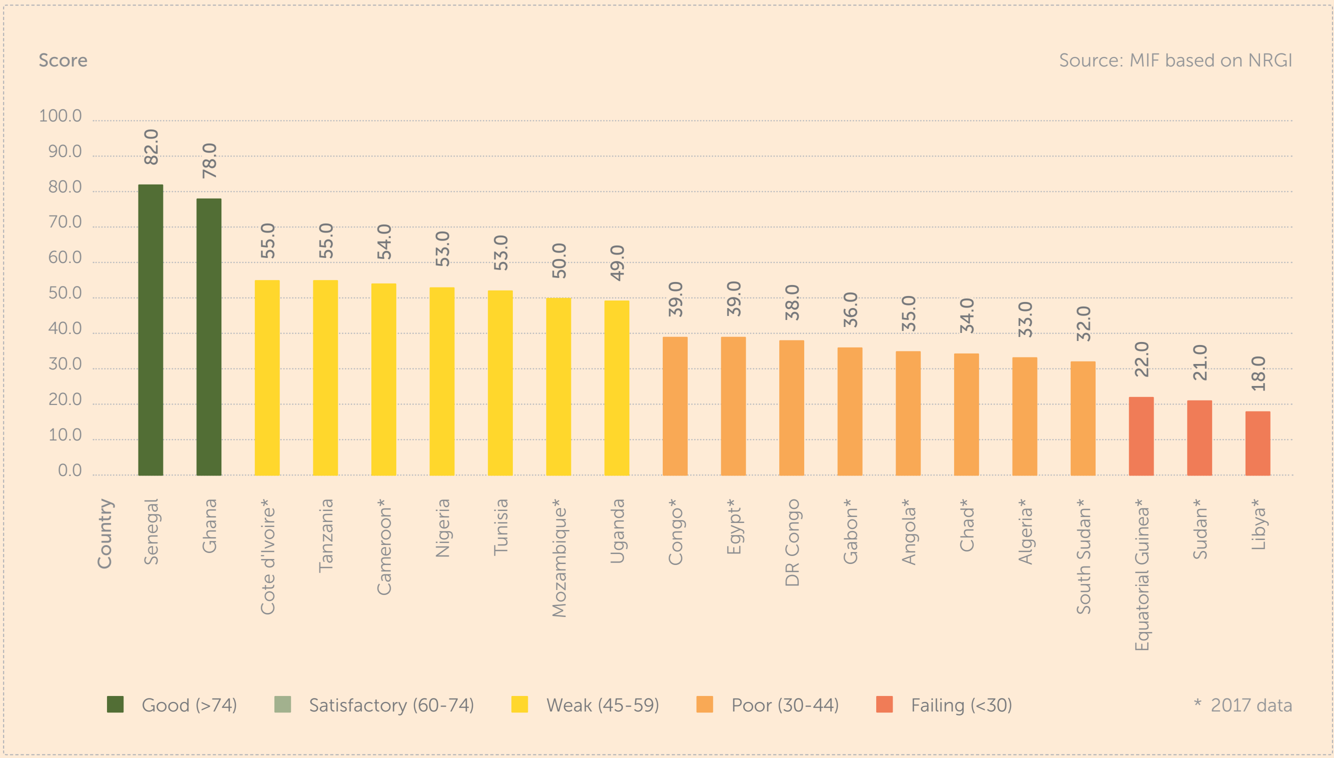
Selected African countries: Resource Governance Index, mining governance score (2017/2021)



According to the Natural Resource Governance Institute (NRGI), Senegal and Ghana were the only two African countries that received a "good" Resource Governance Index score for governance of oil and gas sectors in 2021, with Senegal being the only country to receive a "good" score for governance of the mining sector.

According to NRGI, Senegal's high ratings were primarily due to high revenue management performance and mainly good rules and practices in terms of the disclosure of data on the national budgeting of mining revenues and on debt.

Selected African countries: Resource Governance Index, oil and gas governance score (2017/2021)

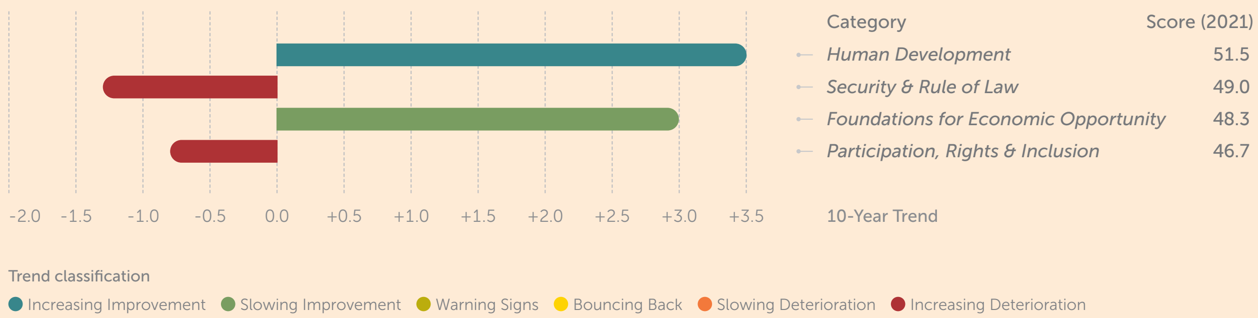


Overall Governance: the need to sustain progress

More than half of Africa's population lives in a country where Overall Governance has improved between 2012 and 2021. However, governance progress over the decade is still hindered by diverging trajectories – while more than 40 countries have made progress in the IIAG categories *Foundations for Economic Opportunity* and *Human Development*, more than 30 countries have deteriorated in the categories *Security & Rule of Law* and *Participation, Rights & Inclusion*.

Sustaining governance progress is key for ESG criteria, as well as an enabler of FDI.

Africa: IIAG category scores & trends (2012-2021)



Carbon credits: Africa's next big export?

The Congo Basin rainforest sinks more carbon than any other tropical forest.

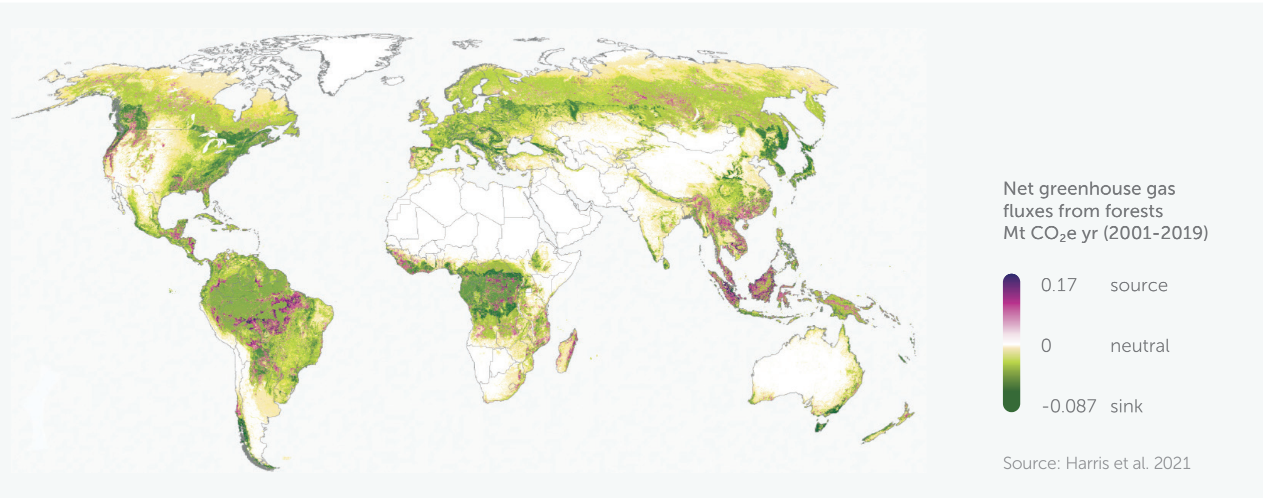
Despite being the world's second largest rainforest after the Amazon, the Congo Basin is the only rainforest with enough standing forest left to remain a strong net carbon sink.

Net carbon sequestration in the Congo Basin rainforest is more than in the Amazon and Southeast Asia combined.

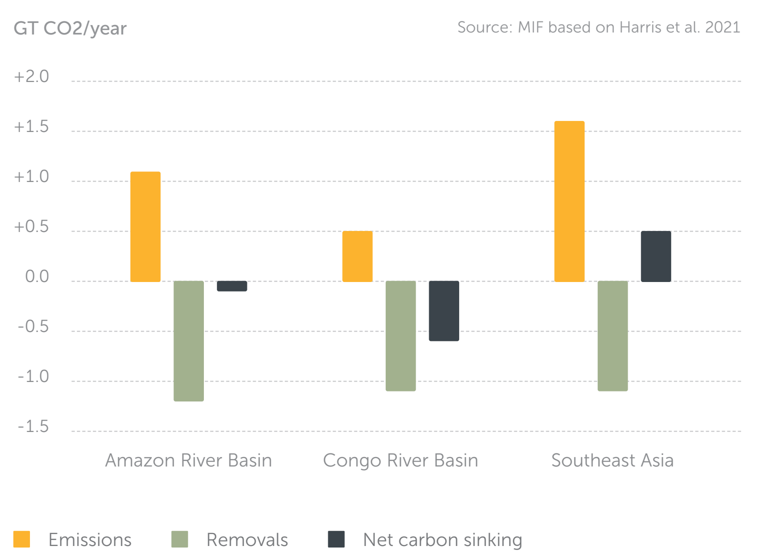
The Congo Basin forest absorbs 4% of global carbon emissions every year, offsetting more than the whole African continent's annual emissions

Forests: carbon sinks or carbon sources?

World forests: net greenhouse gas fluxes (2001-2019)



Selected world rainforests: emissions, removals & net carbon sinking capacity (2021)



Amazon River Basin

GT CO2 emissions: +1.1

GT CO2 removals: -1.2

GT CO2 net carbon sinking: -0.1

Congo River Basin

GT CO2 emissions: +0.5

GT CO2 removals: -1.1

GT CO2 net carbon sinking: -0.6

Southeast Asia

GT CO2 emissions: +1.6

GT CO2 removals: -1.1

GT CO2 net carbon sinking: +0.5

A carbon credit can be considered a token which represents the avoidance or removal of greenhouse gas emissions, measured in the equivalent of tonnes of carbon dioxide (tCO_2e). Organisations, companies or institutions with projects can register the impact of their activities on reducing or removing emissions and issue a carbon credit with the same volume for sale.

The majority of offsetting activities are taking place in emerging markets or developing nations, while most of the buyers are located in higher-income countries.

As of 2022, compliance-based and voluntary carbon markets (VCM) are valued at over $900 billion and $2 billion, respectively. Both have more than doubled in value between 2020 and 2022 with the voluntary market estimated to grow between five to 20 times by 2030. The largest VCM, the EU Emissions Trading Scheme (EU ETS) has an estimated worth of $800 billion in 2022 alone.

African carbon credits only make up 3% of the credits issued under the Clean Development Mechanism (CDM), the first international carbon market, while contributing 10% to the credits issued on VCMs. According to the African Carbon Markets Initiative (ACMI), Africa only uses 2% of its annual carbon credits and should aim to sell $100 billion worth of credits a year by 2050.

KOKO Networks: cooking fuel start-up raising funds through carbon credits

KOKO is a Kenyan start-up creating stoves which use bioethanol, a safer and cleaner cooking fuel compared to charcoal. The start-up is now used by more than one-third of households in Nairobi and can generate carbon credits to be sold on global markets. Proceeds made from the credits are reinvested in the company which allows them to keep prices down for customers refuelling in local 'fuel ATMs' known as "KOKO Points".

Even with Africa's small contribution to carbon markets, they have boosted cooking-fuel projects which made up almost 25% of African carbon credits issued on the voluntary markets.

A highly challenging market: scale, permanence, additionality and governance

Only a small share of total global carbon emissions are removed by carbon credit markets. Also, they cannot guarantee the permanence of carbon offsetting, especially for nature-based removals. Lastly, as the world is already on a trajectory to net zero as set out in the Paris Agreement, it is harder to measure the true additionality that carbon markets would add to carbon storage or removal.

The carbon credits scramble for Africa's forests

Most carbon credits in Africa are overwhelmingly related to the country's forestry and land use activities (50%). Africa's rainforests alone have been acknowledged as having more capacity than the Amazon rainforest to absorb atmospheric carbon dioxide, at about 600 million metric tons of carbon each year, more than any forest ecosystem on earth.

Africa only uses 2% of its annual carbon credits and could aim to sell $100 billion worth of credits a year by 2050

Africa has the potential to scale its carbon credit market 19-fold by 2030, supporting up to $6 billion of revenue and 30 million jobs

"Clearly there is global underinvestment in supporting Africa to unlock the full potential of its vast renewable energy sources. This is unfair, unjust and unacceptable.

Akinwumi Adesina, President, African Development Bank Group

Most recently, Dubai-based company Blue Carbon has signed four MoUs equivalent to 60 million acres of forest land in Africa - comparable to the whole land mass of the United Kingdom - in Zimbabwe, Tanzania, Liberia and Zambia.

- Zimbabwe: 18 million acres (1/5th of total landmass)
- Zambia: 20 million acres (1/10th of total landmass)
- Liberia: 2.5 million acres (1/10th of total land mass)
- Tanzania: 20 million acres (1/10th of total land mass)

As of December 2023, Madagascar received $8.8 million for carbon credits from reducing 1.76 million tons of carbon emissions, making the country the third in Africa (after Mozambique and Ghana) to be paid by the WB for reducing emissions from deforestation and forest degradation – commonly known as REDD+.

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Bilateral carbon credit markets offer Africa bigger returns

Despite its infancy, the market for African bilateral credits is growing. According to The Economist, bilateral carbon credit trading on compliance markets is likely to offer Africa $800 billion compared to $2 billion on the VCM. Internationally Transferred Mitigation Outcomes (ITMOs) included in the Paris Agreement allow countries to partially meet their NDCs by buying credits from another country.

At the Africa Climate Summit in Nairobi in 2022, the UAE pledged to buy $450 million worth of African carbon credits by 2030. Ghana and Senegal have already sold credits based on cookstoves to Switzerland and other deals have been struck between Gabon and South Korea as well as by Ethiopia and Kenya with Japan.

Bilateral carbon credit trading on compliance markets is likely to offer Africa $800 billion compared to $2 billion on the VCM

The Africa Carbon Markets Initiative (ACMI)

VCMs play a crucial role in decarbonisation, particularly for the private sector. Initiated at COP27, the ACMI aims to establish a VCM ecosystem in Africa by 2030 and produce 1.5 billion carbon credits annually, unlock over $120 billion in revenue and support over 110 million jobs by 2050.

Demand for African-origin carbon credits grows at a compound annual rate of 36%, albeit from a low base. Out of total credits issued worldwide between 2016 and 2021, only about 11% stem from African countries, and the bulk of these come from a few large projects.

The governance challenge: greenwashing, double counting and offsetting claims

A key criticism of carbon markets is that they rarely deal with the root cause of the climate crisis and, in their current state, have little removal capacity. Less than 4% of credits in the VCM include any removal and 90% of the market is over-credited. Companies with high profits are not pressured to reduce their carbon emissions but can instead opt to purchase additional carbon credits.

The African Leaders Nairobi Declaration: Africa's voice and ambition on green assets

"

14. & 16. [...] It is time that Africa's natural capital wealth is properly measured by recognizing its contribution to reducing global carbon emissions.

18. Africa possesses both the potential and the ambition to be a vital component of the global solution to climate change. As home to the world's youngest and fastest-growing workforce, coupled with massive untapped renewable energy potential, abundant natural assets and an entrepreneurial spirit, our continent has the fundamentals to spearhead a climate compatible pathway as a thriving, cost-competitive 4 industrial hub with the capacity to support other regions in achieving their net zero ambitions.

We commit to:

23. Develop and implement policies, regulations and incentives aimed at attracting local, regional and global investment in green growth, inclusive of green and circular economies.

24. Propel Africa's economic growth and job creation in a manner that reflects our commitments to the Paris Agreement and also aids global decarbonization efforts, by leapfrogging the traditional progression of industrial development and fostering green production and supply chains on a global scale.

25. Focus our economic development plans on climate-positive growth, including expansion of just energy transitions and renewable energy generation for industrial activity, climate smart and restorative agricultural practices, and essential protection and enhancement of nature and biodiversity.

26. Promote clean cooking technologies and initiatives as a just energy transition and gender equality for African rural women, youth, and children.

27. Strengthen actions to halt and reverse biodiversity loss, deforestation, and desertification, as well as restore degraded lands to achieve land degradation neutrality; and implement the Abidjan declaration on achieving gender equality for successful land restoration.

28. Strengthen continental collaboration, which is essential to enabling and advancing green growth, including but not limited to regional and continental grid interconnectivity, and further accelerating the operationalization of the Africa Continental Free Trade Area (AfCFTA) Agreement.

29. Advance green industrialization across the continent by prioritizing energy-intense industries to trigger a virtuous cycle of renewable energy deployment and economic activity, with a special emphasis on adding value to Africa's natural endowments.

30. Promote investments in reskilling to unlock the human capital that will power Africa's inclusive green transition.

39. Identify, prioritize, and mainstream adaptation into development policy-making and planning, including in the context of Nationally Determined Contributions (NDCs).

48. We invite Development Partners from the global north and south to align technical and financial support to Africa for sustainable utilization of Africa's natural assets for low carbon development that contributes to global decarbonization.

49. To accomplish this vision of economic transformation in harmony with our climate needs, we further call upon the international community to contribute to the following:

(ii) Shift exports of energy intensive primary processing of Africa's raw material back to the continent, to serve as an anchor demand for our renewable energy and a means of rapidly reducing global emissions.

57. We urge world leaders to consider the proposal for a global carbon taxation regime including a carbon tax on fossil fuel trade, maritime transport and aviation, that may also be augmented by a global financial transaction tax (FTT) to provide dedicated, affordable, and accessible finance for climate-positive investments at scale, and establish a balanced, fair and representative global governance structure for its management, with an assessment of the financial implications on socioeconomic impacts on Africa.

”

Green industrialisation opportunities in Africa

Climate Action Platform Africa (CAP-A)

Climate change risks and the costs for Africa are real and urgent – and these drive a big financing need as outlined previously. To reach the global objectives of net zero by 2050 two things need to happen, and in both Africa has a key opportunity.

Firstly, the footprint of everything that is consumed globally must be reduced as much as possible. This requires greening of industries, manufacturing, and service provision across all sectors and geographies. Locations most suitable for hosting this global green production need to have untapped renewable energy potential, labour potential, and relevant natural resources and assets (such as but not limited to critical transition minerals). Africa has a global superabundance in these three areas, which positions it well to be a green industrial and manufacturing hub for the world. The Nairobi Declaration, adopted to strengthen African countries' common position on climate change, recognises this potential explicitly and states that "as home to the world's youngest and fastest-growing workforce, coupled with massive untapped renewable energy potential, abundant natural assets and an entrepreneurial spirit, our continent has the fundamentals to spearhead a climate compatible pathway as a thriving, cost-competitive industrial hub with the capacity to support other regions in achieving their net zero ambitions". Initiatives like the Africa Green Industrialisation Initiative have been conceptualised to capture and build it out.

Secondly, even with drastic emission reductions, large-scale removals will be needed to address hard-to-abate sectors and residual removals, and to undo climate change damage already inflicted. For a range of solutions, from nature-based removals to hybrid and engineered removals, the same production factors will determine competitiveness – and again, Africa is well positioned to be a significant global provider of this service.

This drives opportunities for investment which will yield positive results for climate and people, whilst also yielding financial returns. As is often the case with opportunities, there is no easily defined upper limit. The table opposite lists these opportunities based on a mix of sources, including research, investment ambitions and commitments, and ongoing projects.

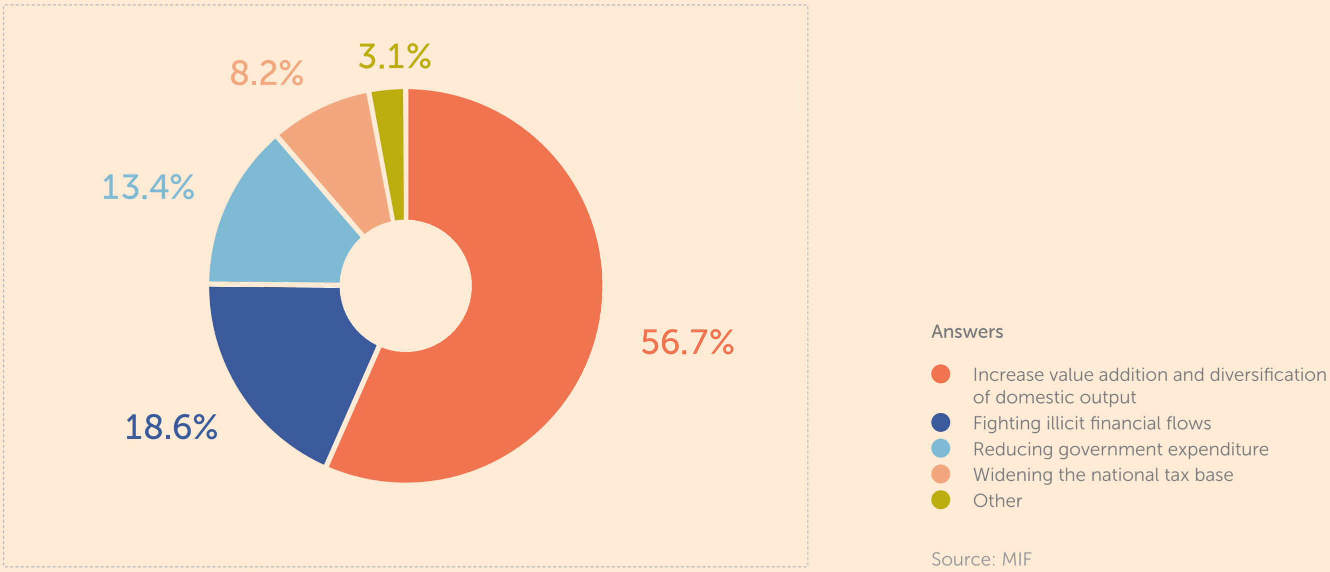
Opportunity area	Size of the opportunity
Renewable energy investment	Investment in green sectors such as renewable energy yields higher returns compared to fossil fuel intensive sectors, with sustainable value chains generating gross value addition of up to 420% while creating up to 250% more jobs.
Nature-based removal	With nature-based carbon removal opportunities alone, Africa has the potential to: • Remove 95 million tonnes of CO2 per year, generate $950 million in revenue and support 40 million jobs and improved livelihoods, at a carbon price of just $10 per tonne. • Remove 308 million tonnes of CO2 per year, generate $15.4 billion in annual revenue, and support up to 86 million new jobs and improved livelihoods, at a carbon price of $50 per tonne.
Green industrial and manufacturing opportunities	• If Africa's employment in industry - thanks to green industrialisation - matches global average, this will drive 34 million new jobs. • Many opportunities exist across a wide range of sectors, including mineral processing, green hydrogen, synthetic fuel production, and green downstream manufacturing.
Green hydrogen	Africa has massive green hydrogen opportunity, in a context where most future global demand will require substantial imports. Announced investments in green hydrogen specifically already exceeds $15 billion across Morocco, Mauritania and Namibia with many more plans under development.
Known announcements of large-scale investment into green industrial deployment	Various global actors have announced sizeable investment commitments into Africa's green growth. This includes: • $4.5 billion of public, private and development capital announced by the UAE for projects across Africa. • The establishment of APRA, the Accelerated Partnership for Renewables in Africa, at ACS 2023, led by IRENA, Kenya, Denmark, Germany, the UAE and partnering with Ethiopia, Namibia, Rwanda, Sierra Leone and Zimbabwe. • The establishment of Africa Green Industrialisation Initiative, AGII, at COP28 by ten African countries.
Decarbonising existing industry and building new green industrial opportunities	African green industrial growth requires $2 trillion investment until 2050, most of which is in energy. With a global carbon price of $60 per tonne, 60% of all these investments will be Net Present Value (NPV) positive by 2030.

2024 MIF Now Generation Network survey: Leveraging Africa's resources

Almost 60% of Africa's youth consider increasing value addition and diversification of domestic output is the best way to increase domestic revenue

- The majority (56.7%) chose increasing value addition and diversification of domestic revenue.
- 18.6% prioritised the need to fight illicit financial flows from the continent.
- More than 20% chose measures that would improve public finances.
- 13.4% of respondents recommending a reduction in government expenditure.

How best can African governments increase domestic revenue?

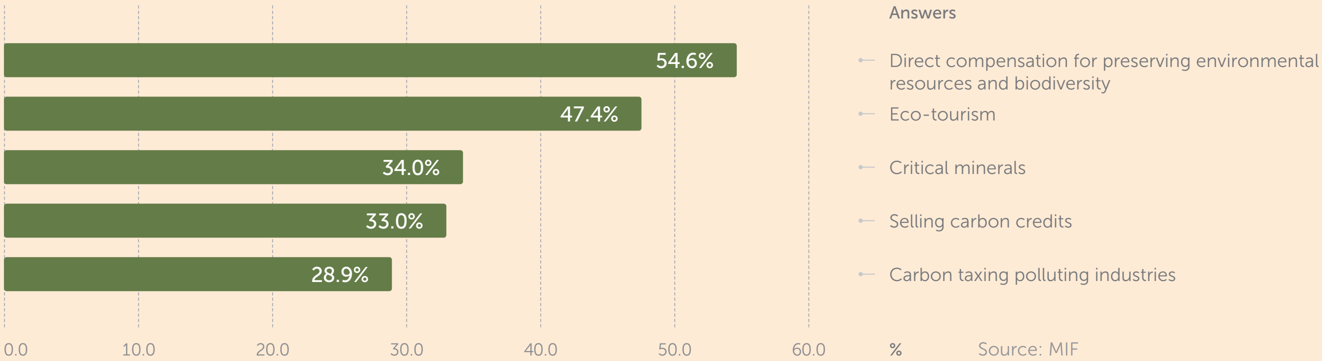


Source: MIF

More than half of Africa's youth are calling for direct compensation for preservation of environmental resources and biodiversity

- Over half of respondents (54.6%) selected the need for direct compensation to African countries for preservation of environmental resources and biodiversity.
- 47.4% of respondents chose eco-tourism as a means to monetise green assets.
- More than a third (34.0%) of responses included harnessing the potential of critical minerals.
- Solutions focused solely on carbon credits (33.0%) or carbon taxes (28.9%) each featured in roughly a third of responses. However, one or both of these were present in almost half of responses (49.5%).

What is the most viable path for Africa to monetise its vast green assets?

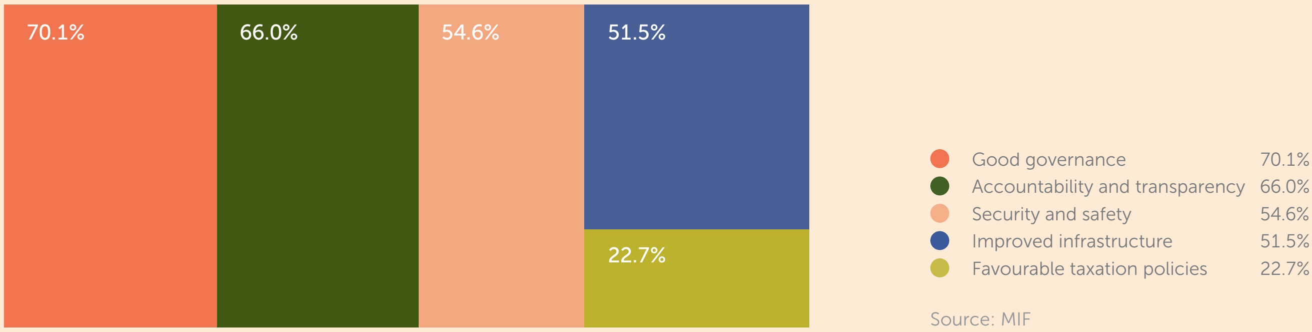


Source: MIF

70% of Africa's youth believe good governance is key for Africa to attract more Foreign Direct Investment

- Good governance was selected by the majority of respondents (70.1%). It was also a key issue in the previous two survey sections on assessing Africa's needs and resources from non-African partners.
- Selected by almost two thirds (66.0%) of respondents was the need for accountability and transparency.
- About half of the respondents selected security and safety (54.6%) and improved infrastructure (51.5%)
- A slightly smaller share of respondents (22.7%) recommended favourable taxation policies.

What main conditions are necessary for Africa to attract more Foreign Direct Investment?



Source: MIF

By fostering vibrant value chains and clusters, African countries can foster innovation and enhance competitiveness in the global marketplace. Investing in human capital is also vital. Through education and training initiatives, countries can cultivate a skilled workforce equipped to drive technological advancements and fuel productivity gains.

Parabron Emile Banse, Markets and Private Sector Development Lead, Vanguard Economics

Governments should develop and enforce clear laws and regulations governing the extractive sector, including transparent licensing processes and environmental regulations. Additionally, engaging with local communities to ensure they benefit directly from extractive activities can reduce conflicts and promote sustainable development. This includes ensuring that communities receive a fair share of revenues and are involved in decision-making processes.

Herbert Mba Aki, Assistant Professor, Université Omar Bongo

In order for financing to be improved, Africa needs to demonstrate seriousness in financing itself by being fiscally responsible and investing in critical infrastructure. The continent needs to rise up to its potential.

Modupeoluwa Ige, MBA Candidate, The London Business School

We need to prioritise our manufacturing capacity and value addition to better finance our activities, coupled with fighting illicit activities and being bold in fighting corrupt leadership - we can be on track towards progress.

Sandile Mtetwa, 2023 MIF Queen Elizabeth II Academy Fellow

The success of any strategy linked to 'Financing Africa' is inextricably connected with good governance that is conducted in the interest of achieving public goals rather than for political aspirations of state leaders.

Adeelah Kodabux, Senior Lecturer, International Relations, Middlesex University

Africa has all it takes to become self-sufficient if our resources are refined and processed locally, traded internally and appropriately priced when sold to the rest of the world. The difficulty is how we can rid ourselves of all the terrible partnerships and financial agreements we have gotten ourselves into over the years.

Husein Pumaya Yakubu, Civil service, Ministry of Lands and Natural Resources, Ghana

In order to sustainably finance Africa's development we need to prioritise curbing illicit financial flows, we need more and better data, we need to harmonise policies to make Africa's investment landscape more predictable and more attractive, we need innovative financing and we need context-specific financing schemes.

Luladay Berhanu Mengistie, 2023 MIF Leadership Fellow, International Trade Centre

African countries need to better manage and derive greater revenue from their enormous natural resources.

Joe Lemaron, 2022 MIF Leadership Fellow, African Development Bank

Africa should focus more on mobilising adequate resources to fund its own growth and future transformation agenda instead of continuously relying on foreign aid. Taking ownership of its natural resources and addressing the issue of massive illicit financial flows are some great solutions to achieve financial independence.

Ameldine Dachiroudine, Professor, University of Comoros

Borrowing can be useful only if African countries utilise the funds for intended purposes, assess and manage borrowing risks effectively, and complement borrowing with sound macroeconomic policies. If not, borrowing will lead to an increased debt burden.

Queenette Nwariaku, Phd Governance of Natural resources, University of Birmingham

CONCLUSION: THE MONEY IS THERE, WHAT IS NEEDED IS A COMPLETE CHANGE OF PARADIGM

1. Rather than a “trade-off” approach between development and climate: **reconciling** both for countries still developing (and still needing universal access to energy)
2. Rather than an “aid/charity” approach (“how much more can you/we give us/you”), a **cooperation** approach (expertise and information on IFFs, on tax systems, on green assets processing etc.)
3. Rather than a “more money” approach, a “**better money**” focus (a radical reboot of the current multilateral financial system)
4. Rather than “donor dependency”, a more **African-owned** growth and development model, leveraging the continent’s key assets

The good news is that there is money available…

in the North, provided countries follow up on their promises with a spirit of justice and equity and in the private sector, which could benefit from clearer risk management systems, that properly price the risks but also the enormous opportunities of investing in Africa. Money is also available in Africa, but it requires better governance systems to ensure it flows where it is most needed. There is money available to fight climate change and help countries achieve the Sustainable Development Goals. The two objectives cannot be separated, because development needs to be sustainable, or it will not be development. **But as we move in all these directions, we must ensure African countries don’t break under the burden of debt. They are not the most indebted in the world, but they suffer the most onerous conditions of public and private creditors. All this calls for a system-change**. At a time of heightened geopolitical tensions, of fragmentation and polarisation, we should ensure Africa remains a priority and a point of cooperation for Africa, for the rest of the world.

Arancha González, Dean, Paris School of International Affairs (PSIA), former Minister of Foreign Affairs, EU and Cooperation, Spain

External resources: better processes

1. Increased concessionality
2. Increased representation of Africa in decision-making bodies of international financial institutions
3. Improved lending agility and flexibility of Bretton Woods institutions
4. Improved risk assessment methods (Credit Rating Agency’s methodologies, Bretton Woods debt sustainability assessments, climate-vulnerability based concessionality assessments)
5. Swift implementation of global commitments such as Loss and Damage Fund
6. Review of Bretton Woods system-specific surcharges and conditionalities
7. Release of dormant ODA funds

Domestic resources: increased African ownership

1. Preventing leakages through Illicit Financial Flows
2. Strengthening tax systems
3. Leveraging African remittances, African sovereign wealth funds and African pension funds
4. Upgrading Africa’s place in global value chains
5. Monetising Africa’s green assets

The money is here (3)

H.E. Albert M. Muchanga, Commissioner for Trade and Industry, African Union Commission

There are several sources of domestic resource mobilisation in Africa.

- Promoting and sustaining good governance with strategic focus on combatting corruption as well as enhancing transparency and accountability in public administration;
- Increasing intra-African trade flows through deeper continental economic integration. The ever-present danger of trade deflection under the African Continental Free Trade Area can be overcome by moving Africa towards an African Customs Union/Common Market by leveraging foundational instruments like the Protocols on Free Movement of People, Right of Residence and Right of Establishment; Investment; Intellectual Property Rights and Competition Policy
- Operationalizing the African Credit Rating Agency to aid in both developing a Pan African capital market and providing expert second opinions on international credit ratings of African borrowers from the international capital markets. This would contribute to lowering interest charges on Africa's borrowing in the international capital markets;
- Improving Africa's credit ratings through inter-alia: development of human capital in capital market development and analysis; improved data collection and economic management which are equally critical to lowering interest charges on Africa's borrowing in the international capital markets;
- Development of a Pan-African Stock Exchange;
- Improving domestic tax administration across Africa, including digitalization;
- Formalization of Africa's vast informal sector to broaden tax administration;
- Leveraging pension funds, sovereign wealth funds and mutual funds in Africa's inclusive growth and sustainable development;
- Avoiding over-reliance on tax incentives when attracting foreign direct investments because these can drain the national treasury of public resources;
- Curbing smuggling of gold to countries outside Africa; promoting exchange of information as well as curbing mispricing, which are all key contributors to illicit financial flows from the continent;
- Having African governments deposit part of their foreign reserves in African multilateral development banks;
- Enhancing inclusivity in international tax cooperation;
- Making it possible for African High-Net-Worth Individuals to invest in Africa instead of holding their funds outside the continent;
- Increasing African Diaspora savings and investments in the continent;
- Development of capabilities in carbon trading to end the current trend of gross undervaluation of Africa's carbon sinks;
- Strategic recourse to debt financing that is sustainable to avoid periodic debt crises which only serve to sustain Africa's underdevelopment.

The money is here (4)

Abdoul Salam Bello, Executive Director Africa Group II, World Bank

The intertwined pandemic, political, security and climate challenges have significantly eroded decades of economic and social gains in Africa, contributing to the worsening of inequalities across the continent. According to data from UNECA, the Covid 19 pandemic has pushed 55 million Africans into extreme poverty in 2020, impacting sectors that are essential to countries' economies.

Besides, while Africa's contribution to global emissions is minimal, it is bearing the brunt of climate change, including rising sea levels, drought and land degradation and deforestation. A recent World Bank Group report estimates that without climate change adaptation policies, more than 86 million people would be forced to leave Africa by 2050. Added to these challenges is the issue of employment for the continent's youth. Every month, 2 million young people enter the labor market. That number could jump to 3 million, by 2050.

It is therefore important in this context to think out of the box about additional potential solutions for financing the development of the African continent. Here are some ideas on **"where the money is"**.

1. The potential of the Fourth Industrial Revolution (4IR)

Fourth industrial revolution technologies such as Artificial Intelligence (AI), the Internet of Things (IoT), Big Data, 3D printing, Blockchain, and drones, have the potential to transform the continent's economy, its productivity and improve the wellbeing of its citizens. A recent report of the African Development Bank entitled "unlocking the potential of the fourth industrial revolution in Africa" identified 5 main areas of application of these technologies, namely: (1) agriculture; (2) energy; (3) industry; (4) regional integration and; (5) wellbeing. These sectors all have the potential to accelerate the development of the continent.

But these technologies also offer the opportunity for countries to improve domestic revenue mobilization. According to an IMF analysis, adopting govtech in fiscal operations can strengthen public finance on both revenue and spending sides.   This analysis shows for example that the adoption of e-invoicing and electronic fiscal devices could improve revenue mobilization by up to 0.7 percent of GDP.

To maximize the potential of 4IR, the African Development Bank estimates that the necessary investment needed in digital infrastructure will be $100 billion to unleash the power of digitalization from fiber-optic infrastructure, data centers, and the expansion of mobile networks.

To finance these infrastructures, Google, Apple, Facebook and Amazon (GAFA) have a societal responsibility, but most importantly because it makes perfect economic sense. For example, in 2023 Google's revenues were estimated at US$ 305.6 billion largely made up of advertising revenue.
For the same period, 30 percent of Alphabet's revenue was in Europe, the Middle East, and Africa.

The adoption of the Digital Transformation Strategy for Africa, DTS (2020-2030), provides the African Union with an opportunity to engage GAFA on these critical issues, including the taxation of activities generated in Africa.

Africa must also take advantage of the opportunities of these technologies to initiate reforms to update the continent's training programs. Without these reforms, the cost of inaction would be very high for the 2 million young Africans who enter the job market every month.

But, for these investments to be effective, we also need energy. We welcome the joint efforts of the World Bank and the AfDB to provide access to electricity to 300 million Africans by 2030.

2. Access to financial markets, credit ratings, robust data

It is fitting that this report builds on the empirical data on the negative impact of credit ratings of African economies. This hinders their access to financial markets and mobilization of FDI. In fact, a recent UNDP report shows that the continent could save up to US$ 74.5 billion providing those ratings were based on more transparent rules. Africa needs to double down on its efforts for more transparency, fairness and objectivity from rating agencies.

African countries should also invest in the quality of their statistical systems. 4IR technologies now offer them the opportunity to have quality data at lower costs. Access to quality data also presents significant economic advantages. For example, according to Allied Market Research projects, data center revenues in 2020 were estimated at US$ 187.4 billion and could reach US$ 517.2 billion in 2030. Of these data center revenue opportunities, the African continent represented less than 2% of sector revenues in 2023. However, some African countries have strategic geographical positions which present comparative advantages that need to be exploited by these countries.

In addition to improving the continent's perception of risk, strengthening the capacities of the African statistical system can provide development opportunities for the continent's SMEs.

There again, the adoption of the AU’s Digital Transformation Strategy is a big step, provided these recommendations are implemented.

3. More concessional resources

In the face of daunting development challenges, growing financing needs and limited access to the financial markets, Africa needs concessional resources as a viable alternative.

The World Bank’s International Development Association (IDA) supports the poorest countries and their most important concessional financing window, by providing interest-free credits and grants. We need to sustain this vital instrument that is built around an innovative financial model that combines donor funding and lending with capital market borrowing. In fact, every dollar of contribution translates into nearly four dollars for development finance. Thus, for IDA20, $23.5 billion in donor contributions underpinned a total replenishment volume of $93 billion, and 77% of these commitments are dedicated to African beneficiaries. The ongoing IDA21 negotiations offer a key opportunity for donor countries to strengthen the operational capacities of IDA for the benefit of African countries through a larger contribution.

4. The economic and branding potential of African sport

If sport represents almost 2% of the world's gross domestic product (GDP) (1,200 billion euros), in Africa it still only represents 0.5% of GDP despite its huge potential in terms of creative industries. In a continent that has shown its potential in this sector by offering talented players to the biggest clubs in the world, making appropriate investments supported by sector reforms could help increase the financial contribution of sport in general, and football in particular, to financing African development. The influx of tourists and the global attention drawn by World Cup events stimulate local economy, creating jobs and boosting various economic sectors such as hospitality, transportation, and retail. In this regard, both the 2026 Youth Olympic Games in Dakar and the co-hosting of FIFA 2023 World Cup by Morocco provide huge platforms for positive branding and showcasing Africa's unlimited potential and resources generation.

5. Strengthening implementation of commitments and coordination of initiatives

On average every ten years, new initiatives, or pledges to finance the continent's development are announced by sub-regional, regional, or international institutions. Over time, new initiatives are added to old ones leading to skepticism among Africans on the ability of multilateral institutions to foster development in Africa. Therefore, the international community needs to follow through on its commitments.

We also need synergies, coordination, and coherence among the various stakeholders, especially among MDBs, for the efficiency of aid. In this respect, we welcome the recent commitment of the leaders of 10 multilateral development banks (MDBs), under the leadership of the World Bank, to strengthen their collaboration and to explore better ways and means to enhance co-financing.

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This report puts together the main data-driven facts and figures about the 'Financing Africa' theme, contributions and quotes from external experts, including members of the Mo Ibrahim Foundation's (MIF) Now Generation Network (NGN). This report also takes stock of the takeaways from key international declarations such as the African Leaders Nairobi Declaration (agreed during the Africa Climate Summit in Nairobi, Kenya, 4-6 September 2023) as well as the Paris Agenda for People and the Planet (agreed at the Summit for a New Global Financing Pact in Paris, France, 22-23 June 2023).

The focus of the report is to assess the continent's financing needs to realise its development and climate goals, as well as providing a mapping of the domestic and external resources that can be tapped into for Africa's development. This report was initially prepared to inform the discussions at the 2024 Ibrahim Governance Weekend (IGW), which was due to be held in Lagos, Nigeria, from 26-28 April 2024, and had to be cancelled due to insurmountable administrative difficulties.

External contributions reflect solely the opinions and assessments of their authors, as well as their organisation's style guide.

This research publication does not intend, by any means, to be exhaustive. The topics and data selected are those that MIF finds the most relevant.

This report makes use of the latest available data from a wide range of sources. A reference list containing all the sources used for this document is provided at the end of the report. Sources used are not always the primary data sources.

Each graph is accompanied by their respective data source. Where necessary, additional notes on the data used are also provided throughout the report.

Data included in the report was correct at source at the time of research (the last access date for each variable is provided in the references). In some cases, the numbers may not add up to the total due to rounding.

This report provides comparisons of regional averages. The composition of regions may vary according to source. When data in the report is presented disaggregated for Northern African and sub-Saharan African countries, this is done reflecting the choices made at source.

African averages are, in most cases, taken directly from source. If they have been calculated for the purpose of this report, they are unweighted. As not all sources provide data for the 54 African countries, some averages may not include data from all countries. Please see the sources for full details.

Data for Morocco may or not may include Western Sahara depending on the source.

The Ibrahim Index of African Governance (IIAG), which is featured several times throughout this report, is a composite index which gives a statistical measure of governance performance in 54 African countries, produced by MIF. The 2022 IIAG, its latest iteration, covers a ten-year time period from 2012 to 2021. Compiled by combining 265 variables from 47 independent African and international data sources, the 2022 IIAG is the most comprehensive collection of data on African governance. To download all IIAG resources and datasets, please visit: https://iiag.online/downloads.html

In Chapter 1, figures presented to assess financing needs to achieve sustainable development and the Sustainable Development Goals (SDGs) in Africa are highly variable. According to the Africa's Development Dynamics 2023 report, produced by the Organisation for Economic Co-operation and Development (OECD) and the African Union Commission (AUC), Africa's total financial needs for achieving the SDGs by 2030 amount to nearly $870 billion a year on average (annual average over 2015-2021). This calculation is the result of combining the available sources of finance (government revenues, capital inflows, remittances and official development assistance) of $673 billion annually on average (annual average over 2015-2021) and an average annual financing gap of $194 billion (annual average over 2015-2021). At the same time, according to the Economic Report on Africa 2020, produced by the United Nations Economic Commission for Africa (UNECA), the financial needs to achieve the SDGs are estimated to be $1.3 trillion a year. Consequently, the financing gaps to meet Africa's needs range from about $194 billion (according to AU-OECD) to about $470 billion (calculated by MIF using the UNECA's estimate of $1.3 trillion of total needs, and MIF's calculation of $829.7 billion in available sources of finance for Africa in the 2022 data year).

In Chapter 1, figures presented to assess progress against the United Nations' (UN) Agenda 2030/SDGs come from the Sustainable Development Report 2023, produced by the Sustainable Development Solutions Network (SDSN), while figures presented to assess progress against the AU's First Ten Year Implementation Plan (FTYIP) of Agenda 2063 come from the Second Continental Report on the Implementation of Agenda 2063, published by the African Union Development Agenda (AUDA) – New Partnership for Africa's Development (NEPAD) in February 2022.

In Chapter 1, the seven 'moonshot' targets from the AU's Second Ten Year Implementation Plan (STYIP) also appear listed. Even though the first moonshot's aim is that every AU Member State attains at least middle-income status by 2033, the AU states the following in their February 2024 report: the World Bank Income Groupings use Gross National Income (GNI) per capita measured in current dollars at market exchange rates (MER), with the top of the Low-Income group being $1,005 in the year 2011. The low-income threshold grows across time because of inflation and has been increased to $1,045 in 2021. This target was set using the IFs model (v. 7.96) which measures economic activity using Gross Domestic Product (GDP) in 2011 USD fixed currency at Market Exchange Rates (MER). GDP and GNI are similar measures of overall economic activity—a linear relationship between historical data has an r^2 of 0.95. IFs forecasts African GDP per capita at MER in 2033 measured in 2011 USD to be $2,684 in the Current Path scenario. In the Desirable Development scenario, GDP per capita at MER is projected to increase to $3,048 by 2033. According to IFs in 2023, 32 out of 55 African countries had already surpassed the threshold for Low-Middle Income Economy status, and 39 countries are expected to cross that threshold by 2033 in the Current Path scenario. In the Desirable Development scenario, 46 countries are projected to cross the minimum threshold for Low-Middle Income by 2033. An additional nine countries would require further continental support beyond what is identified in this document to achieve this ambitious target. The target is set at $3,048 instead of LowMiddle Income Economy status to indicate Africa's ambition on this moonshot.

In Chapter 1, figures presented to assess climate finance needs are sourced from the Climate Policy Initiative (CPE) and the Institute for Global Environmental Strategies (IGES). When comparing the data on Africa's climate mitigation and adaptation financial needs as expressed in Nationally Determined Contributions (NDCs) with those of other world regions, despite accounting for a larger proportion of adaptation rather than mitigation needs globally, Africa accounts for a substantial portion of mitigation needs globally (69.3% according to the IGES). This is due to the fact that absent figures from the largest emitters create a bias in the data.

At the start of Chapter 2, Africa's four main sources of finance are presented. While the data for the four sources of finance was collected by MIF from various data sources – received personal remittances and Foreign Direct Investment inflows from the World Bank's (WB) World Development Indicators (WDI), GDP in current prices from the International Monetary Fund's (IMF) World Economic Outlook (WEO), revenue as a share of GDP from the IMF's Fiscal Monitor-, the rationale to choose these four sources follows the analysis approach developed in the Africa's Development Dynamics 2023 report, produced by the OECD and the AUC.

In Chapter 2, the following debt-related variables are collected from the African Debt in ONE's Data & Analysis platform: total public and publicly guaranteed external debt, external public debt servicing cost as a share of government spending, total external public debt owed by creditor type, private creditors by ownership share of external public debt, bilateral creditors by ownership share of external public debt, as well as multilateral creditors by ownership share of external public debt.

The following figures were sourced from various OECD databases and reports outlined below:

- Unless stated otherwise, figures pertaining to Official Development Assistance (ODA) were sourced from the OECD's Creditor Reporting System (CRS) database on the OECD.Stat Data Explorer. Total ODA as well as sector-level ODA represent the total amounts received from official donors, and the latest data year is 2022 because data for 2023 was only preliminary at the time of collection.
- Returns of return on FDI inflows by world region based on calculations by the OECD from the Africa's Development Dynamics 2023 report.
- Tax-to-GDP ratios based on OECD Revenue Statistics in Africa 2023 report.
- Figures pertaining to pension funds were sourced from The Global Pension Statistics on the OECD.Stat Data Explorer.
- The OECD.Stat platform will be switched off on June 19th in favour of an updated platform, as such some of the figures used in this report may not yet be available on the new platform at time of publication.

The following figures were sourced from various IMF databases and reports outlined below:

- Unless stated otherwise, Gross Domestic Product (GDP) and GDP growth data have been collected from the International Monetary Fund's (IMF) World Economic Outlook April 2024 dataset.
- Figures pertaining to revenue and expenditure as share of GDP based on IMF's Public Finances in Modern History 2022 and World Economic Outlook April 2024 datasets.
- Figures calculated using IMF Fiscal Monitor variables including 'Gross debt position', referred to in this report as "total public debt as share of GDP" used variables from the April 2024 edition of Fiscal Monitor.
- Figures pertaining to sources and recipients of FPI inflows based on IMF's Coordinated Portfolio Investment Survey.
- IMF voting shares based on IMF Members' Quotas and Voting Powers web page, last accessed on 10/05/2024.

The following figures were sourced from various WB databases and reports outlined below:

- External debt figures in the report are sourced from the International Debt Statistics (IDS) database. The database is updated annually with the release of the World Bank's International Debt Report (IDR) and provides policymakers and analysts aggregate and country-specific information on trends in external debt in low- and middle-income countries since 1951. Total public external debt stock in the report refers to the sum of all public and publicly guaranteed external debt, in addition to use of IMF credit. Special Drawing Rights (SDRs) values are subtracted from the use of IMF credit. Debt service is calculated through the debt service on external debt, public and publicly guaranteed in addition to IMF repurchases and charges.
- Figures pertaining to market capitalisation and remittances (absolute and as share of GDP) were sourced from World Bank's World Development Indicators database.

The following figures were sourced from various United Nations Conference on Trade and Development (UNCTAD) databases and reports outlined below:

- Unless stated otherwise, FDI and exports data is predominantly sourced from the UNCTAD database (UNCTAD STAT) that produces more than 150 indicators and statistical time series essential for the analysis of: international trade, economic trends, foreign direct investment, external financial resources, population and labour force, commodities, information economy, creative economy and maritime transport.
- Illicit financial flow data for the continent is sourced from UNCTAD's Tackling Illicit Financial Flows for Sustainable Development in Africa report while individual country data is sourced from UNCTAD and UNODC SDG 16.4.1 data.

Credit ratings for African countries are correct as of 11/06/2024 and were taken directly from the websites of the respective agencies, namely Moody's, Fitch and S&P Global.

Unless stated otherwise, population statistics are taken from the 2022 revision of the World Population Prospects from the United Nations Department of Economic and Social Affairs (UNDESA). For population projections, mid-year medium variant estimates are used.

Dollars ($) are US dollars unless indicated otherwise.

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