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Financing for Development and the Africa-Europe Partnership

Inputs of the Africa-Europe Foundation for the 4th International Conference on Financing for Development (FfD4)

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PREAMBLE

"We welcome this initiative of the Africa-Europe Foundation to inspire policymakers and civil society alike in shaking off complacency, challenging siloed work and unlocking untapped areas of transformative action that leaves no one behind"

Amina J. Mohammed, Deputy Secretary-General of the United Nations and Chair of the United Nations Sustainable Development Group (September 2024)

The Africa-Europe Partnership is well-positioned to play a pivotal role in driving the implementation of the 2030 Agenda and advancing critical reforms within international financial architecture. This Policy Brief by the Africa-Europe Foundation (AEF), developed in response to the call from co-facilitators of the 4th International Conference on Financing for Development (FfD4), outlines strategic areas of international cooperation that could most benefit from a forward-looking Africa-Europe Partnership – based on equal footing, mutual interests and an action-orientated approach.

Our central message is clear: a robust Africa-Europe partnership remains the most effective pathway to overcoming global financing challenges; one, by providing a platform and middle ground for global policy dialogue in a fragmented and multipolar world; and two, by catalysing a critical mass for policy action. AEF identifies five key areas where this partnership can have the greatest impact:

- Domestic Resource Mobilization & Combatting Illicit Financial Flows;
- Global Tax & Reform of International Financial Architecture;
- Carbon Markets and Energy for Locally Led Industrialization;
- Resilient Health Systems and Climate-Health Financing;
- Mechanisms for Policy/Financial Commitment Tracking.

This report embodies the principles of AEF when it comes to breaking down silos, fostering cross-continental alliances based on mutual respect and shared interests, and maintaining a pragmatic, action-oriented approach. It draws on extensive consultations held throughout 2024, including the #FutureAfricaEurope campaign, stakeholder surveys, citizen focus groups on sustainable finance, and contributions from AEF's High-Level Group of Personalities, Women Leaders Network, and Strategy Groups composed of leaders across civil society, business, policymaking, and the youth sector.

Domestic Resource Mobilisation and Combatting Illicit Financial Flows

The collaboration between Africa and Europe is crucial for addressing major cross-continental challenges. As Africa continues to grow as a trading partner, the EU remains its largest export market, providing significant Foreign Direct Investment (FDI) and Official Development Assistance (ODA). The European Investment Bank (EIB) has reaffirmed its commitment to Africa, investing €4 billion in 2023, focusing on sectors like renewable energy, healthcare, and education. Despite these investments, FDI and ODA alone are insufficient for Africa to meet its development goals under Agenda 2030 and AU Agenda 2063, particularly as ODA flows decreased by 7.4% in 2022 and FDI dropped by 5% in 2021 amid post-COVID recovery efforts. The continent aims to mobilize $1.3 trillion annually to achieve the Sustainable Development Goals (SDGs) by 2030, prioritising domestic resource mobilization and innovative financing.

Leveraging Africa’s Internal Assets

Strategic areas of actions:

Improve Africa’s internal tax revenue: To widen its domestic tax base there’s a need to increase Africa’s internal tax revenue capacity. According to an OECD/ATAF/AUC report, in 2021 the average tax-to-GDP ratio for Africa was 15.6%, compared to 21.7% for Latin America and the Caribbean, and 34.1% for OECD countries[1]. Although policy design and implementation strategies to achieve this must be country-specific, in general best practices involve design and implementing growth-promoting policies, as well as strengthening tax compliance measures, combined with effective service delivery and public accountability. Tax exemptions or tax incentives in general, that are meant to attract FDI are often counter-productive for African countries, because they are subject to abuse and can be the source of the “race to the bottom” phenomenon. Hence, to stem the flow of tax leakages, African and global governments should consider developing frameworks to monitor and evaluate tax incentives granted to corporations to ensure transparency in their management and evaluate if these incentives provide value for money and yield a positive return.

Adopt Innovative Debt Management Strategies: Africa's escalating public debt has significantly constrained fiscal space across many countries. Prior to the COVID pandemic, the continent's debt burden was $547 billion, which surged to $1.8 trillion by 2022. The ratio of total external debt to export earnings increased from 74.5% in 2010 to 140% in 2022, with debt service consuming about 18% of total government revenue. The cost of borrowing is rising as the composition of debt has shifted from bilateral and multilateral creditors to more private commercial creditors, leading to higher market-based interest rates. Traditional debt management strategies like reprofiling and climate-action-related debt swaps have failed to achieve long-term effectiveness. Past initiatives, such as the HIPC and MDRI, had limited impacts, while the G20 Common Framework has not attracted the expected interest from creditors.

At the Youth in Action "Financing the Future" Forum in July 2024, youth leaders emphasized the need for innovative debt management solutions, advocating for cooperation between debtor nations and creditors

[1] OECD/ATAF/AUC (2023): Revenue Statistics in Africa 2023

to convert public debts into infrastructure assets. This could involve reinvesting interest payments domestically to boost productivity through infrastructure and natural resource development. Additionally, they proposed the idea of offsetting Africa's debt with unrecovered illicit financial flows held in recipient countries. Other recommendations included promoting "responsible lending and borrowing" by aligning electoral timelines with budgetary decisions to ensure coherence between terms of office and fiscal policies.

Diversify Funding Sources through Innovative Financing Mechanisms: Approximately $2.3 trillion of investment, pension, and sovereign wealth funds (SWFs) are currently locked overseas. In 2014, Africa's pension fund assets were estimated at $334 billion, with growth expected due to the continent's young and expanding population. Many African nations, such as Angola, Ghana, and Nigeria, have established sovereign wealth funds to invest in infrastructure, stimulate economic growth, and create jobs through public-private partnerships.

There are also significant opportunities to unlock value from remittance flows from the African diaspora, which amounted to $72.5 billion in 2023. Diaspora bonds, targeting emigrants to raise funds for development projects, are an underutilized resource; countries like Ethiopia and Nigeria have successfully introduced them. To further optimize remittances African countries could take policy actions such as collaborating with private sector players to use technology for reducing remittance costs and improving payment system interoperability between the EU, Africa, and the global business community.

Enhance Capacity for Climate Finance Mobilization: The Climate Policy Initiative estimates that Africa needs $2.8 trillion from 2020 to 2030 to meet its Nationally Determined Contributions under the Paris Agreement, but currently mobilizes only $30 billion annually. To address these challenges, African countries must access available resources from climate commitments, enhance capacity for utilizing the UNFCCC Toolkit to Improve Climate Finance Access, and develop robust national strategies and institutions. Additionally, climate change should be integrated into domestic funding priorities and fiscal decision-making processes.

Combatting Illicit Financial Flows (IFFs)

Strategic areas of actions:

Commitment by African and International Governments: IFFs pose a significant threat to Africa's economic stability and development, resulting in annual losses estimated between $150 billion and $250 billion. The Africa-Europe Foundation Working Group on IFFs is examining policy solutions to address the complexities of IFFs, including trade misinvoicing, tax evasion, corruption, and terrorism financing. It is essential for both African and international governments to demonstrate strong political and operational commitment to combatting IFFs as a strategy to bridge development funding gaps. Governments should set aside budget and establish comprehensive national policies specifically targeting IFFs, supported by robust legal and regulatory frameworks. This includes creating multi and inter-agency units collaborating and dedicated to addressing IFFs, enhancing financial transparency, and ensuring accountability through mechanisms like the African Peer Review Mechanism. Additionally, fostering regional and international cooperation and information sharing will strengthen efforts to detect and prevent illicit activities. FfD4 is a pivotal moment, coinciding with the 10th anniversary of the Mbeki Report, which has been instrumental by providing a blueprint for addressing IFFs in Africa since 2015.

Adoption of Automatic Exchange of Information (AEOI): Encourage all countries to adopt AEOI frameworks to enhance transparency and reduce opportunities for tax evasion and money laundering.

Beneficial Ownership Registries: Mandate the disclosure of ultimate beneficial owners of legal entities to ensure transparency and accountability in corporate structures for all countries. To ensure the effectiveness of this initiative, countries should prioritize interoperability and leverage technological solutions, enabling seamless information sharing and access across jurisdictions.

Country-by-Country Reporting (CBCR): Call for developed countries to ensure availability of CBCR data to boost tax compliance, corporate responsibility, and global transparency in the financial system.

Effective Technical Assistance: Scale proven capacity sharing initiatives like the Tax Inspectors Without Borders (TIWB) initiative for tax auditors, to assist national tax authorities in conducting complex international tax audits. This hands-on approach will not only enhance the capacity of local tax officials but also ensures the transfer of knowledge and skills necessary for sustainable tax administration improvements. By focusing on high-risk areas such as transfer pricing and multinational enterprises, TIWB has already helped African countries recover significant tax revenues and strengthen their tax systems.

Prioritize Asset Recovery: Improve legal frameworks that facilitate the tracing, freezing, confiscation and repatriation of illicit assets. This includes enhancing the capacity of law enforcement agencies, financial intelligence units, and judicial bodies to conduct thorough investigations and collaborate across borders. We call on the global community to take decisive action to strengthen asset recovery mechanisms for developing countries, particularly in Africa, through frameworks like the Common African Position on Asset Recovery. The complexity of legal and procedural hurdles, coupled with limited international cooperation and high recovery costs, has delayed progress in repatriating stolen assets. Recent innovations in asset repatriation such as using frozen assets for development projects or debt relief should be adapted to address Africa's challenges with IFFs. Establishing escrow accounts for seized assets and a multilateral mediation mechanism for disputed recoveries would address power imbalances and expedite the process.

Fostering Effective Dialogues Over Blacklisting African Nations: To promote equitable international financial relations and sustainable development, we propose that European countries should refrain from blacklisting African nations, especially given that there's limited to no evidence that supports blacklisting as an effective measure in achieving its intended outcomes. Europe should instead engage in constructive dialogues that work with African countries. By ensuring fair representation and promoting fair cooperation on international tax standards, a more inclusive global tax system will be realized.

Harnessing Innovations in Technology: We recommend that governments and financial institutions at national, regional and international levels, prioritize the adoption of artificial intelligence and advanced technologies to effectively combat IFFs. By integrating AI-driven analytics and machine learning algorithms, these entities can identify suspicious financial activities and detect patterns indicative of IFFs. Such technologies are capable of processing vast amounts of data in real time, efficiently identifying anomalies and potential risks, while also facilitating cross-border access checks more effectively than traditional methods.

Impact Tracking and Reporting: Call for reinforcing transparency and impact measurement by reporting of data on SDG 16.4.1 on IFFs by all countries using agreed concepts and tested methods. Currently, estimates have been produced primarily by African and a few developing economies.

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Global Tax Reform and Reform of the International Financial Architecture

The global community is also engaged in the twin reforms of the international financial architecture and the global tax regime. This is a propitious time for the global community to take concrete action to enhance openness, transparency, and inclusivity in global agenda-setting and decision-making processes. Specifically, as the world is preparing gradually to design development agendas beyond 2030, the voice and participation of African countries in the global financial architectures must be increased and strengthened.

Strategic areas of actions:

Strengthen International Cooperation and Support for Africa in Global Tax Reform: Ongoing UN negotiations on Global Tax Reform should be harnessed by the continent. In July 2024, the Ad Hoc Committee to Draft Terms of Reference for a United Nations Framework Convention on International Tax Cooperation released its first draft ToR with clear objectives, including: a. Establish fully inclusive and effective international tax cooperation in terms of substance and process; b. Establish a system of governance for international tax cooperation capable of responding to existing and future tax and tax-related challenges on an ongoing basis and c. Establish an inclusive, fair, transparent, efficient, equitable, and effective international tax system for sustainable development. Africa has shown leadership in galvanizing the support of the Global South and a few European partners in the lead-up to these negotiations, but more work needs to be done yet in affirming and expanding this support from the international community.

Finalize Reform of the International Financial Architecture (IFA): The current IFA has significant shortcomings, particularly in terms of inclusiveness and transparency. Key concerns include inequitable representation, where the asymmetric system limits the ability of developing countries to influence policies and reforms, raising questions about the legitimacy of the financial system, and the debt crisis, as the IFA has not provided effective long-term solutions to the debt crises facing many developing countries, particularly in Africa. Recommendations to address these issues include increasing representation by advocating for greater voice and additional seats for African countries in international financial institutions like the IMF and World Bank, requiring a majority of both countries and voting power to pass key measures, and accelerating African Union initiatives to establish Pan-African financial institutions.

Reform of the Multilateral Development Banks (MDBs): According to ODI, increasing the efficiency, flexibility, and agility of MDBs could free up large sums of financial resources for sustainable development investment. For Africa, a key goal of this reform is to increase access to concessional financing to low income and vulnerable countries, through more donor contributions to IDA and the African Development Fund. Accordingly, Kenya President Ruto and AfDB President Adeshina have called for tripling of ADF funding from USD8.7 billion to USD25 billion. Many voices are also calling for the tripling of funding for IDA from USD93 billion currently to USD279 billion replenishment by 2030.

Provide International Support for the Creation of an African Credit Rating Agency: African countries are more and more voicing their frustration with international Credit Rating Agencies, arguing that the perception of risk assigned to them by these agencies is higher than the actual risk. Specifically, African countries argue that their ratings are not based on accurate data but are rather largely subjective. In this regard, participants at the Pan African Conference (PAC) on Illicit Financial Flows and Taxation called for existing Credit Rating Agencies to demonstrate better transparency in the types of measures that they use to rate African economies.

Increase Access to SDRs and rechannelled SDRs for African Countries**:** In May 2024, the IMF Executive Board approved a major reform in its Special Drawing Rights (SDR) mechanism, allowing members to channel their unused SDRs to MDBs, including the African Development Bank. It is expected that the move could unlock up to $80 billion of new MDB lending capacity globally. The current total SDR allocation amounts to $650 billion, and the proportional allocation to Africa is 5%, equivalent to $33 billion. A 25% voluntary channelling of the G-7 countries SDR allocations for example, would result in additional $73 billion available to African countries. It will be important to strengthen advocacy and support for Europe-Africa cooperation to ensure that the additional resources are effectively released to AfDB, and that African member States are able to access and mobilize those resources.

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Carbon Markets and Energy for Locally Led Industrialization

The transition from fossil fuels is urgently needed as global assessments highlight the need to reduce reliance on them; however, African nations advocate for a gradual phase-out, particularly of gas as a transitional fuel, raising concerns about fairness given Europe's ongoing dependence on fossil fuels. Additionally, Africa grapples with significant energy poverty, with over 600 million people lacking adequate energy access and 900 million without clean cooking facilities, necessitating rapid investment, technology deployment, and regulatory certainty to meet the projected fourfold increase in electricity demand by 2050 and achieve the goals of Agenda 2063. Possessing about 30% of the world's critical mineral reserves—including vital minerals like platinum, cobalt, and manganese— Africa plays a crucial role in the global energy transition. The IMF anticipates that demand for these minerals may surge by 500% by 2050, highlighting the need for Africa's resources.

The Africa-Europe relationship presents mutual benefits, where Africa can supply fossil fuels and renewable energy potential while Europe contributes financial resources, technology, and expertise in energy market consolidation, significantly impacting the future global energy landscape. Initiatives like the Africa Continental Power System Masterplan and the Africa-EU Green Energy Initiative are crucial for enhancing energy access and fostering trade. Key policy priorities include establishing effective dialogues to set equitable energy targets, enabling Africa to leverage its abundant natural resources, and utilizing carbon pricing and market potential for mutual benefit.

Harness Africa's critical raw materials potential

Strategic areas of actions:

Regaining Resource Control: African nations must negotiate better revenue distribution with international mining companies to take control of their abundant resources.

AU-EU Collaboration: The AU and EU should work together to create a strategic framework for critical raw materials. This collaboration would leverage the EU's technological expertise and facilitate sustainable mining practices while promoting cross-border cooperation.

Trade Barrier Reduction: As Africa's population increases, it is vital to invest in green jobs in mineral processing. The African Continental Free Trade Area should aim to reduce trade barriers and enhance infrastructure to create regional value chains for finished mineral products.

Industrial Partnerships: The EU should establish partnerships with African countries to create special economic zones and industrial parks, providing technical and financial support. These initiatives would foster local value chains, generate low-carbon electricity, create employment opportunities, and enhance revenue for local and national governments.

Unlock the full potential of carbon pricing and markets

Strategic areas of actions:

Implement robust governance structures. Carbon pricing mechanisms have the greatest potential for global climate and socio-economic impact if they pair the high demands for transparency, integrity and quality with fair and equitable market access and revenue distribution. This requires investment in the design of markets, institutions and capacities within Africa. The EU Emissions Trading System (EU ETS) provides a good model and demonstrates that tough and ambitious regulation can generate high prices. Robust regulation must be put in place if high-integrity carbon markets are to flourish in African countries which largely rely on voluntary carbon credits.

Build a joint carbon market platform that meets multiple aims. Given the potential of carbon markets to generate benefits for the environment and labour markets, Africa and the EU should build a joint platform that puts carbon principles into practice, building capacity, and sharing investments in the infrastructure to make carbon markets work in a sustainable way for people and the environment. This includes strengthening the capacity of African policymakers and practitioners by providing training and addressing the challenges associated with the EU's Carbon Border Adjustment Mechanism and Article 6 of the Paris Agreement.

Support policymakers in a CBAM transition. The EU's CBAM poses considerable challenges for energy trade between Africa as many African countries may lack the resources to invest in cleaner technologies. The AfCFTA Council of Ministers should be invited to provide solutions on CBAM's economic implications and propose remedies, which could include exemptions or the gradual phasing-in of CBAM requirements. Advocating for Africa's interests in the CBAM transitional phase can help mitigate the risk of Africa becoming uncompetitive in European markets. The EU should actively engage with African countries on CBAM's design so it can prepare for a future where energy trade can be used to achieve net-zero targets. Looking ahead to 2030, 2050 and 2063 targets, Africa and Europe may hope to jointly establish an effective, ambitious global carbon price and high-quality, high-integrity carbon credits, supporting well-structured African national and regional carbon markets.

Resilient Health Systems and Climate-Health Financing

The critical importance of sustainable and responsive health systems is increasingly recognised, but country action is limited in an environment of growing population health needs and economic constraints.

Strategic areas of actions:

Strengthen health security and resilient health systems

Sustain political focus on building resilient and sustainable health systems promoting universal health coverage: Covid-19 highlighted the need for system-wide strengthening to ensure endemic conditions are simultaneously managed along with pandemic threats. Long-term investment—in healthcare infrastructure, workforce development and health financing—is therefore needed to make certain that everyone can access quality healthcare services without risking financial hardship.

Strengthen surveillance and early warning systems: Invest in integrated disease surveillance systems that take advantage of real-time data sharing between the Africa CDC and the European Centre for Disease Prevention and Control. These could include interoperable health information systems and fostering collaboration on epidemiological research to strengthen the capacity of both regions to monitor and respond to infectious disease threats.

Invest in vaccine and medicine production and strengthen supply chains: Develop diversified, secure supply chains for essential medical supplies and equipment that can ensure equitable access during crises, which means investing in local manufacturing capacities and establishing strategic reserves. At a global level continued support for the COVAX Facility, co-led by Gavi, the Vaccine Alliance, WHO, and the Coalition for Epidemic Preparedness Innovations, is crucial to guaranteeing equitable vaccine distribution.

Expand digital health infrastructure: Investing in robust digital health infrastructure is one of the best ways to ensure widespread access to reliable internet and digital tools. This investment should cover both urban and rural areas to bridge the digital divide and enhance healthcare delivery in underserved regions.

Jointly address the Climate-Health Nexus

Integrate health into climate strategies: The Global Goal on Adaptation should include health targets to ensure that climate adaptation measures also bolster health systems. Similarly, the New Collective Quantified Goal on Climate Finance should allocate funds specifically for health-related climate adaptation and mitigation. Embedding health objectives into these frameworks secures necessary financing, which has a multiplier effect on return on investment.

Promote sustainable health infrastructure: Invest in green health infrastructure that reduces carbon footprints and withstands climate impacts. This involves designing and constructing health facilities that are energy-efficient, use renewable energy sources, and incorporate sustainable practices to reduce environmental impact.

Advance research and data sharing. Fund collaborative, interdisciplinary Africa-Europe research initiatives and establish data-sharing platforms to enhance the exchange of knowledge and evidence-based policymaking. For example, the Africa-Europe Climate and Health Research Network brings together researchers from both continents to study the impacts of climate change on health.

Empower the Health Workforce

Strengthen training and foster workforce exchanges. Strengthening comprehensive training programmes and creating incentives for health professionals, particularly in underserved areas, are critical steps. The African Union's African Health Workforce Education and Training Initiative and the European Union's EU4Health programme have both supported in addressing skills gaps. Expanding exchange programmes, like the EU Erasmus+ programme, for health professionals between Africa and Europe can significantly enhance skills and knowledge transfer in healthcare delivery.

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Mechanisms for Policy/Financial Commitment Tracking

AEF was established in 2020 to provide a safe space for frank dialogue, bring fresh thinking to policymaking through action research and unlock untapped domains of international cooperation.

A central programming pillar of AEF is to track and facilitate the implementation of the policy/financial commitments made between the Africa Union and the European Union across various sectors including sustainable finance, global health, energy, agri-food systems and multilateralism - captured in AEF's flagship 'State of Africa-Europe Report'. This pillar of work underpins AEF's broader call to embed commitment tracking within international cooperation initiatives as an essential trust-building exercise.

Strategic areas of actions:

Support the work of the Inter-agency Task Force on Financing for Development: In the context of the Financing For Development Conference, it will be key to continue investing in benchmarking existing commitments and tracking the implementation of the outputs of the Conference process including the Addis Ababa Action Agenda. This implies enhanced cooperation among the various partners and stakeholders when it comes to sharing data and analysis on the implementation of commitments. If ensured, it will contribute directly to ensuring all our efforts in 2025 can demonstrate real impact for the societies we are set up toto serve.