CAPE TOWN CHRONICLES

ORF OBSERVER RESEARCH FOUNDATION

Thabo Mbeki FOUNDATION

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CAPE TOWN
CHRONICLES

Attribution: Malancha Chakrabarty and Lukhanyo Neer, Eds., *Cape Town Chronicles,* November 2023, Observer Research Foundation.

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Design & Layout: Rahil Miya Shaikh

ISBN: 978-81-19656-33-2
ISBN Digital: 978-81-19656-54-7

Contents

Introduction

Malancha Chakrabarty and Lukhanyo Neer

After a long spell of high growth, declining poverty, and relative economic stability in the last two decades, Africa once again finds itself mired in debt and conflict, and facing bleak economic prospects. The achievement of the Sustainable Development Goals (SDGs) has suffered a reversal in most African countries due to the COVID-19 pandemic, lockdowns, supply chain disruptions, and the

Ukraine-Russia war. Yet, despite the serious setback, most forecasts still regard Africa as a growth frontier of the world owing to its young and growing population and natural resource endowments. According to World Bank estimates, Africa's GDP will grow at 3.6 percent in 2023, and at 3.9 percent in 2024; 91 percent of Africa's economies will grow above the global forecast of 1.7 percent in 2023.[1]

Despite a collective GDP of US$3.1 trillion and a population of 1.3 billion, the continent remains marginalised in global governance institutions. Africa has no clout in the workings of key global institutions like the United Nations, the International Monetary Fund, and the World Bank. Barring South Africa, no other African country had ever been a member of the Group of Twenty (G20)—currently the world's most influential forum for economic cooperation.

The G20's engagement with Africa is slightly over a decade old. The first reference to Africa was made at the G20's Toronto Summit in 2010 when the grouping promised financial support through concessional lending to the African Development Bank. Thereafter, infrastructure building and regional economic integration through trade facilitation was emphasised during the Seoul Summit in 2010.[2] A major initiative undertaken under the German presidency of 2017 was the G20 Compact with Africa, which called for the promotion of private investments in 'reform-friendly' African countries.[3]

Over the years, calls for a permanent seat for the African Union (AU) at the G20 grew louder. India, for one, actively pushed for a seat for the AU at the G20 and stressed the need for prioritising African concerns within the group's agenda. India's Prime Minister, Narendra Modi, wrote letters to G20 leaders to propose that they announce the AU's full membership at the Delhi Summit, and in September, such an event did transpire.

The AU's entry as a permanent G20 member is a welcome development. It increases the G20's representativeness and legitimacy as a global body, while giving Africa a greater say in global issues like debt, climate change, and pandemic preparedness. Solomon Ayele Dersso, a legal scholar from Addis Ababa, has noted how the exclusion of Africa from the G20 tilted the balance in favour of creditor countries, and that in fact the failure of G20's Common Framework for Debt Treatment was largely due to the lack of African representation.[4] Moreover, the AU can also facilitate an appreciation of Africa's potential to play a leading role in green transition.[5]

Given the significance of the AU's entry into the G20 and the continent's aspirations, this compendium delves into Africa's persisting development concerns amidst the lingering effects of the pandemic and the debt crisis. The essays outline plausible recommendations for the G20 to contribute to the achievement of Agenda 2063—Africa's master plan towards becoming a global powerhouse.

In chapter 1, *Pamla Gopaul* explores the challenges before the AU and outlines the ways through which Africa can take on the agenda-setting role in matters of global importance rather than remaining a mere recipient of ideas, investments, finance, and technology from the rest of the world. Gopaul notes that the benefits of the AU's membership will largely depend on how well the Union leverages its new status and influence. The AU will have to leverage its internal systems and build its own capacity to take full advantage of the opportunities that the G20 membership presents. Its existing departments like Agriculture, Rural Development, Blue Economy, and Sustainable Environment (ARBE), Economic Development, Tourism, Trade, Industry, Mining (ETTIM), Infrastructure and Energy, and Education, Science, Technology & Innovation (ESTI) will aid its new role in the Sherpa track while the President of the African Development Bank and the Bank's board of governors will be key to representing the AU in the Finance Track of the G20. African think tanks and policy institutes will also need to contribute in supporting the AU to effectively represent Africa through their policy research.

Otaviano Canuto, Hinh T. Dinh, Karim El Aynaoui, Hafez Ghanem and Badr Mandri, in their piece, tackle Africa's debt problem. While debt is a global issue, it needs special attention in the context of Africa as the region has a long and painful history associated with debt crises. A number of economists have compared the present debt build-up with the events of the 1980s, when structural adjustment programmes implemented by the Bretton Woods institutions created adverse impacts on the development goals of poor countries, including in Africa, due to massive expenditure cuts. In recent years, Africa's debt levels have grown rapidly due to the economic fallout of the pandemic, the Ukraine-Russia war, increased borrowing to fund infrastructure projects, and the negative commodity price shock that reduced government revenues. The authors call for improved management of financial resources and more effective macroeconomic policies at the domestic level to prevent debt build-up. They argue that the African Financial Stability Mechanism (AFSM) governed by the African Development Bank (AFDB) could be an anchor for better macroeconomic management and a bridge between countries in distress, and the common framework. Further they posit that the development of deep and liquid local currency sovereign debt markets in Africa is essential and could boost involvement of the diaspora in closing the funding gap. African countries' tax policies should also strike a balance between mobilising financial resources and broadening the tax base without constraining economic activity.

In the third chapter, *Soumya Bhowmick and Nilanjan Ghosh* focus on Africa's economic marginalisation in the international order. They underline how the inherent biases in the system leave African countries facing higher borrowing costs than other regions of the world. The chapter notes how Basel III norms, supply-chain issues, gender biases in loan access, the COVID-19 pandemic, and higher rates of interest associated with Chinese loans have had adverse consequences for African countries in recent years. Therefore, the AU's inclusion in the G20 should focus on helping the African cause and building a new financial architecture that will promote development in the continent.

Wandile Sihlobo and Tinashe Kapuya, in chapter 4, train the spotlight on Africa's most intractable challenge of hunger and food insecurity—currently at an all-time high. African countries face complex challenges to food security, including short-term external shocks like the Ukraine-Russia war and the supply-chain disruptions due to the COVID-19 pandemic, and long-term issues such as low domestic priority to food security, poor agricultural productivity, conflict, high import dependency, and climate change. The authors suggest a range of policy options to drive agricultural growth in Africa: i) improvement in land governance; ii) creating a better policy environment through competition and merger regulations, tax incentives for SMEs, and a regulatory environment that promotes quality standards in input and output markets; iii) attracting long-term investment in agriculture; iv) addressing informality in Africa's food and agriculture sector; and v) tapping into the Green Climate Fund (GCF) and leveraging global commitment to local delivery of adaptation finance. They also recommend a dedicated mechanism to address hunger and poverty in Africa within the G20, along with the provision of a special financial package.

In the fifth chapter, *Lukhanyo Neer and Mandisa Mathobela* emphasise the importance of integrating climate concerns into development pathways, given Africa's disproportionate burden of climate repercussions despite minimal contribution to greenhouse gas emissions. According to the authors, the New Partnership for Africa's Development (NEPAD) was a landmark event in the global development narrative because it was grounded in the ethos of mutual benefit and collaborative engagement between Africa and the broader international community, particularly the Global North. However, despite commitments on high-level diplomatic platforms, the North has largely failed to fulfill its promises. Further, the authors argue that the esoteric narratives of 'climate justice' and 'sustainable development' are in fact a lived experience of systemic injustice and lack of development for the African people. The authors call for a close scrutiny of the 'just energy transition partnership' to ensure that existing disparities are not widened and new forms of injustices are not created in the quest for clean energy. Lastly, the authors recommend a symbiotic partnership between the North and the South for a better future.

In the penultimate chapter, *Elizabeth Sidiropoulos and Laura Rubidge* note that Africa is extremely vulnerable to external shocks and the countries have made little progress in the implementation of the SDGs. Without deliberate policies and additional efforts, millions of African children will remain out of school and the continent would still be in extreme poverty in 2030. The annual investment deficit that needs to be closed to achieve the SDGs has widened rapidly. As a result, traditional development cooperation has become highly insufficient to realise the SDGs. Moreover, growing tensions between the United States and China and the Ukraine-Russia war have transformed development cooperation into an instrument for countries to pursue their strategic interests. The rise of the private sector in the development space has further complicated matters, creating a genuine risk of blurring the boundaries between development cooperation and purely economic activities. The authors assert that international cooperation in all its manifestations—*viz.* official development assistance, South-South and triangular cooperation, multilateral development finance, and private finance—will be crucial for Agenda 2030. Africa's development needs must be highlighted at the UN Summit for the future and the first G20 year with the African Union as a full member.

The final chapter by *Kwame Owino and Jackline Kagume* discusses the problem of illicit financial flows (IFFs), to which Africa is susceptible due to differences in legal and institutional frameworks across countries. They argue that the weakest link in addressing IFFs is often the investigation stage, as the practice of corruption in key institutions compromises investigation against influential people. Moreover, most African countries have defined measures against IFFs in the context of counterterrorism which limits the scope for action as that leads to prioritisation of national security concerns over those related to fiscal leakage. IFFs have a negative impact on economic development and the welfare of citizens, even as their collective impact is less than 1 percent of the continent's GDP. Therefore, while IFFs cannot be regarded as the biggest impediment to African development—at least in nominal terms—these outflows reflect the weaknesses in the countries' political, regulatory, and financial systems. Strengthening the national systems of democracy to ensure political accountability and to build robust regulatory mechanisms and capable tax authorities should be an essential part of Africa's development agenda.

For a long time, the global narrative on Africa was largely prescriptive: Africa was the problem that the world would try to cure. Today the global community knows better than to dismiss the countries in the continent as mere recipients of aid. There is greater awareness that solutions to global challenges—whether climate change, economic recession, conflict, inflation, or food insecurity—require collective action that should necessarily involve giving greater voice to the African people.

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1

Africa’s Role in the G20

Pamla Gopaul

The G20 has been pivotal in global governance since its formation in 1999, following the Asian financial crisis, as a forum for finance ministers and central bank governors to discuss global economic and financial issues. It was upgraded to the level of Heads of State/Government during the 2007 financial crisis and subsequently designated the “premier forum for international economic cooperation,” held annually under a rotating presidency. The agenda of the G20 has expanded inter-alia, and now includes sustainable development, trade, anti-corruption, and energy.[1]

The G20 represents about 85 percent of global GDP and 75 percent of global trade, but conspicuously missing from its membership all these years was Africa. Apart from South Africa, which holds a permanent seat, no other African country has been a permanent member despite the continent being home to nearly 18 percent of global population. Over the years, advocates have sought to increase Africa’s presence in the G20.[2] The inclusion of Nigeria, Mauritius and Egypt as invitees has been regarded as a laudable step. That notwithstanding, more advocacy was made for the inclusion of the African Union as a member of the G20 from African leaders as well as foreign leaders like China’s Xi Jinping[3] and United States President Joe Biden.[4]

Africa as a continent has long been marginalised in global governance,[5] often participating as a mere recipient—whether of investments, finance, and technology and ideas. Accordingly, the G20’s engagement with Africa is only a decade old. The first reference to the continent was made at the G20 Toronto Summit in 2010 with a promise of financial support, through concessional lending, to the African Development Bank.

In 2017, the German presidency oversaw the G20 Compact with Africa, emphasising the promotion of private investment. Subsequently, India’s presidency was defined by a successful push for African Union (AU) membership. The Indian Prime Minister, as part of his efforts, wrote letters to G20 leaders proposing the full admittance of the AU at the Delhi Summit in September 2023.[6] The summit, then dubbed, “One Earth, One Family, One Future,” proposed an ambitious agenda for the G20: Membership of the AU in G20, more collaboration with foreign powers, and recognising Africa not as a recipient of assistance but as an equal partner and decision-maker.

An avenue for Africa to share and advance its potentially transformative roadmap was captured in its Agenda 2063. The strategy is guided by a pan-continental vision of "an integrated, prosperous, and peaceful Africa, driven by its own citizens representing a dynamic force in the international arena."

Opportunities for the AU

The AU's recent induction into the G20 reinforces the continent's resolve and commitment to enhancing its influence in global affairs. Apart from enriching the G20 with Africa's diversity of experiences and resources, the continent stands to benefit from its membership. Just how beneficial AU's membership will be, largely depends on how the Union leverages its new status and influence. African agency in the shaping of its interests, ambitions, and its contribution to global governance is immensely needed. The AU will therefore have to leverage its internal systems and build its capacity to take full advantage of the opportunities this new membership presents.

To begin with, the AU has to leverage its existing departments, listed below, to aid the Union in its new role within the Sherpa track:

i. Agriculture, Rural Development, Blue Economy, and Sustainable Environment (ARBE)
ii. Economic Development, Tourism, Trade, Industry, Mining (ETTIM)
iii. Infrastructure and Energy
iv. Education, Science, Technology & Innovation (ESTI)

Furthermore, the President of the African Development Bank and the bank's board of governors should actively represent the AU in the Finance Track of the G20.

The AU Development Agency (AUDA-NEPAD), a specialised AU organ that supports, promotes, and implements the Union's agenda, requires a network of strong institutions engaging in evidence-based policy research to be effective in supporting the Union. Mandated with monitoring the AU's Agenda 2063 and aligning its goals to Member States and national development plans, AUDA-NEPAD will be instrumental in determining the extent to which AU creates and maximises the opportunities its membership presents. African think tanks and policy institutes will play an invaluable role in supporting the AU to effectively represent such a diverse and vast continent.

The AU, with a vote in the G20, is in a better position to advocate for more favourable policies and actions to help push for Africa's economic development and integration. Among other things, the AU could pursue better trade engagements, digital transformation, infrastructural investments, and climate financing. The AU can also leverage its membership to reiterate high-priority agendas like its industrialisation strategy that is expected to move the continent from raw-material production to value addition.[7] The existing leadership structure and mechanism within the AU with regards to selection and mandate of its Presidency should work for the G20. The AU is positioned to advocate for and contribute to reforms that would advance its pathway towards development.

Africa has a unique opportunity to contribute to global solutions. The continent's history, experiences, resources and challenges position it as a valuable contributor. Africa's experiences are essential in helping the rest of the world find lasting solutions to persistent challenges. Africa's shared experiences with other developing countries, for example, can be leveraged to amplify the concerns and aspirations of the developing world at the G20. To effectively work with the rest of the world, Africa should be treated as a contributor to solutions, and not as a problem that needs to be solved. This perception has arguably contributed to the historical marginalisation of Africa from effective participation in global governance.

Internally, the African Union could consolidate this new position to rally the continent behind it. To succeed as a member, the AU will require a rejuvenation of African unity, collaboration and solidarity. The rollout of the African Continental Free Trade Area (AfCFTA), a single continental market for goods and services connecting the world's largest free trade area (home to 1.3 billion people across 55 countries),[8] could show the power of a unified Africa. The task of representing the continent presents an opportunity to enhance collaboration among African member states. As the AU leverages its membership to strengthen ties with other regional blocs and create new platforms for cooperation, it could do so without losing sight of the unique opportunity to strengthen its base on the continent.

The AU would also benefit from strengthening its ties with other regional blocs such as the EU and ASEAN; creating new platforms for partnerships is also imperative. Additionally, membership offers the AU a chance to enhance its credibility and attractiveness as a destination for foreign investment, tourism, and innovation.

Challenges for the AU

Africa's population is expected to expand by 2.2 percent annually while the rest of the world's population will grow by a lower 0.5 percent. Representing an increasingly populous, and largely diverse continent, will require massive collaboration and work from within. Internal divisions and consensus building will remain the AU's most formidable challenge as it takes up its seat at the G20. African countries' diverse colonial and historical alliances could worsen this situation; particularly at points where the AU will have to vote or make decisions that have geopolitical implications.

Moreover, the AU could face immense pressure and scrutiny from other G20 members to align with their interests and agendas, even those not compatible with Africa's own. Africa will not automatically be viewed as an equal partner or co-equal and therefore risks enduring paternalistic relationships with some G20 nations. The AU will have to deal with its colonial history, as well as existing relationships with former colonial powers, to succeed within the G20.

In the current global landscape, marked by intense competition among major powers, the African Union (AU) could potentially face escalating pressure from certain G20 members regarding its interactions with countries such as China and Russia. China is presently Africa's most significant trading and investment partner, and the relationships with these countries could become points of contention. For instance, the United Nations' vote on Russia's invasion of Ukraine and the subsequent fallout serves as a stark illustration of the kind of complex geopolitical situations the continent may need to navigate. This incident underscores the necessity for the AU to be prepared to manage such challenges, which could involve making difficult decisions under pressure from global powers. The AU will need to balance its own interests and partnerships with the expectations and demands of influential G20 members, all while striving to maintain diplomatic relations and economic stability. This is a delicate task that requires careful diplomacy, strategic planning, and strong leadership.

Looking Ahead

New opportunities and challenges will emerge as the AU directly participates in a global system. The AU will thus need to be more proactive, coherent, and strategic in its engagements within and with other members of the G20.

The understanding that policy coherence for development is fundamental must include government policies and interventions. While this membership brings increased potential to advance multilateral solutions by building consensus and trust, actually achieving this will require that emphasis is placed on tangible results. The membership of the AU in the G20 will make little impact if the AU is not accorded the courtesies of a true partner and colleague, as well as coherent steps that help address concrete needs.

Think tanks can play an important role in supporting evidence-based policymaking, but the continent currently lags in the number of think tanks and knowledge products it produces. On the supply side, while the share of peer-reviewed economic articles about Africa has more than tripled since the 1980s, the population-adjusted sum of articles published in respected journals by authors from African institutions is the lowest among all the regions in the world. The UN 2030 agenda, SDG 9.5 stipulates that Africa, "Enhance scientific research, upgrade the technological capabilities of industrial sectors in all countries, in particular developing countries, including by 2030, encouraging innovation and substantially increasing the number of research and development workers per 1 million people in public and private research and development."

Yet, African think tanks, particularly in low- and middle-income countries, are in a unique position to effect positive change. Support for think tanks to play a role in providing the conditions within which good policy choices are made will be crucial for the generation of significant economic and social returns. Leveraging think tanks, while strengthening their quality, can advance the AU's effective role in global governance, unlocking cross-border benefits and positive externalities. Despite difficulties of attribution, researchers have calculated rates of return on investments in think tank capacity building programs ranging from 200 to 9,000 percent.[9]

To fully benefit from the opportunities available to the AU by virtue of its membership at the G20, Africa's human resources, particularly its scholars and civil society groups, should be patronised and supported. In addition, Africa has to take full advantage of its youthful population.[10] The effect of youth participation in national, regional and continental development cannot be overemphasised. To encourage innovation and generation of innovative, evidence-based ideas, young Africans should be supported to engage in research and scholarly work as they explore solutions that might better inform policy.

Internal mechanisms and institutions like AUDA-NEPAD, established to advance these efforts, could be supported to create avenues for inclusive policymaking where policy recommendations and research outputs find their way to policymakers. The complex and diverse nature of Africa makes it difficult to imagine the AU's success without valuable contributions from Africa's scholars, researchers, and think tanks. Fortunately, programmes like the Africa Policy Bridge Tank, which is under the auspices of AUDA-NEPAD to promote knowledge and learning, share ideas and provide open access to research as part of efforts to contribute to development policy, shows the AU's agency and resolve to succeed.

The AU needs to embrace the challenges and opportunities presented to it by its G20 membership. It must be convinced about its preparedness and be resolute in advancing its global governance role as an equal and unique partner. Therefore, the AU should be ready to explore, adapt and make the changes necessary to ensure that its G20 membership yields results for both the continent and the rest of the world. In doing this, the AU will need to rely on its development agency, AUDA-NEPAD, to ensure that these processes and its decisions align with the continent's interests, needs and vision for the world.

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2

Addressing Africa's Persistent Debt Problem

Otaviano Canuto,
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Karim El Aynaoui,
Hafez Ghanem, and
Badr Mandri

The history of debt in Africa is a long and painful one. It began in the 1980s, when the public finances of most developing countries deteriorated following two episodes of oil shocks, leading to a "lost decade" of low growth, increased poverty, and political instability. The recovery from the debt crisis only became possible following initiatives in favour of heavily indebted poor countries (HIPC) and the

Multilateral Debt Relief Initiative (MDRI).[1] Owing to these two initiatives, the average debt-to-GDP ratio in Africa decreased from over 65.9 percent in 2000 to 32.6 percent in 2010. In sub-Saharan Africa, the IMF estimated a reduction of nearly US$100 billion in debt during this period.[2] This gave some breathing room to African countries to stabilise their current and future financial situation and promote development spending in the region.

However, due to the stagnation of official development aid following the global financial crisis, and the challenges faced by African countries in mobilising domestic resources to finance their massive needs for infrastructure and socio-economic development, a re-accumulation of debt in the region began in 2011. The trend was also facilitated by expanded and easy access to international financial markets at affordable interest rates. This accumulation has been more significant after 2013 and the commodity price shock. At the time, the economic situation caused cumulative currency depreciations, widened deficits, and a general deterioration of macroeconomic conditions in African countries in various ways. Indeed, between 2012 and 2017, real GDP growth in Africa fell from an average of 6.2 percent to 4 percent, while the average fiscal deficit increased from 2.1 percent of GDP to 5.5 percent. As a result, over this period more than two-thirds of sub-Saharan African countries have seen their public debt as a percentage of GDP increase by more than 10 percentage points, while a third of countries experienced an increase in the debt-to-GDP ratio of more than 20 percentage points.[3]

The COVID-19 crisis, which had a significant impact on the public finances of countries across the continent, has worsened the challenge. The health emergency pushed the gross financing needs as a percentage of GDP[a] above the critical threshold of 15 percent for most countries in the continent, leading to an additional increase in debt levels of 10 to 15 percent.[4] The average debt-to-GDP ratio in Africa has recently exceeded

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[a] Gross Financing Needs are the amount of borrowed funds required to cover all expenditures and amortisations not covered by revenues.

70 percent.[5] The immediate needs for public health and stimulus spending, combined with the drastic reduction in tax revenues following the global economic slowdown, and a similar drop in export revenues for resource-rich countries, have exerted an unbearable external pressure on the most vulnerable countries in the continent, which are now struggling to keep up with their interest payments. In 2020, debt service payments in more than 20 African countries comprised over 14 percent of public revenues, and in five of them, the ratio was a far higher 30 percent.[6]

These higher debt levels across Africa have begun to raise concerns about a return to unsustainable debt levels, especially given the limited ability of countries to generate the necessary budgetary resources. Since 2016, the IMF and the World Bank have been sounding the alarm that the debt levels of some African countries are approaching pre-HIPC ratios, and that signs of a possible new debt crisis are becoming apparent. The source of these concerns is not only the rapid accumulation of debt, but also the changing structure of African debt and, in particular, the profile of creditors.

Indeed, Africa is no longer dealing with the same creditors as before. At the turn of the century, most of Africa's public debt was owed to multilateral institutions and some bilateral creditors of the Paris Club. As explained earlier, as a result of debt relief initiatives, these countries had been able to rebuild their debt capacity, giving them better access to market-based debt instruments. Thus, about 19 African countries entered the Eurobond market, taking advantage of the prolonged period of low interest rates that followed, and the strong demand from private investors.[7] Private investors, seeking alternative low rates from developed countries, were attracted by the yield prospects offered by African sovereign bonds. This interest in commercial debt increased the share of private creditors from 20 percent in 2010 to more than 41.3 percent in 2020.

Along with the increase in private creditors in Africa, the profile of bilateral creditors has also changed. The share of external debt held bilateral lenders, mostly by traditional Paris Club members, declined from

52 percent in 2000 to 10.3 percent between 2000 and 2020, while China has strengthened its position as the largest lender to Africa. According to data from the Global Development Policy Center, China loaned about US$160 billion to African countries between 2000 and 2020. This lending has accelerated since 2010, from an average of US$2.5 billion between 2000 and 2009 to about US$12.3 billion per year over the past decade.[8] In 2020, it was estimated that 17 percent of the total external debt of the sub-Saharan region is owed to China.

The increase in borrowing from non-Club de Paris creditors and commercial lenders has resulted in shorter maturity periods and higher refinancing risks. The significant rise since 2014 in the issuance of 10- and 15-year Eurobonds by many African countries, as well as non-Club de Paris loans with shorter maturities than traditional long-term concessional multilateral loans, has led to a concentration of sovereign debt maturities between 2024 and 2028.[9] Consequently, it has forced debtor countries to refinance these loans under tight international financial conditions just as they were recovering from the legacy of the COVID period and are dealing with the new inflationary shock resulting from the war in Ukraine. This concentration of maturities increases the risk of debt distress for some countries in the continent; others, such as Zambia and Ghana, have already announced payment defaults.[10]

What the International Community is Offering Africa

The international community has taken steps to address a new debt crisis in Africa. One notable initiative is the allocation of Special Drawing Rights (SDRs) by the International Monetary Fund (IMF). The IMF has distributed around US$29 billion to African countries as part of the new SDR allocation. For the continent, this represented up to 4.5 percent of external debt and could cover up to 10 percent of country-level GDP, as in the case of Liberia.

In addition, during the pandemic, the G20 introduced the Debt Service Suspension Initiative (DSSI), whose primary aim was to defer debt repayments. This freed up financial resources that enabled African countries to combat COVID-19 and make essential investments in sectors such as healthcare and education. A common framework for debt restructuring has also been put in place to facilitate negotiations between debtors and creditors.[b]

However, these initiatives are not without their challenges. First, their scale may not align adequately with the enormity of the challenge at hand. While the funds provided are substantial, the debt burdens facing many developing countries remain staggering, necessitating a more comprehensive approach. Second, implementing these programmes can prove to be complicated, with administrative obstacles and delays impeding their effectiveness. Lastly, the participation of various stakeholders, including multilateral development banks and bilateral creditors, often results in intricate negotiations that are ripe with disagreements.

A prime illustration of these challenges is in the handling of debt restructuring requests from countries such as Zambia, Ethiopia, and Chad. These nations have confronted economic hardships that were exacerbated by the pandemic, compelling them to seek debt relief. Nonetheless, finding common ground among creditors, each with differing interests and priorities, has proven to be an arduous task.[11]

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b The Common Framework for Debt Treatments beyond the DSSI was initiated by the G20 in October 2020. It requires bilateral creditors to disclose their outstanding debts from highly indebted countries and engage in joint negotiations for debt rescheduling. The debtor country is also required to participate in an IMF program. Only four countries, namely Chad, Ethiopia, Ghana, and Zambia, have applied for the Common Framework. By July 2023, Chad and Zambia have reached agreements with creditors, primarily involving debt restructuring rather than debt cancellation.

Adaptation Needs and Holistic Solutions

To effectively tackle the massive challenges, it is imperative to contemplate a reconfiguration and expansion of existing debt relief programmes. The present-day circumstances and issues confronting the developing world, including the African continent, demand an approach that is more adaptable and all-encompassing. Rather than viewing debt-related difficulties solely as matters of short-term liquidity, it is essential to acknowledge the underlying solvency problems that necessitate long-term remedies.

Moreover, the global landscape has undergone significant transformations, with a multitude of crises diverting international attention. Factors such as the COVID-19 pandemic, geopolitical rivalries, the conflict in Ukraine, and the specter of stagflation have all contributed to this shift in focus. Nevertheless, it remains crucial not to disregard the immediate concerns surrounding development challenges and climate change. These issues are intricately interconnected and it is crucial to integrate them into the debt relief process for heavily indebted nations.

One promising avenue for addressing these multifaceted challenges is the incorporation of environmental considerations into the debt relief process. Climate change is a global crisis that disproportionately impacts developing nations, including many in Africa. These countries frequently lack the necessary resources and infrastructure to effectively adapt to and mitigate the repercussions of climate change.

The introduction of a fresh climate-centric initiative for debt relief could offer a comprehensive solution to these predicaments. This initiative would entail the active participation of the international community, multilateral platforms like the G20, multilateral development banks, and bilateral creditors—all of them working in tandem to provide debt relief while simultaneously addressing pressing environmental concerns.

Africa Relies on Africa

Debt distress is a result of multidimensional factors, including mismanagement of financial resources at the domestic level. Some countries accumulate debt with the expectation that it would feed the economic system and lead eventually to growth. Africa is urged to mark a new paradigm in its governance model and, in this case, its economic policy design.

A starting point is for these countries to conduct a sound macroeconomic policy with proper use of capital flow management to limit the negative effects. Fiscal and monetary policies should play their roles fully in mitigating the implications of the global financial cycle, the fluctuation of commodity prices, and the domestic shocks affecting the African economy. For resource-intensive economies, managing the flow of related export revenues will enable them to shield their growth from commodity price volatility. Although those recommendations have been documented, the challenge remains on top of the agenda for the continent.

On the monetary policy side, the central bank's independence will allow the institution to set its objectives and prevent any intervention in its mandate that could undermine its fiscal policy orientation. Data from the World Bank's 2022 Country Policy and Institutional Assessment on macroeconomic management in Africa comes with no surprises, pointing out low performance in the region compared to the rest of the world.[12] The macroeconomic management toolkit also includes macroprudential policies. These can indeed insulate the economy, or at least attenuate the disruptive consequences of capital flow volatility on the financial stability of the country.

The African Development Bank's (AfDB) African Financial Stability Mechanism (AFSM) as Anchor

In March 2021, the president of the AfDB announced the institution's proposal to create an African Financial Stability Mechanism, a pan-

African platform that will have broader and more ambitious objectives.[13] It will support countries in their cyclical macroeconomic management, fund countries in deep stress to prevent defaults, provide a platform for debt restructuring, and mitigate further complications and side effects of a sovereign default. The mechanism seeks to complement the existing African Monetary Fund. It will help with the clean-up when an African economy fails to meet its obligations, but also to prevent such scenarios in the first place, by committing to support countries in their macro-management and handle the fluctuation along the cycle.

Accelerating the implementation of the platform will consolidate the toolkit to combat the various shocks threatening the financial stability of the continent. The Common Framework for Debt Restructuring should seek synergies with this regional platform to increase efficiency and credibility among African nations. The AfDB, which champions this initiative, is a well-established institution across the continent, and the stigma associated with soliciting foreign powers to address domestic issues in Africa can be overcome through greater involvement of the AFSM. An African platform established by these nations themselves will be more acceptable when intervening in local government decisions and ensuring that countries' macroeconomic policies are on-track.

Deep and Liquid Local Currency Sovereign Debt Markets

A well-established sovereign bond market will enable African countries to mobilise extra financial resources for their increasing social and economic needs. The current context, marked by tightening financial conditions, especially for developing countries, has shown how favourable it would be to leverage a domestic and deep local-currency sovereign debt market. Beyond the role of the market in catalysing the development of the capital market in general, especially the fixed-income compartment, it will add a new funding option for countries and improve their bargaining power in international financial markets.

The steps needed to create or deepen the market have been widely documented. They include coordination among market regulators, such as central banks and finance ministries, and the creation of the market infrastructure and a central securities depository. An enabling, comprehensive, and transparent legal framework will give the system the credibility it requires to attract foreign and domestic investors. The African diaspora can see through these actions a call for their commitment to support their countries. In 2011, the World Bank estimated that the accumulated savings of the African diaspora reached US$53 billion a year, representing almost one-third of the continent's infrastructure financing needs.[14]

A Sound Tax Policy

African economies, especially low-income and resource-intensive economies, have among the lowest tax-to-GDP ratios in the world. While the OECD average is 34 percent, and Latin America and the Caribbean hovers around 23 percent, in Africa this ratio was 16.6 percent in 2019. Unless Africa adopts an ambitious tax policy, enabling authorities to raise the due amount of tax, the funding issue will remain unresolved. Indeed, tax revenues are more stable and predictable than external funding or revenues related to commodity exports. Increasing tax collection should not come at the expense of economic activity and not weigh down economic growth in the continent. Tax administration should strike the right balance between collecting the due tax revenues and catalysing economic growth.

The informal sector issue is complex and requires a thoughtful and full-fledged approach instead of a unique tax policy focus. Tax reform also brings into the spotlight tax expenditures policies in Africa. In African countries, estimates report that tax incentives on average amount to 2.8 percent of GDP and 17.8 percent of total tax revenue.[15] These can take the form of allowances, exemptions, rate relief, tax deferral, or even credits. In general, they represent postponed revenues for a set of sectors or economic agents relative to a benchmark tax. They are especially high in Senegal (7.8 percent), and Mauritania (58.4 percent).[16]

A systemic impact analysis to assess the effectiveness of those measures is crucial for the orientation of fiscal and tax policies. Empirical analysis suggests that tax expenditures often do not achieve their objectives and end up disrupting the economic system and feeding into economic inequality, or even exacerbating climate change. Phasing out ineffective tax incentives is the right measure to limit the disruption and enable the tax administration to design the appropriate economic policy in the medium and long run.

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3

Africa's High Cost of Financial Flows and Economic Marginalisation

Soumya Bhowmick and Nilanjan Ghosh

Under India's presidency, the G20 finally welcomed the African Union (AU) as a member—an event that was long overdue, given the historical marginalisation of African aspirations in development discourse. In recent years, the financial challenges faced by African countries have intensified, forcing them to borrow capital under increasingly stringent conditions and at exorbitant interest rates. As such, managing the macroeconomy has become a taller challenge due to stricter global financing conditions, primarily due to the increased interest of central banks in controlling rising inflation. These measures amplify the consequences of government debt on fiscal matters during a period when governments are facing constrained opportunities for policymaking in the aftermath of the COVID-19 pandemic.

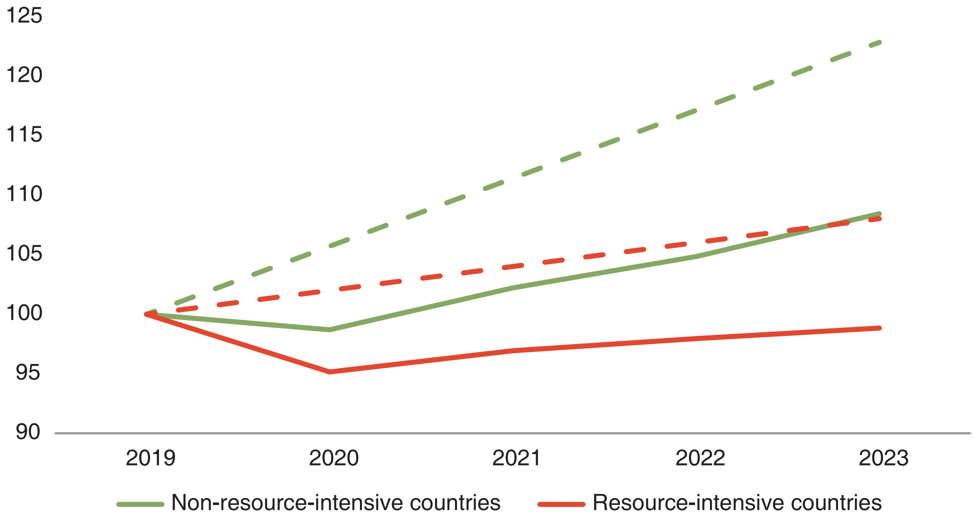
Financial inclusion contributes to economic growth by boosting the overall efficiency of capital, directing investment capital to economic entities, and increasing savings. Multiple studies conducted in various countries and regions have identified the bidirectional causality between financial inclusion and economic growth, highlighting the synergy between the 'demand-driven' and 'supply-led' hypotheses. A noteworthy inverse correlation in high-income nations is observed in the impact of financial inclusion on economic growth across countries of varying income levels.[1] Meanwhile, a 2021 study revealed that over the long term, savings, driven by financial inclusion, negatively influence South Africa's economic growth due to the country's low levels of domestic savings and its heavy reliance on external savings sources such as foreign direct investment (FDI), official development assistance (ODA), and cross-border bank flows.[2] Again, the relationship between financial inclusion and economic growth can differ in terms of the magnitude and direction of this causality. Therefore, it is crucial to investigate the connection between financial inclusion and economic growth and identify policy frameworks that can facilitate the expansion of investment opportunities and promote economic growth in developing economies, especially in Africa.

Africa is home to the world's most youthful and rapidly expanding populations, burgeoning urban centres, and ground-breaking advancements across various sectors, including fintech and clean energy.[3] These strengths and assets provide the continent with an opportunity to enhance its productivity, reverse the economic slowdown experienced between 2010 and 2019 (when GDP growth declined by 35 percent), and overcome the global economic shifts triggered by events such as the pandemic and the Ukraine-Russia conflict.[4] At present, 60 percent of

Africa's population grapple with poverty, stemming from a historical trend of per capita income growth averaging just 1.1 percent annually over the past few decades.

Economic expansion in Sub-Saharan Africa (SSA) decelerated to 3.6 percent in 2022 from 4.1 percent in 2021, and economic activity within the region is expected to decrease further to 3.1 percent in 2023.[5] This reduced growth can be attributed to the persistent sluggishness of the global economy, elevated yet declining inflation rates, and the challenging financial conditions on the international and domestic fronts, exacerbated by high debt levels. In 2021, African countries borrowed US$23.6 billion from bond markets and will pay US$13.8 billion in interest over the lifetime of the bonds (one year's worth of new debt).[6]

Figure 1: Sub-Saharan Africa's Real Per Capita GDP Growth, 2019-2023 (current vs. pre-pandemic forecasts)



Source: IMF World Economic Outlook database (October 2019 and April 2022) and African Development Bank[7]; Note: 2019=100; the dashed line shows pre-pandemic forecasts

Africa's 2023 estimated GDP growth is 3.7 percent, with a GDP rank of 5 (nominal, 2023) and 4 (PPP, 2023). GDP per capita of Africa is US$2,140 (nominal, 2023 est) US$6,360 (PPP, 2023 est).[8] Growth is expected to rebound to 3.7 percent and 3.9 percent in 2024 and 2025, respectively, indicating that the slowing rate of growth should reach its lowest point this year.[9] Additionally, the African banking sector is a dynamic and crucial element in the continent's economic development and financial inclusion efforts.

As African leaders seek to redefine the continent's economic trajectory, the 2023 Africa Climate Summit highlighted the continent's potential for environment-friendly initiatives to increase investments in renewable energy.[a] Indeed, at the summit, UN Secretary-General António Guterres and African leaders called for immediate changes to the "outmoded and inequitable" worldwide financial system.[10]

Africa's Interest Rates Woes

Over the past two decades, African countries have experienced robust average growth rates, and there has also been a significant uptick in capital demand, such as to fund basic infrastructure developments. Annual sovereign debt issuance skyrocketed from approximately US$10 billion in the early 2000s to about US$80 billion between 2016 and 2020.[11] In general, African nations tend to incur higher interest rates when borrowing from foreign bondholders and Chinese financiers than international fiscal entities such as the World Bank. The discrepancy in lending terms has amplified over the preceding decade, indicating significant subsidies across different creditors.[12]

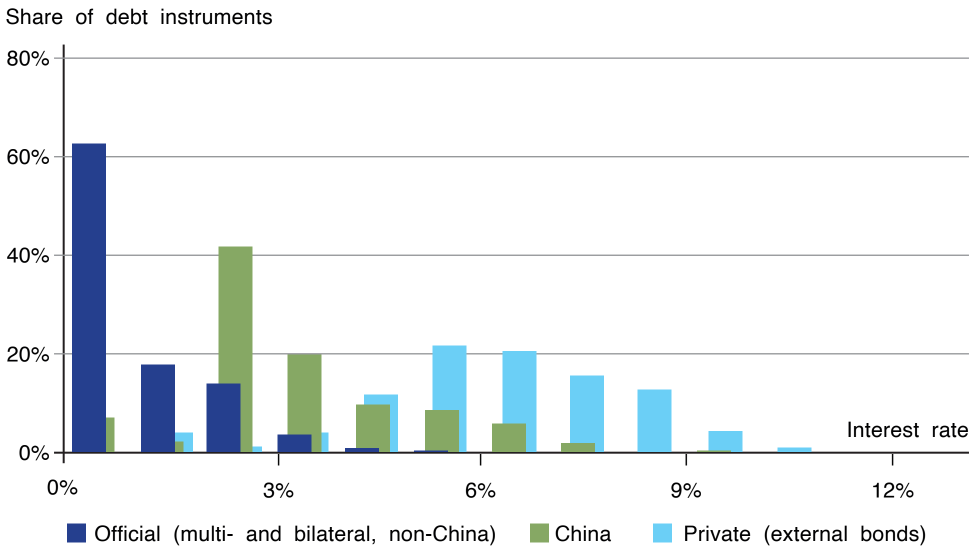
Private bondholders, primarily investment and hedge funds, can yield coupons of up to 10 percent from African countries, with the average interest rate on private external bonds hovering around 6.2 percent. Conversely, loans from international public institutions, such as the World

a The UAE committed US$4.5 billion to expedite Africa's transition to clean energy.

Bank, generally have a more modest average interest rate of around 1 percent. Bilateral government lenders typically have slightly elevated interest rates, with Germany and France averaging at 1.7 percent, while Japanese loans prove to be the most economical, averaging at 0.5 percent.[13] China holds a distinct position as a creditor: Despite loans being sanctioned by the state or via state-owned banks, Beijing levies an average interest rate of 3.2 percent, notably higher than other bilateral creditors.

Over the past two decades, the interest rate discrepancy among creditors to African nations has significantly expanded. During the 2000s, the interest disparity between loans by state-owned lenders and debts accrued from foreign bondholders averaged merely 0.5 to 1 percentage point. However, in recent years, it has surged to around 5 percentage points, largely because the coupon on African bonds in the international capital market significantly increased, while public lenders have begun charging even lower interest rates than before.

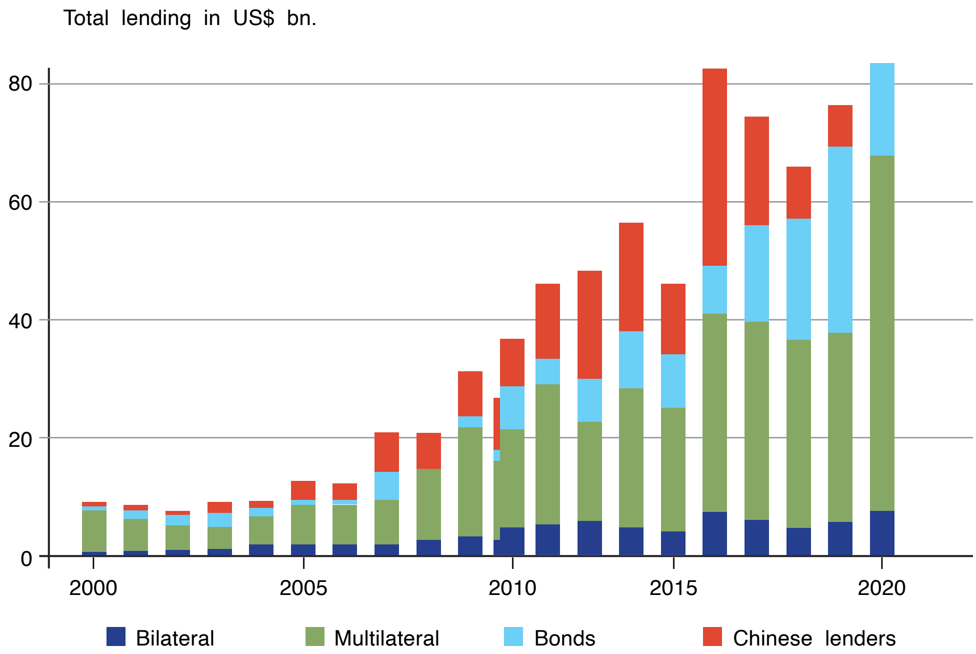
Figure 2: Sovereign Debt in Africa—Interest Rates of Official and Private Lenders



Source: Who Lends to Africa Database[14]

Government bonds floated on the international capital market, and Chinese loans were relatively inconsequential in the 2000s but have largely propelled the African borrowing surge since 2008. In certain years, these two creditor categories comprise a quarter or nearly half of African sovereign borrowing.[15]

Figure 3: Source of Debts to Africa



Source: Who Lends to Africa Database[16]

Basel III and Its Consequences

Basel III is a set of international banking regulations that aim to enhance the oversight, control, and risk mitigation in the global banking industry. The objective is to rectify the shortcomings of Basel I and Basel II, which were exposed during the 2008 financial crisis triggered by the subprime mortgage collapse and had a ripple effect on African economies.[17] While designed to ensure the stability of the global banking system, its implementation proved to be a formidable challenge for international banks operating in Africa. This section discerns the impact of Basel III on Africa's financial landscape and how it contributed to the erosion of capital access. It offers empirical evidence and case studies that underscore the tangible consequences of the heightened cost of capital and the dwindling access to external funds.

Due diligence requirements, particularly in African business operations, presented hurdles. As a result, many banks have curtailed their activities in the region, leading to a rise in the cost of capital for African countries. An important issue is political interference in the regulation and oversight of banking activities within African nations. Elected officials frequently take legislative measures to obstruct central banks from enforcing specific regulations, either to protect weaker local banks or due to their financial ties with certain banks. This problem varies across African countries—Ethiopia experiences higher levels of political interference than, say, South Africa, Nigeria, Mauritius, or Kenya.[18]

Furthermore, recent quantitative analyses examining the determinants of inclusive growth in SSA have notably omitted the consideration of financial inclusion or financial development.[19] The SSA countries should therefore consider opening up their economies to facilitate the integration of their local financial systems into the global financial markets. This step is crucial in expanding financial inclusion by fostering the development of innovative financial services. It is essential to educate rural populations about the benefits of utilising services offered by financial institutions. Moreover, policymakers in the financial sector should remain vigilant by continuously monitoring the financial services industry. They should also adopt effective strategies to ensure the stability of the sector, thereby mitigating the risk of financial shocks and disintegration.

A challenge also arises from the increased cost of capital, as African banks are required to maintain larger capital reserves. This, in turn, limits credit availability for small and medium-sized enterprises (SMEs). To address this concern, governments should consider implementing Basel III in conjunction with measures such as providing favourable lending options or credit schemes for SMEs and individual borrowers, ideally offering low-interest rates. This approach ensures that individuals and businesses can access affordable credit during the transition to the Basel III era.

Supply Chain Issues

Financial inclusion is a multifaceted concept that extends beyond mere accessibility to encompass utilisation and quality. Therefore, for a comprehensive understanding of financial inclusion, it is important to consider factors like the availability and accessibility of services, frequency of usage, and the appropriateness and excellence of financial options across all income brackets. Across Africa, numerous SMEs have yet to fully tap into the global supply chain network due to their limited adoption of digital technologies. They encounter obstacles like shortages in skills and funding shortfalls.

To bolster supply chain diversification in Africa, local businesses can expand their influence by embracing vertical or horizontal integration strategies. Through mergers and acquisitions, fostering collaboration between larger enterprises and SMEs can streamline operations by enabling companies to gain control over their suppliers, manufacturers, and distribution channels.[20] An effective financial system should also provide clients with easy access to information about available products and their terms, alongside implementing regulations to safeguard consumers from deceitful practices or exploitation.

While international sources offer high-level indicators for financial inclusion on both the supply and demand sides, there are regional and conceptual gaps that need to be addressed to construct a holistic perspective of financial inclusion in Africa. On the supply side, the imperative is enhancing the availability of information regarding non-bank financial services (such as microfinance, cooperatives, mobile financial services, and, in some instances, agent banking). On the demand side, many African nations lack larger-sample national consumer surveys that allow for segmentation based on income, region, and other relevant factors. Additionally, data on financial capability, SMEs' access to finance, and the assessment of the impact of increased financial access are conspicuously scarce. Developing dependable evidence-based metrics to evaluate quality and well-being and effectively amalgamating data from the supply and demand sides represents the forefront of financial inclusion measurement.[21]

African policymakers interested in comprehending financial inclusion within their countries should advocate for implementing national demand-side surveys. While supply-side data collected by national regulators and supervisory bodies is valuable, a balanced approach that incorporates demand-side perspectives is essential for a comprehensive understanding of the landscape. To promote alternative financing options for SMEs, such as leasing products, which play a vital role in providing investment capital, it is imperative to establish a legal framework. This framework should serve to elucidate the rights and responsibilities of the parties involved in a lease agreement, rectify any inconsistencies in current legislation, establish non-judicial repossession mechanisms, and ensure that tax regulations remain transparent and impartial.[22]

Financial Barriers for African Women

Most economically active women in Africa are predominantly engaged in the informal sector, making them less appealing to formal financial institutions that impose stringent collateral requirements and are less willing to extend loans to this sector. Women are thus forced to rely on informal sources of financing, which offer short-term funding with steep interest rates. This form of financing proves insufficient to address investment needs, hampering the growth potential of women-owned businesses and further limiting their access to formal financial institutions.[23] Furthermore, due to their reliance on informal lending, women struggle to establish a credit history, a crucial requirement for financial institutions when evaluating loan applications. The absence of credit bureaus or registries exacerbates this issue, as these entities could potentially record women's repayment history with microfinance institutions, thereby enhancing their access to financial resources.

One inclusive policy would be to promote innovation as a solution to the challenges women face in accessing financial resources. The stringent collateral requirements imposed by banks, often limited to fixed assets, pose barriers for women entrepreneurs. To fully unlock the economic potential of offering financial products and services to women, it is essential to develop more creative and customised solutions. A number of successful initiatives have been undertaken by commercial banks in Africa, such as Access Bank Nigeria, NBS, Malawi, and DFCU Uganda, where institutions have begun accepting alternative forms of collateral like jewellery or account receivables.[24] These initiatives have yielded promising results, demonstrating potential for broader implementation. There is an opportunity for interventions to support the expansion of such initiatives not only within the banking sector but beyond.

COVID-19 Support and Chinese Debt Dynamics

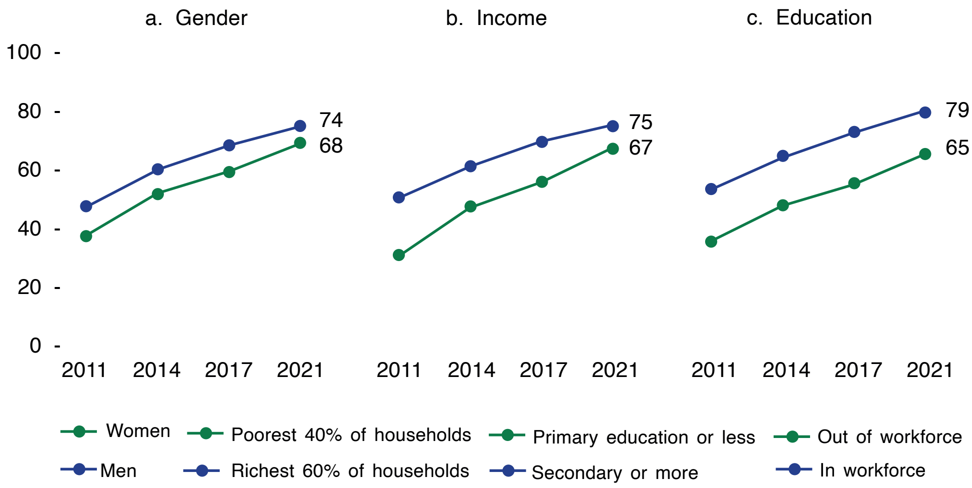
Amidst the global turmoil caused by the pandemic and to meet the urgent requirement for balance of payments, the International Monetary Fund (IMF) allocated a substantial US$4.3 billion to South Africa in July 2020 under the Rapid Financing Instrument.[25] The pandemic highlighted Africa's excessive reliance on imported manufactured products, as the continent faced challenges in obtaining essential items such as personal protective equipment, testing kits, and ventilators. The positive aspect is that the conditions are favourable for reshaping African economies and building stronger regional supply chains. In addition to the heightened concerns about food security and national security caused by the simultaneous crises of the pandemic and the Russia-Ukraine conflict, demographic shifts are also at play. This section explores the intricate dynamics between debt, economic growth, and stability, critically examining whether debt can be a viable tool for African development.

The ongoing dependence on imports is no longer viable, and will lead to more frequent balance-of-payment crises, potentially causing more countries to seek assistance from the IMF.[26] The IMF's *Regional Economic Outlook for Sub-Saharan Africa* report released in April 2023 estimates that as economic activities decelerate, the tightening of funding will also affect the region's future prospects.[27]

As nations increasingly implemented measures like subsidies, temporary tariff and levy waivers, and financial support for the most vulnerable citizens to mitigate the impact of rising food and fuel prices, the fiscal deficit in the region expanded to 5.2 percent of GDP in 2022, up from the estimated 4.8 percent of GDP in 2021. With a combination of sluggish economic growth and a rapid accumulation of public debt, the median public debt-to-GDP ratio has climbed from 32 percent in 2010 to 57 percent in 2022 (56 percent in Western and Central Africa and 64 percent in Eastern and Southern Africa). The number of SSA countries facing a high risk of external debt distress or already experiencing debt distress has reached 22, up from 20 in 2020.[28] A lack of financial resources could compel countries to reduce investments in essential development areas such as healthcare, education, and infrastructure, thereby undermining the region's capacity for growth.

Figure 4: Three Key Gaps in Financial Inclusion

Account Ownership in Developing Economics by Gender, Income, and Education



Source: Global Findex Database 2021[29]

In addition, although there are increasing political and economic conflicts across the globe, China and Western countries share a common goal in collaborating with each other and African nations and organisations to address the issue of mounting debt difficulties. Chinese banks hold approximately 12 percent of Africa's combined private and public foreign debt, which surged over five times to US$696 billion between 2000 and 2020.[30] Since the inception of the Belt and Road Initiative (BRI) in 2013, China has been actively expanding its financial influence in various countries as a key component of the efforts to strengthen its position as a global economic and political player, particularly as it rivals the US.

Although about 70 nations participate in the BRI network, the situation is more complex when it comes to China's financial involvement in Africa, where some economies are becoming increasingly reliant on Chinese investments and are even facing the risk of China's 'debt trap diplomacy'. Indeed, Chinese investments in Zimbabwe, Cameroon, and Djibouti result from the structural inequality between China as the investor and African countries as the recipients of investment.[31] In this dynamic, China possesses a more dominant and advantageous position, while African nations are left more vulnerable and dependent. Furthermore, such debt traps are often viewed as a deliberate strategy employed by the Chinese government to gain long-term economic dominance over African economies.

Conclusion

The increasing requirements of the productive segments of the economy are driving the demand for access to financial services. It is imperative to enhance the accessibility, availability, and affordability of formal financial products and services to ensure that all citizens, irrespective of their economic status, can contribute to achieving the Sustainable Development Goals. Every dollar allocated by Africa for debt repayment is a dollar not being utilised for developmental purposes. In the last decade, developing countries have witnessed an approximately 64-percent surge in interest payments. In Africa, these payments soared by 132 percent over the last decade, adversely affecting expenditures in sectors like education, healthcare, and investment.[32]

From 2019 to 2021, 25 African nations—or nearly half of the continent—allocated more funds toward interest payments than health initiatives.[33] Additionally, seven of these countries prioritised interest payments over educational spending, while another five directed more financial resources toward interest payments than investments.

This trend is worrisome, especially considering that sectors such as education, health, and investment have been heavily impacted by recent crises. To illustrate, during the COVID-19 pandemic, with lockdowns and restrictions to mobility, educational setbacks were experienced across the continent as students lacked access to online learning. Likewise, in healthcare, the struggle faced by many African nations to obtain and afford personal protective equipment and other vital medical supplies resulted in progressively worsening health outcomes.

The intertwined issues of Basel III's consequences, the rising cost of capital, the challenges posed by COVID-19 support allocation, and Chinese 'debt trap diplomacy' highlight the pressing nature of reforms. Policymakers and financial institutions operating within the SSA economies should prioritise creating forward-thinking, environment-friendly, and comprehensive financial services that can fairly distribute the advantages of economic growth. An initial step involves enhancing the availability of private sector credit by continually expanding the range of retail and corporate loans, mortgages, overdraft facilities, credit cards, and letters of credit to cater to the adult population eager to access such services. A call to action for policymakers, international financial institutions, and other stakeholders is crucial, emphasising the imperative of implementing sweeping reforms to reinvigorate Africa's prospects and create a fairer global economic landscape.

The Indian G20 presidency's call for including Africa in the grouping could yet prove to be pivotal. There is no doubt that Africa needs a better framework in the context of global North-South or South-South financial flows to bridge the gaps between the demand and supply of development finance, and not at the present adverse terms. It cannot be viewed from the 'rent-seeking' bottomlines of the existing financial institutions through the lens of returns on investments. Instead, it requires a different type of institutional mandate of financial inclusion. Africa also needs climate adaptation finance, often dubbed 'development finance' and subjected to high rates of interest. Can existing development financial institutions and nations with congenial development partnership models help the cause by changing their lending norms, or else by providing grants? Or is there a need for a different type of financial architecture in the form of a G20-level development finance institution[34] that can provide loans on more reasonable terms to help the cause of Africa? This question will remain to be discussed and debated.

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4

Africa's Agricultural Challenges and the Path Forward

Wandile Sihlobo and Tinashe Kapuya

The African continent is in the throes of a worsening poverty and hunger crisis. According to the UN Africa's *Sustainable Development Report 2022,* the COVID-19 pandemic pushed 23.6 million more people into extreme poverty in 2021.[1] Without deliberate policies to accelerate progress towards Sustainable Development Goal 1 (Ending poverty in all its forms everywhere), it is projected that at least 492 million people by 2030 and at least 350 million people by 2050 will be living in extreme poverty.[2] Meeting the SDG 1 target by 2030 will require a fourfold increase in the rate of poverty reduction from the average 2013–2019 levels, which may place the goal out of reach.

Over the past five years, one in four people in Africa experienced hunger, with 278 million of the continent's population—comprising one-third of the global population—going to bed hungry in 2022. About 85 percent of the population in sub-Saharan Africa cannot afford a healthy diet; in 2022, 27 million more people compared to 2021 could not afford a healthy diet in the region.[3]

The poverty and hunger crisis is the outcome of a far more complex and evolving set of dynamic drivers. For the longest time, exceptionally low productivity kept production volumes well below consumption requirements, creating a large food deficit as well as substantial unrealised income potential for the poor. To address this challenge, African governments remained focused on increasing the scale, scope, and delivery of various forms of input subsidies, primarily targeting the farm-level productivity of resource-poor smallholder farmers. The results have been largely mixed. The continent has continued to experience some of the lowest yields in the world; for instance, African cereal yields are only one-third of the world average (1.7 tonnes/ha vs. 5.0 tonnes/ha), which attracts an import food bill of more than US$50 billion per year; therefore, US$18 billion, or 36 percent, of the Africa's total import food bill is on cereals.[4]

More recently, however, climate change and its associated shocks (e.g., frequent droughts, flooding, and famine) have become an equal, if not more urgent and significant threat to agricultural development and livelihoods. High water stress negatively affects about 250 million people in Africa, with four out of five African countries unlikely to have sustainably managed water resources by 2030.[5] Approximately 460 million Africans are exposed to at least one form of climate hazard (e.g., drought, heat, water stress, flooding), which is projected to double to 900 million people by 2050 in a scenario in which the temperature warms by 2°C.[6] The 2023 IPCC 6th Assessment Report notes that agricultural productivity growth has reduced by 34 percent since 1961 due to climate change.[7] Projections estimate that a 1.2–1.9°C change in temperature from the 1990 base scenario by 2050 would result in a 25–95 percent increase in the undernourished population in the continent. Climate change is projected to result in an equivalent annual GDP loss in Africa between 10 percent and 20 percent, which will cost the continent US$50 billion annually by 2050. This excludes the ancillary costs that emerge as a consequence of climate change, such as pest invasions (e.g., fall armyworm and locusts) that cause significant crop destruction.

The Russia-Ukraine war has added another dimension to the crisis in the form of exceptionally high fertiliser costs that limit smallholder farmers' access to productivity-enhancing inputs. African governments' attempts to identify ways to avert the fertiliser crisis are intertwined with the continent's needs to transition from current agricultural practices and systems that deplete the natural resource base. Agriculture, while being the most viable option to transition Africa out of hunger and poverty, is also the largest consumer of the world's freshwater resources, one of the primary contributors to greenhouse gases, and a significant energy user, with more than a quarter of the energy used globally being consumed for food production and supply. Therefore, attempting to boost agricultural yields through sustainable agricultural practices to enhance food security while minimising negative environmental impacts is a delicate balancing act. Food systems are a major source of global greenhouse gas emissions, yet food systems are, and will be, the hardest hit by climate change.

Conflicts in Africa forcibly displaced 36 million people in 2022.[8] These include conflicts in the western Sahel (Mali, Burkina Faso, and Niger), Somalia, South Sudan, Ethiopia, Cameroon, DRC, and northern parts of Mozambique, as well as terrorism, banditry, and secession in parts of Nigeria.[9] Attaining inclusive food systems transformation requires these conflicts to be addressed.

There is consensus that continuing a 'business-as-usual' approach will fail the SDGs. Indeed, defaulting to the norm will most likely exacerbate the current negative trends of worsening poverty and hunger levels.

How then can we recast the development agenda towards eliminating poverty and safeguarding food security? How do we create an enabling environment that can effectively respond to a complex set of mounting, urgent challenges? There is need to adopt different approaches on tackling hunger and poverty and to harness the collective political will of the continent towards an action-oriented approach that is focused on achieving results. Therefore, tackling the presented set of complex and overlapping challenges requires the adoption of a holistic approach that is driven by collective action, coordination, and alignment.

The G20's Role in Reducing Hunger in Africa

The G20 countries represent a formidable bloc of the global economy, accounting for 85 percent of the world's GDP, over 75 percent of trade, and about two-thirds of the global population. As a result, it wields significant influence in shaping the global discourse on development issues and, in this case, has the potential to expand its role in effectively supporting the transformation of African economies. However, opinions differ about the extent to which the G20 has been effective in this regard. There is a prevailing sentiment that the G20 has not adequately represented Africa and its unique developmental agenda. This is despite the Compact with Africa (CwA) initiative. The CwA was established in 2017 to address the refugee crisis in Europe and counter growing Chinese influence. However, the initiative only has 12 participating African countries and has resulted in foreign investments primarily in the mining sector rather than agriculture.[10]

It is imperative to have a dedicated and more effective mechanism within the G20 to address hunger and poverty in Africa. The G20 can set up a special financial package for Africa to support concrete long-term and short-term policy actions to address poverty and food insecurity.[11] Such a financial package can include the following:

- A fund dedicated to private and public investments for the development of the continent's fertiliser production capabilities. This facility can be used to augment existing initiatives such as the African Development Bank Group's Fertilizer Financing Mechanism, the recommendations from the African Union's Soil Health and Fertilizer Summit, and World Bank/Food and Agriculture Organization assessments of the impact of the Russia-Ukraine conflict.

- An infrastructure investment fund which targets investments in productive infrastructure that support agriculture and rural markets and operationalises the African Union's Programme Infrastructure Development for Africa (PIDA).
- A funding component that supports humanitarian assistance targeting food aid in conflict-prone zones and fragile states, such as South Sudan and Somalia.
- A mechanism that supports access to more resources for climate finance to help African countries adapt to and mitigate the negative effects of climate change; to implement commitments under their Nationally Determined Contributions (NDCs); and to develop and implement their National Adaptation Plans (NAPs). The G20 fund for climate finance could also be an alternative for African countries to access the global climate fund.

The funds from the G20 package could be channelled through international agencies like the FAO, the AfDB, the International Fund for Agricultural Development (IFAD), and the World Food Programme (WFP). However, alternative mechanisms that are more effective, localised, and agile enough to respond to the rapid and evolving challenges faced by African communities also need to be explored.

Key Interventions to Drive Agricultural Growth

There are a number of policy considerations that African governments could consider. First is the improvement of land governance, which is fundamental for long-term investments. Roughly 86 percent of the continent's rural land plots are still unregistered. Meaningful levels of investment, infrastructure development, and farm productivity improvements would be difficult in an environment in which land ownership and use rights are inadequate. In South Africa, for example, areas with strong property rights as well as secure use and ownership rights provide people with incentives to engage in robust agricultural activity, which sustains the country's food security and exports. Meanwhile, in the former homelands regions of South Africa, which have weak land governance, robust agriculture is largely non-existent. However, these rights are couched in other important variables such as infrastructure, institutions, skills, and agricultural finance.

Second, African governments must create an enabling policy environment. This includes clear competition and merger regulations, tax incentives for Small and Medium Enterprises, a regulatory environment that promotes quality standards in input and output markets, predictable trade policies, digitalisation of customs procedures, and the harmonisation of border regulations.

Third, once the matters above are adequately addressed, the focus could be expanded to attract long-term investment in Africa's agriculture. This extends beyond private-sector investments by local (i.e., MSMEs) and global investors to include public-sector investments, i.e., the public infrastructure expansion of border infrastructure, roads, and connectivity (IT).

Fourth, the issue of informality in Africa's agriculture and food industry needs to be addressed. Across all of the continent's regions, except southern Africa, informal employment as a percentage of total employment in the agricultural and non-agricultural sector is above the global average of 64 percent for emerging and developing markets economies. More than 80 percent of the continent's population relies on open-air, largely informal markets for their food. Poor sanitary conditions in many of these markets raise concerns about food safety for households that depend on them. Suppose African countries are to ensure resilient and sustainable agrifood systems. In that case, they must upgrade food value chains by shifting production and employment from informal micro-enterprises to formal firms offering wage employment with income security and health benefits for employees. This will also ensure improvements in food safety within the system.

Fifth, Africa must tap into the Green Climate Fund (GCF) and leverage the global commitment to the local delivery of adaptation finance in an attempt to address one of the most critical challenges of the current generation. Experts and empirical studies point to the fact that, although the GCF's policies and communications are fully committed to funding local-level adaptation, there are key barriers that still prevent it from delivering finance to the local level. These include the lack of a unified framework in the GCF for identifying and defining the local level, local actors, and local adaptation processes; limited transparency and accountability in the GCF in relation to how approved funding for adaptation is spent, particularly for projects that claim to generate local level adaptation outcomes; and the fact that some accredited entities have limited experience and capacity for designing and implementing projects that deliver finance to the local level. In light of these findings, African governments should focus on driving the prioritisation of local delivery of climate finance and ensuring that governments and the GCF strengthen accreditation systems that can ensure the provision of 'readiness support' to accredited entities that help deliver adaptation mechanisms to local communities.

Lastly, the African economy needs to be integrated in ways that can facilitate poverty reduction and hunger. The African Continental Free Trade Agreement (AfCFTA) represents one of the effective ways to consolidate and align national and regional policies in a way that can expand market opportunities for smallholder farmers and MSMEs. Studies have shown that the full implementation of the AfCFTA is expected to generate income gains of up to 9 percent of continental GDP by 2035. This can lift nearly 50 million Africans out of extreme poverty and reduce income inequalities.

The World Bank and the World Trade Organization have observed that enhancing developing countries' participation in trade coincides with an equally sharp decline in extreme poverty worldwide.[13] Trade has helped increase the number and quality of jobs in developing countries, stimulated economic growth, and driven productivity increases. Significant gains in global poverty reduction will require concerted efforts by African governments to work with the private sector to establish and implement a comprehensive array of policies, programmes, and financial interventions that will reduce the costs of trade and create a more transparent and predictable environment for regional and global commerce.

Conclusion

Africa needs policy reform and implementation, investments, and technical innovation, which could lead to competition and efficiency gains in Africa's agriculture. African governments should increase the pace of policy reform to continue stimulating private-sector investments. They must also ramp up public investments to strengthen regional food value chains and AfCFTA implementation.

An important part of moving Africa's agricultural and food system forward is a more deliberate approach to resilience-building. The prevalence and intensity of climate-related disasters, especially droughts, have a relatively more substantial impact in the medium term on the continent. Therefore, Africa requires three distinct investments to create resilience to specific types of climate-related interventions: (a) combined investments in electrification and irrigation infrastructure; (b) investments in health care and education systems, to avert health-related crises and generate innovations that can mitigate negative effects, respectively; and (c) access to finance, telecommunications, and intensive use of agricultural machinery.[14]

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5

Bridging Climatic Concerns and Development Aspirations

Lukhanyo Neer and Mandisa Mathobela

At the dawn of the twenty-first century, the global community began to recognise Africa's critical role in the development discourse. The awareness grew beyond mere cursory acknowledgements, delving into the intertwined trajectories of Africa's development and global progress. With its resource bounty, burgeoning youth demographic, and rich cultural tapestry, Africa has become a focal point for sustainable and inclusive global development dialogues.

The New Partnership for Africa's Development (NEPAD) of 2001, and the G8 Africa Action Plan of 2002, both epitomised a broader collaborative endeavour between the Global North and the Global South and were envisaged as part of a collective journey towards regional and global progress. The subsequent dialogues and frameworks evoked a global solidarity spirit, reflecting a joint resolve to carve a path of shared progress. The aspired symbiotic relationship was to serve as the bedrock for a new global economic paradigm—one that is inclusive, equitable, and responsive to diverse developmental goals across geographies. This ethos aimed to cultivate mutual respect, shared responsibility, and common purpose in tackling the myriad obstacles stalling global development. As the world grappled with the new millennium's challenges, the essence of these initiatives permeated beyond diplomatic realms, germinating a global partnership to leverage the collective strengths, resources, and expertise of nations worldwide.

At the core of these discussions, integrating climate change concerns into development pathways is a pressing global challenge, more so in Africa, where climate repercussions are felt disproportionately. Climate change, distinct in its vast risk and magnitude, amplifies existing threats such as habitat loss, disease, and global security, posing a significant challenge to the gains of past development efforts. If unbridled, it could drastically reshape the planet's map, threatening human and other species' existence by forging living conditions beyond customary ranges.[1] Amidst the urgent call for climate-resilient development, aligning climate change concerns with development pathways is crucial. The evolving North-South relations have morphed towards collaborative endeavours, forging a new global economic order marked by inclusivity, equity, and a profound understanding of Africa's developmental needs and aspirations. Amid this shifting landscape, the principle of 'common but differentiated responsibility' (CBDR), enshrined in the Paris Climate Agreement, has reduced in prominence within the sustainable development realm. The principle was meant to underline that even though all nations shoulder the duty to address climate change, their actions must resonate with their unique national circumstances.

The Shifting Global Development Paradigm

The practical expression of shifting the development narrative beyond the theoretical realm was epitomised through the establishment of NEPAD in 2001, signalling a proactive endeavour to integrate Africa's development within the broader global economic schema.[2] NEPAD was crafted as an all-encompassing blueprint, aiming to cultivate a conducive ecosystem for sustainable growth across the African continent. It covered many developmental dimensions, including infrastructure, human capital, peace and stability, security, and regional cooperation.[3] At its core, NEPAD was grounded in the ethos of mutual benefit and collaborative engagement between Africa and the broader international community, particularly the Global North. It was envisioned as a conduit to transcend historical divides, heralding an epoch of shared prosperity. The initiative extended an open invitation to the Global North to engage in a transformative developmental agenda that promises mutual benefits. The envisioned partnership sought to leverage the synergies between the developed and developing world to tackle the pervasive impediments to Africa's progress.

The endorsement of the G8 Africa Action Plan in 2002 was a milestone, manifesting the global commitment to Africa's developmental cause. The plan, encapsulating a comprehensive set of pledges, was celebrated as an affirmation by the developed world to contribute towards catalysing Africa's development. The agenda was ambitious, covering various developmental domains to integrate Africa into the global economy.[4] However, the ensuing narrative revealed a disheartening reality. The fervent calls for a robust partnership between the Global North and Africa were often relegated to the peripheries of global dialogues. Despite the solemn commitments enshrined in the G8 Africa Action Plan, the actualisation of these pledges remained largely elusive, engendering a trust deficit that emerged as a formidable barrier to nurturing cooperative engagement between the Global North and the Global South.[5]

The tale of unfulfilled promises illustrated a glaring disconnect between the aspirational commitments made on high-level diplomatic platforms and the on-ground reality in Africa. The failure to honour these pledges not only stalled the momentum of the envisaged developmental trajectory but also birthed a sense of disillusionment. Through a lens of retrospection, the narrative beckons a nuanced understanding of the historical context, the promises made, and the path that lies ahead in realising the vision of a unified global developmental agenda.

The journey from the inception of NEPAD to the present day showcases a tapestry of ambitions, promises, and unfulfilled commitments.[6] It accentuates the necessity to bridge the trust deficit and rejuvenate the spirit of cooperative engagement to pave the way for a shared journey towards sustainable global development. This historical underperformance erodes trust, perpetuates inequities, and threatens global initiatives such as the pursuit of 'just transition'.[a,7] Within the ambit of the 2030 Agenda, a stronger commitment is required from global actors, especially affluent nations, to fulfil past promises and bridge historical performance gaps.

The desire for renewed equal partnership engagement has been a core concern for the Global South. The ascendance of the Global South, epitomised by the leadership roles undertaken by Indonesia, Brazil, India, and South Africa in forums such as the G20, signifies a profound paradigm shift in international development.[8] Platforms like the G20 and initiatives like NEPAD offer crucial avenues for reshaping the global narrative, fostering equitable dialogues, and co-creating solutions.

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[a] The 'just transition' concept was coined by the trade union movement in the 1980s in the United States to describe support for workers who had lost their jobs because of environmental policies. The term emerged from the engagement between a labour justice movement campaigning against the exposure of black people and other minority groups to environmental pollution. The term 'just transition' was further used to promote green jobs in collaboration between the International Trade Union Confederation and the UN Environmental Programme.

Towards Climate Justice

The ambit of climate justice encompasses an effective decarbonisation trajectory, buttressed by sustainable socio-economic paradigms, and the inalienable right to dwell in a just and healthful society.[9] The narrative unfolds a distinct set of challenges for Africa, a continent whose susceptibility to climate change and extreme weather dynamics casts a long shadow on its human security, water scarcity, food sufficiency, resilience to natural calamities, and the sustainable development agenda. In Africa, more than anywhere else, the esoteric and large narrative of climate justice and sustainable development is a lived experience of systemic injustice and stunted human development.[10]

The paradox that encases Africa in the climate justice dialogue is both profound and multifaceted: The exigency of addressing planetary threats looms large, even as the imperative of structural and economic growth clamours for attention. The discourse on climate justice embodies a core theme in the global environmental narrative, reflecting a collective cognisance of the imperative to address environmental adversities threatening planetary sustainability.[11] However, the irony of existing approaches, particularly in regions like Africa, lies in their potential to aggravate rather than alleviate existing injustices. This irony emanates from a mélange of structural, economic, and geopolitical factors that conjure a matrix of challenges for these regions.

Central to the global climate governance discourse is the CBDR principle, which underlines the collective duty of nations towards climate action while accounting for their unique national circumstances, thereby aiming to bridge the disparate capacities and contributions of nations towards climate change.[12] It particularly extols the role of developed nations in extending financial assistance to developing countries to enable effective climate action, which encompasses investments in adaptation measures as stipulated by the United Nations Framework Convention on Climate Change. However, despite this framework, the paradoxical predicament faced by African nations continues to be a pressing concern. Frameworks such as the Just Energy Transition Partnership have emerged as pivotal conduits to foster an equitable transition towards a sustainable energy future.[13] A scrutiny of such frameworks is indispensable to ensure they embody equity and inclusivity, and to forestall the inadvertent perpetuation of existing disparities or the genesis of new forms of injustice. The assessment should navigate the distribution of costs and benefits associated with climate action, ensuring a fair sharing of the burdens and rewards of transition.

The operationalisation of the CBDR principle often navigates a sea of geopolitical tumults and divergent national interests, which can potentially undermine the essence of climate justice.[14] Take for instance the economic architecture of South Africa, anchored by its mining and coal industry. This scenario underscores the challenging discourse surrounding climate justice in resource-rich African nations. The Mineral Energy Complex is at the heart of South Africa's economic dynamism, emphasising the crucial role of mining and energy sectors in economic growth.[15] A substantial portion of the electricity generated from coal-fuelled power plants sustains the mining and associated industries.[16] This scenario encapsulates the profound paradox faced by many African nations, where economic reliance on natural resources stands amidst environmental commitments.

A disparity emerges in the global allocation of financial resources for climate action, as juxtaposed with the brisk allocation of over US$18 trillion for COVID-19 mitigation and recovery.[17] The corporate realm also exhibits a conspicuous paucity of substantial capital injection towards climate crisis abatement. The sluggish and suboptimal deployment of carbon taxation mechanisms further accentuates the disparity. A pittance of global climate finance found its way to Sub-Saharan Africa, North Africa, and West Asia in 2020,[18] underscoring a yawning gap in resources essential for actualising Africa's nationally determined contributions by 2030.[19] The daunting shortfall, estimated at US$2.8 trillion, necessitates the infusion of international public funds or private sector investments, although existing structures and regulatory frameworks often impede equitable access to such resources and prolong the adversities for developing regions. The precarious dilemmas faced by many African nations revolve around fund allocation for healthcare, climate adaptation, and education—a manifestation of the broader paradox.[20]

Furthermore, the green energy transition, while laudable, unveils another layer of complexity, as the rising demand for critical minerals essential for green technologies (copper and cobalt, among others), heightens the exploitation risk for resource-rich nations in the Global South. For instance, the Democratic Republic of the Congo, a predominant source of cobalt, epitomises the perils associated with the escalating demand, particularly the human rights hazards for Congolese miners.[21] A massive share of these critical minerals, indispensable for green technologies, is ensconced in the rich subsoil of regions in Africa and South America. The surging demand for these minerals has catalysed a modern-day mineral scramble, spearheaded by countries from the Global North and multinational corporations.[22]

The historical backdrop of mineral extraction in Africa, particularly during the colonial era and apartheid in South Africa, casts a long shadow on the contemporary discourse surrounding critical mineral extraction. This legacy, characterised by exploitation, environmental degradation, and socio-economic disparities, serves as a poignant reminder of potential pitfalls. The quest for climate justice, if not meticulously steered, could perpetuate or exacerbate the injustices that have beleaguered the African mining sector for decades, and the continued extraction of financial gain for the Global North at the cost of Global South nations.

Conclusion

In addressing the sustainable development aspirations of both Africa and the broader Global South, a critical discourse emerges, centred around the mobilisation of financial resources to support the multifaceted growth imperative. This trajectory necessitates a convergence of socio-economic and climate agendas, demanding a substantial infusion of funds and a novel approach to financing strategies.

For the long term, it is imperative for African nations to recalibrate their growth and development paradigms, emphasising wealth creation through value addition to their abundant raw materials. The discovery of new rare-earth elements essential for the green energy transition positions Africa to play an important role in the global value chain, particularly in the manufacturing sector. By leveraging the vast reserves of critical minerals, especially in South and East Africa, the continent has the opportunity to position itself as a global supplier of critical minerals and a hub for rare-earth element acquisition. This necessitates a concerted effort to formulate new policies and approaches aimed at fostering mutually beneficial mining investments, investing in networks and value chains, and harnessing initiatives like NEPAD in conjunction with the African Continental Free Trade Area.

A symbiotic North-South partnership embodies a global community attuned to the interwoven fabric of humankind's collective fate. The adversities and developmental dilemmas faced by the Global South, particularly Africa, are not isolated but deeply embedded within the global economic and environmental framework. Acknowledging this interconnection is crucial for nurturing a culture of mutual respect, shared commitments, and equitable engagements. Transitioning beyond fragmented projects and sporadic interventions demands a coordinated, large-scale engagement adept at addressing systemic challenges and structural disparities that have historically marginalised the Global South. Such engagements should unveil a myriad of initiatives encompassing financial mobilisation, technological transfer, capacity building, and policy harmonisation, to orchestrate a collective endeavour in keeping with the enormity of the challenges at hand.

The call for an integrated approach rejuvenates the progressive principles embodied in the G8 Africa Action Plan, advocating for a genuine partnership between the Global South and the Global North. Revisiting these progressive principles is not a nostalgic endeavour but a pragmatic necessity amid the escalating global challenges. The narrative of global development and climate action unfolds as a tapestry continually being woven, with each strand of action, the hue of collaboration, and texture of policy contributing to the larger picture of a sustainable and equitable global community.

The quest for an integrated approach to climate change and development is a tempestuous yet worthwhile journey towards crafting a legacy of shared prosperity and mutual respect for posterity, embodying the essence of the global call for a renewed global partnership reflective of our shared humanity, collective aspirations, and linked destinies. Although challenging, this narrative holds the promise of a sustainable, equitable, and prosperous future for all, carving a path towards a harmonised approach to climate change and development that we can—and *must*—see to fulfilment.

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6

International Development Cooperation as a Cog in Africa's SDGs Journey

Elizabeth Sidiropoulos and Laura Rubidge

The political declaration adopted at the 2023 SDG Summit acknowledged that "without immediate course correction and acceleration of progress toward achieving the SDGs, our world is destined to face continued poverty, prolonged periods of crisis and growing uncertainty."[1] It also "recognised the urgency of providing predictable, sustainable and sufficient development finance to developing countries from all sources."[2] At the same forum, UN Secretary-General António Guterres lamented that halfway to 2030 (since the year the SDGs were adopted), only 15 percent of the SDG targets were on-track to be achieved.[3] Indeed, almost half showed moderate or severe deviation from the desired trajectory.[4]

The adoption of the SDGs and Agenda 2030 in 2015 was a singular moment for the global community, committing to not leaving anyone behind and recognising the inequalities and related developmental challenges facing all societies. It was ambitious in scope, incorporated the planetary, economic, and social dimensions of development, and recognised that all stakeholders (not just governments) needed to play their part.

In 2023, the scale and nature of the challenges have been recognised in many forums, and a sense of urgency has become apparent.

For developing countries, the annual investment deficit that needs to be closed to achieve the SDGs has grown from US$2.5 trillion in 2015 to about US$4 trillion per year in 2023,[5] with the largest investment gaps globally in energy, water, and transport infrastructure.[6] The growing gap is the result of both underinvestment and new needs. The United Nations Conference on Trade and Development (UNCTAD) contrasted this gap in developing countries with the positive sustainability trends in global capital markets, reaching US$5.8 trillion in 2022.[7] These funds had limited exposure to developing countries, but there were also greenwashing concerns.[a,8]

[a] 'Greenwashing' is the false claim of sustainability whereby companies or other entities misleadingly present their activities as doing more to protect the environment than they actually do.

A 2022 report on Africa's progress in implementing Agenda 2030 found that without deliberate policies to accelerate SDG implementation, at least 492 million people would still be in extreme poverty in 2030. Equally concerning was that 288 million children of school-going age were not in school, especially in conflict-ridden parts of the continent,[9] the consequences of which will be felt for many decades, given that Africa has the world's youngest population.

Of all regions worldwide, Africa continues to be the most vulnerable to external shocks. With 24 of the world's 28 low-income countries (according to the World Bank's classification), the continent's ability to achieve the SDGs poses a significant challenge. High levels of informality and low domestic revenues and savings make development cooperation a critical, albeit insufficient instrument. The COVID-19 pandemic halted nearly three decades of progress and positive economic growth in Africa. Since 2015, hunger has increased by 4.4 percentage points, while just under half a billion people still lack access to electricity.[10] Some six million additional children in grades 1-8 have fallen below the minimum reading proficiency due to the disruptions caused by COVID-19.[11] These are significant setbacks that cannot be overcome overnight.

The 2022 Africa Sustainable Development Report also noted that very little progress has been made in implementing SDG-17;[b] for instance, Africa lagged behind other regions in domestic revenue generation,[c] while foreign direct investment (FDI) to Africa was US$83 billion compared to US$690 billion received in Asia and US$134.4 billion received in Latin America and the Caribbean.[12] Debt management has also been a challenge—Africa currently spends more on debt service costs than on healthcare.[13]

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b Strengthen the means of implementation and revitalise the Global Partnership for Sustainable Development.

c In Sub-Saharan Africa, revenue as a proportion of GDP declined from 16.5 percent in 2019 to 15 percent in 2020, rising to 16.4 percent in 2021.

This compounds African countries' limited fiscal space, making it difficult to respond to crises such as COVID-19 or, indeed, the food and energy crises brought about by the Ukraine war. Challenges in boosting domestic resource mobilisation are further undercut by illicit financial flows[d] and global tax rules that favour multinational companies. In such a context, partnerships and development cooperation are significant, especially for low-income and least-developed countries (LDCs), which have fewer financing options.

The UN's 2023 SDG report's summary on Africa's progress on the goals argued, "Addressing [the developmental challenges] will require targeted efforts and greater contributions of ODA [official development assistance]. The effective management of debt, as well as the reinforcement of strong domestic institutions and the localization of sustainable development, will be key to achieve Agenda 2030 in Africa."[14]

Overall, ODA flows remain at around half of the 0.7 percent of GNI commitment, an old pledge that countries recommitted to in the SDGs (goal 17). More importantly, the aid that reached Africa dropped by 7.4 percent in real terms in 2022 compared to the previous year;[15] ODA to Africa in 2022 amounted to US$34 billion, US$4 billion less than the previous year. These declines were registered in the year in which global ODA reached an all-time high of US$204 billion. However, about 15 percent of that ODA never left the donor countries because they included in their ODA contributions the hosting of refugees and the donations of recycled COVID-19 vaccines.[16] To put ODA to Africa into perspective, in-donor refugee costs amounted to US$29.3 billion in 2022 and represented 14.4 percent of the total ODA extended by Development Assistance Committee (DAC) member countries.[17] Flows to LDCs made up 15.7 percent of total ODA in 2022, compared to 17.9 percent in the previous year.[18] Global inflation is also eroding the purchasing power of ODA.[19]

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[d] According to UNCTAD, Africa is estimated to have lost about US$89 billion to illicit financial flows in 2020 alone.

The need to reduce the dependency on ODA and external financing for the lion's share of development finance has become a central feature of continental and subregional debates. In the Second Continental Progress Report on the Implementation of Agenda 2063, the proportion of ODA in national budgets was reported as having dropped slightly from 7.3 percent in 2013 to 6.9 percent in 2020.[20] However, the continent continues to be unable to increase the contribution of total tax revenue as a proportion of GDP, achieving 31 percent against a target of 63 percent for 2021.[21] Increasing domestic revenue is crucial if dependence on ODA and other external funding sources is to decline.

In recent years, Africa has displayed increasing ownership of its development trajectory. Two years before the SDGs were adopted, Africa launched its Agenda 2063 as a 50-year roadmap for the continent's development. A key dimension of the plan is for Africa to take full responsibility for financing its development. In its 'Financing Agenda 2063 First 10-Year Plan' (2013-2023), the African Union outlined a 75 percent to 90 percent domestic resource mobilisation target for financing Agenda 2063, with the remainder coming from external financing mechanisms, including FDI, ODA, cooperation with Southern partners, diaspora remittances, and improved access to financial markets.[22]

Changing Landscape of Development Cooperation

The landscape of development cooperation has changed markedly over the last two decades. First, the number of players providing funding in development has grown—from public aid agencies, development finance institutions, and global funds to philanthropies, new non-DAC donors from the Global South (such as China) and South-South and triangular cooperation, and the private sector. Coupled with this diversity, the role of traditional development cooperation, defined as ODA (and public finance, more broadly), has also changed. Its role is increasingly being positioned as catalysing or leveraging private finance for development.[23]

The 2015 Addis Ababa Action Agenda (AAAA) was intended to align all financial flows and policies with economic, social, and environmental priorities to support the implementation of the 2030 Agenda.[24] The Action Plan emphasises that ODA remains crucial, especially for countries with the greatest need, but is not sufficient on its own. The trillions of dollars needed to achieve the SDGs will only be possible to shore up by mobilising both public and private financial flows, yet public policies that strengthen the national and international enabling environments are also essential.[25]

Since 2015, neither the required and committed financial flows nor the necessary public policy reforms have materialised.

Development cooperation goes beyond finance. It includes capacity support (technology cooperation and sharing of policy experiences), as well as policy change.[26] These dimensions are reflected in SDG-17, which focuses on partnerships for the goals.

Perhaps the most overarching indicator within SDG-17 is the importance of ensuring sustainable policy coherence so that policies and actions to deal with one aspect of sustainable development do not carry negative consequences for other pillars or sectors. This is an enduring problem in traditional development cooperation. The SDG Transformation Centre index on negative international spillover effects has documented how most Global North countries' SDG actions have high negative spillover effects in contrast to most developing countries, especially in Africa.[27]

Challenges to International Development Cooperation

First, it is clear that traditional development cooperation is insufficient to realise the SDGs, even more so since the target of 0.7 percent of GNI for OECD-DAC countries has never been achieved. In 2022, the average across all donors was 0.36 percent.[28]

Second, the growing tensions between the US and China and the war in Ukraine are transforming development cooperation into a blunt national interest instrument. While development cooperation has never been completely altruistic, the strong development motive previously present has been replaced by the "strategic interests of development cooperation providers such as expanding their own political and economic opportunities".[29] Developed country aid budgets are also coming under strain as domestic economic problems mount. A stark example is the reduction in the UK's aid budget as a proportion of GNI from 0.7 percent to 0.5 percent in November 2020.[30] The proportion of grants is also declining compared with concessional loans, which are increasing.[31]

Third, the greater emphasis being given to the private sector to help deliver on the SDGs runs the risk of blurring the boundaries between development cooperation and "self-serving economic activities".[32] As the private sector grows its role, there will be need for serious reflection on appropriate accountability and governance mechanisms that will build on existing frameworks such as the Kampala Principles on Effective Private Sector Engagement in Development Cooperation.[33]

Fourth, the continued focus on the metric of GDP/GNI per capita is an inadequate assessment of vulnerability. The use of this metric to determine access to ODA and concessionality is too blunt to "capture the complexity of a country's development status".[34] Measures of well-being and structural gaps have been proposed as better determinants. The recent UN General Assembly political declaration "encouraged the international community to consider a multidimensional vulnerability index as a criterion to access concessional financing,"[35] yet it is still to be seen whether a concrete shift away from GDP towards multidimensional vulnerability will eventually occur. This is especially relevant for middle-income countries that may have more domestic resources but also have significant development financing gaps, where more concessional finance would limit rising debt challenges.

Fifth, short-term lending should be valued less than longer-term investment, a point made by Barbados Prime Minister Mia Mottey at the UN SDG Summit. Innovative financing that is inclusive and sustainable "demands risk-taking but with a long-term focus".[36] Financing is thus not only about the quantity but also about the quality.

Multilateral development banks (MDBs) and national development banks are crucial in mobilising capital. However, Mariana Mazzucato, University College London professor, argues that this needs to be "mission-oriented" around SDGs and supported by strong public policy to help crowd in private investment.[37]

Sixth, while many states have integrated the SDGs into their national development plans, these are often not tackled systemically but rather *in silo*. Furthermore, the existence of data gaps also impedes the ability to measure, assess, and determine where to allocate resources. For example, one-third of the indicators on the Africa UN Data Development Platform are unavailable.

New Forms of International Development Cooperation

A key characteristic in the international development discourse over the last two decades has been contestation[38] over the norms and narratives shaping development cooperation, as Global South actors have emerged as providers of significant development funding, technical assistance, new institutions, and new narratives. This contestation has had constructive outcomes in that it has diversified the modalities of development, created new instruments and institutions, and shaped emerging development narratives in both the Global North and the South. However, SDG achievement necessitates international processes and structures to have a degree of coordination. In the current geopolitical context, this is highly difficult.

The various MDBs hold the greatest potential in leveraging the large-scale funding that is required. Already, many existing proposals acknowledge this, from the World Bank's own evolution roadmap to the

Bridgetown Initiative,[e] to create new instruments and reform existing institutions to improve access to development finance.

The emergence of new Southern development banks has created diverse opportunities for developing economies. Initiatives such as China's Belt and Road Initiative and the Asian Infrastructure Investment Bank have enabled developing countries to diversify their sources of finance and secure funding for much-needed infrastructure. The BRICS New Development Bank also holds potential, although its membership is still small. When it was established, it aimed to provide lending in the local currencies of its members, adopt country systems, and support project preparation. However, for these banks and instruments to reach the scale needed, they must adopt a 'mission-oriented' approach, as recommended by Mazzucato.[39]

As stated earlier, Africa's domestic resource mobilisation capacity is constrained, thus impacting its fiscal space. There are actions that the African states must take, such as eliminating unnecessary tax waivers and incentives, addressing tax leakages, and improving the efficiency and effectiveness of tax administration systems. Technical assistance through South-South and triangular cooperation can play a vital role in this regard. At the international level, states need to take action against financial regulations that enable tax havens and tax avoidance by major multinational companies, and ensure that the global taxation agreements take into account developing country concerns so that multinational corporations pay their fair tax in countries where they make large profits. A recent study found that the revenue equivalent of what multinational corporation Vodafone paid in taxes allowed 966,188 people to access clean water and 1,371,972 people to access basic sanitation each year.[40]

[e] The World Bank's evolution roadmap aims to capacitate the Bank Group to better address the scale of development challenges. The Bridgetown Initiative is an action plan to reform the global financial system so that the world can better respond to current and future crises. It was developed by Barbados and the country's prime minister has championed it in global fora.

Debt sustainability is also an important issue that impacts on the SDGs. Initiatives such as those of Barbados to include a 'pandemic clause' into a sovereign bond that would suspend debt repayments during a pandemic, and the inclusion of a 'natural disaster clause' in its recent debt restructuring are new ways of addressing 'black swans'[f] that leave developing countries with no resources to tackle crises and penalise their development efforts. Debt-for-SDG swaps have also been presented as innovative ways of dealing with debt.

Private finance is important for the SDGs. Significant potential exists for alternative financing of the SDGs through, for example, shifting 1 percent of the trillions of assets in the global financial system in support of SDGs in developing countries. More broadly, the actions of private sector companies need to be aligned with the SDGs and work in tandem with the public sector. According to the Global Reporting Initiative, about 83 percent of 206 companies surveyed in 2021 indicated support for the SDGs, but only 40 percent had measurable commitments, and only 20 percent had evidence for their impact.[41] In this regard, it is critical to have country sector platforms that can go to a scale that can help bring together key stakeholders "around a purposeful strategy, scaling up of investments, tackling binding constraints, ensuring a just transition and mobilization of finance especially private finance".[42] Crucially, developed countries must ensure strong regulations to avoid SDG washing.[43]

These are all significant elements in removing the development constraints facing African and other developing economies. They serve to amplify and complement development cooperation and enable the SDGs to be tackled in an integrated fashion, both in terms of the instruments and the rules and norms.

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[f] 'Black swan' events are highly improbable events that cause unprecedented adverse effects. Examples include the Indian Ocean tsunami of 2004, the US housing market crash in 2008, and the COVID-19 pandemic.

Looking Ahead

International development assistance falls enormously short of the SDG financing requirements, and many developing countries are struggling to increase domestic resources while also facing rising public debt. There are growing calls in the international community for the restructuring of the financial architecture to allow developing countries equal priorities and balanced development criteria. While the narrative in favour of reform is shifting, little structural changes have taken place, and many proposals fall short in making a real difference.

Moving beyond the SDG halfway point, international cooperation in all its manifestations (ODA, South-South and triangular cooperation, and multilateral and private sector support) will become increasingly important. The upcoming UN Summit for the Future, and the first G20 year with the African Union as a full member, make 2024 the year during which the voice of the Global South and Africa's development needs can be amplified.

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7

Illicit Financial Flows: An Impediment to African Development

Kwame Owino and Jackline Kagume

In discussions about the causes of slow growth and underdevelopment in Africa, Illicit Financial Flows (IFFs) figure prominently. There is consensus that the losses resulting from the transfer of financial resources and related value outside the continent undermine its economic growth, and that reducing IFFs should be a priority for development.

The Legal and Institutional Challenge

Africa is distinctively susceptible to IFFs due to a convergence of factors. Many legal instruments and mechanisms have been established locally, regionally and globally to curb the spread of IFFs, but challenges persist along the institutional value chain hindering effective investigation, prosecution and enforcement. The legal challenge is compounded by the fact that IFFs do not manifest uniformly across African countries, who grapple with their own unique challenges at various points of the criminal justice system.

African nations have predominantly defined measures against IFFs in the context of counterterrorism. This limits the scope for action, with current solutions focused mainly on the perceived threats to national security, and not on the fiscal leakage itself. The International Monetary Fund (IMF) has confirmed that much of the illicit finance flow is generated by activities deemed as ‘financial crimes’ in the context of money laundering and aiding terrorism.[1] Gaps in the legal systems of different African countries, the cross-border nature of IFFs, overlapping regulations, and the complex nature of financial crimes exacerbate the problem.

Legal Instruments and Regulatory Gaps

At the international level, the United Nations Convention against Corruption (UNCAC) is central to the battle against IFFs. Adopted in 2003, UNCAC focuses on combating corruption in its various forms including money laundering and embezzlement, often associated with IFFs. It promotes the recovery of stolen assets, criminalisation of corruption-related offences, and enhancement of international cooperation. At the regional level, the African Union Convention on Preventing and Combating Corruption (AUCPCC), also adopted in 2003, was designed to promote accountability and the rule of law in African countries and includes provisions related to prevention and punishment of corruption, which often underpin IFFs.

Various commitments and initiatives under the Sustainable Development Goals (SDGs), the African Union's Agenda 2063, and the domestic laws of individual African countries have been aligned in their shared objective of curbing IFFs in the continent. Under the Addis Ababa Action Agenda, African countries have committed to substantially reduce illicit financial flows and systematic tax evasion by international corporate actors by 2030.[2] These frameworks collectively emphasise the importance of transparency and sustainable development while striving to curtail the outflow of illicit funds and strengthen financial systems in Africa.

Challenges Across the Institutional Value Chain

Efforts to curb IFFs in Africa face significant challenges within the value chain of institutions concerned with detection and risk mitigation. These arise at different stages of the criminal justice system, from investigation and prosecution to trial and asset recovery. In many African countries, the weakest link in addressing IFFs is the investigation phase. Corruption within key institutions often compromises their effectiveness in pursuing high-profile cases that involve influential individuals or entities. The practice of corruption complicates efforts to clamp down on IFFs because enterprises and individuals that are most prone to abuse laws and engage in IFFs are usually those connected to political players. Money laundering, which drives a substantial portion of IFFs, is a staple of those who can use political power to obstruct law enforcement. Principal actors on the supply side are often co-conspirators with the finance industry, which ensures safe passage of cash to jurisdictions outside the African continent.

The prospects for a successful investigation depend on evidence gathered in the country from where the funds originate.[3] This was illustrated in the 2005 case of Diepreye Alamieyeseigha, a former governor of Bayelsa state in Nigeria, who concealed wealth acquired through corruption during his tenure in the United Kingdom. Another example is the ongoing case of the Gupta brothers[4] in South Africa, who were closely allied to former president Jacob Zuma, and where government interventions derailed investigations into charges of them influencing government action and siphoning off public funds. The Guptas allegedly exerted control over the hiring and dismissal of government ministers, while the then president took actions to remove tax officials and intelligence officers from their posts, ostensibly to shield the Guptas from scrutiny. These interventions impeded investigations and illustrated how the independence and efficacy of investigations can be obstructed, allowing persons under scrutiny to evade justice.

Poor investigation is compounded by limited resources and a lack of expertise in financial probes. Unravelling financial crimes requires specialised skills, often lacking in African legal systems. Entities tasked with investigation and prosecution must be adequately resourced in human and financial terms and insulated from external pressure.

Even when investigations are successful, prosecution remains a formidable challenge in many jurisdictions. While the broad legal framework exists, some African countries lack specific laws and provisions tailored to addressing IFFs, making it difficult to secure convictions. In some instances, trials are protracted. Legal delays, insufficient evidence, and witness interference all contribute to the challenges in obtaining convictions for IFF-related offences. Complex and overlapping regulations which may involve bilateral agreements, concessions for natural resource exploitation, and commercial contracts, also aggravate the problem.[5]

IFFs and Counterterrorism

African countries' framing of IFFs in the context of counterterrorism and national security is influenced by the recognition that IFFs undermine the security of nations and often finance criminal activities, including terrorism and organised crime, thereby heightening political instability. Kenya, for instance, through its Proceeds of Crime and Anti-Money Laundering Act, Banking Act, Prevention of Terrorism Act and the Financial Reporting Centre Act, has implemented strict anti-money laundering measures and heightened financial surveillance. The Central Bank of Kenya's (CBK) regulations include a number of prudential guidelines for banks and financial institutions to ensure compliance with anti-money laundering measures and to enhance surveillance.

Addressing terrorism financing is a crucial aspect of reducing IFFs. However, neglecting the significant fiscal leakage associated with other forms of financial malfeasance can also have adverse consequences. Screening IFFs solely through the lens of terrorism overlooks the broader spectrum of illicit financial activities, including tax evasion, corruption and other financial crimes. This results in an incomplete understanding of the scale and impact of IFFs and leads to narrowly tailored policy responses and inefficient allocation of resources to address the broader challenge.

Economics of IFFs

IFFs have a deleterious effect on the African continent but a proper and accurate measure of all activities related to IFFs remains elusive. For instance, estimates of the amount of IFFs generated from Africa vary. Lacking a consistent methodology, estimates are often fraught with errors. The most quoted one comes from a publication of the United Nations Economic Commission for Africa (UNECA) in 2021, estimating the figure at around US$50 billion annually.[6] This represents barely 1 percent of the gross domestic product (GDP) of the economies of all nations in the African continent and, numerically, could be considered immaterial.

Yet IFFs matter because they represent the exit of financial resources that Africa desperately needs. US$50 billion matches the total development assistance Africa receives annually, and is an enormous amount when accumulated over time.

Combating IFFs thus remains essential. They are a reflection of weaknesses in economic policy, financial systems regulations and political management. These are the real diseases; IFFs are a symptom. These illicit flows thrive, as researchers Fontana Alessandra and Hearson Martin of the Chr. Michelsen Institute noted, “in the absence of strong institutions charged with regulating and policing the relevant activities.”[7] In other words, IFFs reflect the systemic weaknesses in the financial regulations architecture of the affected countries because they manage to pass undetected through channels for sending value across a country's borders that already exist. They take advantage of weaknesses in the mechanisms used to verify whether transactions are legitimate or not.

IFFs are the result of both legal and illegal activities. The illegal activities require systems for their transfer to jurisdictions outside the supply country into others with more established financial architecture and laws that impede quick recovery and protection of offenders. These activities constitute crimes in the way that the value is generated and also in the mechanism for ensuring that the proceeds of the crime are hidden. A second channel comes from corporations or individuals who have legitimate income but on which they want to avoid paying taxes. The crime is that of tax evasion.

A trading corporation or an individual exploits existing loopholes in the financial architecture and tax collection mechanism to escape tax liability. Here, IFFs are a result of improper taxation design creating systems that enable evasion, or laws that authorities are unable to effectively implement. As Alessandra and Martin note in their report: "Expertise is needed... in drafting appropriate transfer pricing legislation, conducting detailed audits, understanding sector specific tax issues, and negotiating tax treaties for information exchange." IFFs are a challenge to fiscal policy because they prove that states have passed legislation that their agencies are unable to implement.

Financial Sector Regulations

IFFs result from weaknesses in the financial regulations and the systems that enable the exchange of value during the transactions. Financial systems are regulated within jurisdictions and therefore IFFs show that the regulations at the state level (supply side) are ineffective. Certain sectors are particularly prone to using IFFs—these include companies engaged in mineral extraction and arms trade, which either under-invoice or over-invoice to dodge taxes and launder money.

The High Level Panel of Eminent Persons on IFFs set up by UNECA examined the prevalence of IFFs from six African countries. Its report suggests that countries with comparatively better financial sector architecture, that includes banking and other professional financial services, become conduits of IFFs among African countries, and are also the routes for IFFs to other parts of the world. However, efficient financial systems are essential because they have demonstrable welfare effects for legitimate users. Thus it appears that IFFs are geographically concentrated, and their nature reflects the economy in which the supply is based.

For instance, the transfer of mineral value from unstable countries in Sub-Saharan Africa requires that they first be transferred to financial hubs within regions of the continent (usually in better managed countries) before they are sent on to global financial centres in West Asia, Europe or East Asia. It is therefore imperative for regulators and financial sector professionals in the better managed countries to remain vigilant, and to report or act in ways that are consistent with the laws of the supply-side country.

As illustrated in Table 1, the absence of accurate and consistent methodology for the measurement of IFFs remains a significant barrier to understanding their effects. Researchers who measure IFFs have yet to put together a consistent database that accurately quantifies the trends. Different reports provide different estimates, using different definitions, varying baseline years and different countries.

Effects of IFFs

A study by UNECA and the UN Conference on Trade and Development (UNCTAD) in 2023 observed that countries with high IFFs tend to spend 25 percent less on health services and 58 percent less on education than others. While the study does not suggest a causative link between high IFFs and low social spending, it notes that this correlation is strong because of the institutional damage that IFFs reinforce. Thus IFFs have a knock-on effect reinforcing poor governance, weakening the state and making it more vulnerable to IFFs.

Table 1: Estimates of Illicit Financial Flows from Africa

Source	Title of Publication	Estimate	Year	Source
African Union (AU) and UN Economic Commission for Africa (UNECA)	Report of the High-Level Panel for Illicit Financial Flows from Africa	US$50 billion annually (in 2010)	2015	https://www.unodc.org/documents/NGO/AU_ECA_Illicit_Financial_Flows_report_EN.pdf
Office of the UN High Commissioner for Human Rights (OHCHR)	The Right to Development and Illicit Financial Flows: Realising the SDGs & Financial Development	US$7.8 Trillion over 10 years (2004-2013)	2018	https://www.ohchr.org/sites/default/files/Documents/Issues/Development/Session19/A_HRC_WG.2_19_CRP.3.pdf
Organisation for Economic Cooperation and Development (OECD) and AU	Tax Transparency in Africa 2023; Africa Initiative Progress Report	Euros 1.7 billion annually	2023	https://www.oecd.org/tax/transparency/documents/tax-transparency-in-africa-2023.pdf
UNECA and UN Commission for Trade and Development (UNCTAD)	Counting the Costs: Defining, Estimating and Disseminating Statistics on IFFS in Africa	Various costs for 7 countries using various baseline years	2023	https://unctad.org/system/files/non-official-document/IFFsInAfrica_Report_20230110_Final_en.pdf

Source: Authors' own, using various open sources

Policy Options

Addressing the challenges of preventing IFFs along the institutional value chain requires a multifaceted approach. There is need to invest more in strengthening law enforcement agencies and judicial institutions. This includes providing specialised training in financial investigations and asset recovery. Additional measures to enhance transparency and reduce corruption within institutions are essential, including whistle-blower protection mechanisms.

To promote effective prosecution, African countries need to review and update their legal frameworks to ensure they are comprehensive and tailored to addressing IFFs specifically. This may involve drafting new laws or amending existing ones. Efforts should focus on expediting trials and strengthening witness protection programmes to secure convictions efficiently.

African countries should enhance collaboration with international partners, including sharing financial intelligence. Lastly, simplifying and streamlining regulations, particularly in the commercial sector, could help reduce opportunities for commercial-based IFFs. This may involve reviewing bilateral agreements and regulating commercial contracts to ensure transparency and accountability in the exploitation and trade of natural resources. UNCTAD has noted that a long-term approach to legal enforcement against commercial IFFs must not only scrutinise individual deals, but also redress loopholes in treaties and legal frameworks. African governments should draw lessons from global best practices and model treaties and contracts.

Democratic systems should be strengthened to ensure political accountability and robust regulatory systems with capable tax authorities. Constructing effective political, regulatory and financial systems could generate positive externalities that will benefit the African people, while reducing the flow of illicit financing.

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Endnotes

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