Inputs for Elements Paper on Financing for Development

15 October 2024

This submission, on behalf of the African Future Policies Hub (AFPH), the Africa Policy Research Institute (APRI) and Development Reimagined, is in response to the call for inputs for an Elements Paper on Financing for Development—ahead of the Fourth International Conference on Financing for Development (FfD 4), in Seville, Spain from 30 June–3 July 2025. Our submission is based on our understanding of the African context, the African continent's position and desired outcomes for an international financial infrastructure that, at its core, supports countries' climate and development needs.

(i) Overarching Reflections

The current international financial system does not adequately respond to rapidly increasing global challenges and the changing structure of the geopolitical landscape. To be fit for purpose, reforms need to be multifaceted, and framed by a need to shift towards more structural solutions. Africa's position should be understood in the context of two mutually reinforcing phenomena—the debt and climate crisis. The international financial system, its structures and processes should, therefore, deliver on priorities that advance sustainable socioeconomic transformation of African economies and other emerging and vulnerable regions.

Access to finance and the cost of borrowing remain as major challenges in many Global South countries and communities, especially in terms of green investments, such as renewable energy infrastructure. Yet, the availability of financing at affordable cost is a precondition for unleashing the potential for long-term sustainable development. Nationally Determined Contributions (NDC) ambitions, which provide a bridge between the Paris Agreement and Agenda 2030, will depend on the level of financial support that is committed—requiring a financing infrastructure that can lead to the effective implementation of NDCs. With this, a renewed focus on international public finance is needed, given the challenges associated with attracting private finance in Africa. While finance flows are a crucial means of implementation, a careful balance must be maintained between addressing significant financial needs (the *quantum*) vis-à-vis the *quality* of finance being delivered (including its form and channels).

A more equitable international financial architecture should protect domestic policy space and not depart from the principle of Common but Differentiated Responsibilities and Capabilities (CBDR), which could have disproportionate impacts on developing countries and livelihoods. This includes climate-labelled unilateral measures, notably in trade policy, which implicitly penalise countries that are least responsible for the historical damage on the environment.

(ii) A Global Financing Framework (Including Cross-Cutting Issues)

- Despite renewed commitments from the international community, there is continued marginalisation of the African continent and other developing countries in global trade and financial systems.
- Failed debt restructuring mechanisms remain unreformed. Workable solutions to the debt crisis require a more democratic and representative multilateral system that delivers timely, transparent and efficient solutions for debt treatment, with the appropriate mechanisms and tools.

- What finance is available is largely unconcessional and exacerbates existing debt burdens. Reforms to the multilateral climate finance system must facilitate access to, particularly, non-debt instruments.
- The pledge-based system of providing finance has meant that its flows are unpredictable, and pledge volumes are not additive or commensurate with current finance needs. Reforms to the GFA should not compromise additionality of financial resources, but give primacy to both climate and traditional development areas that require finance on highly concessional terms. The provision of finance that is new and additional, must be supported with transparent and accountable reporting mechanisms.
- The international policy environment should safeguard the sovereignty of developing countries. This is important as it relates to resolving the debt crisis on the continent (removing conditionalities and one-size fits all policies, addressing biases of credit rating agencies, circumventing discriminatory unilateral measures, tackling illicit financial flows, and reconfiguring international financial institutions).

(iii) Action Areas:

Domestic public resources

- Beyond resources provided by the international system, public finance can be increased domestically should there be effective international action to tackle illicit financial flows. The momentum created by the United Nations and tax agenda of the Africa Group, which has led to much-needed progress on addressing tax loopholes, should be sustained.
- Aligning on more inclusive international tax cooperation, within the framework of the UN, could restore the capacity and autonomy of states to enhance their domestic resource mobilisation efforts, which is critical for investing in the sustainable development goals (SDGs).

Domestic and international private business and finance

- 'The private sectors desire for investment-ready or 'bankable projects', often require that African sovereign's de-risk (from political, contractual or currency risk) investments for global financiers and investors or offer extensive guarantees which have significant fiscal impacts.
- At the same time, resources channelled from the private sector would need to be directed more purposefully to realise sustainable development outcomes.
- However, even in a global context of net-zero commitments, efforts to attract private sector finance have demonstrated that it cannot be a substitute for public finance. Public financing is still dominant in several African countries, particularly where projects (e.g., in renewable energy) lack the capacity to attract private capital, due to political, legal and economic risks.

International development cooperation

- Official Development Assistance (ODA) volumes have been trending down and more is needed to look beyond ODA and offset the shortfalls in ODA flows.
- Research by Development Reimagined has shown that eight African countries have had to go to the World Bank over 200 times to access IDA over its lifetime, while another 27 have done so 100 times. This is unsustainable. Borrower coordination or borrower clubs could be a mechanism for bringing down the cost of lending and ensure more sustainable solutions.

- Reducing barriers for more equitable international climate finance access is critical. Climate finance is unevenly distributed across regions and Africa continues to benefit from international climate finance flows primarily in the form of loans, which are in many cases at market rate. How Africa can access increased levels of multilateral climate finance in the form of grants and highly concessional loans must be addressed by the GFA reforms.
- Reforming the policies and practices of multilateral development banks (MDBs) and international financial institutions (IFIs) should unlock more resources but also ensure:
  (i) G20 Capital Adequacy Framework (CAF) implementation does not harden lending terms and impact African countries' debt sustainability
  (ii) The expansion of MDB mandates to include global challenges does not come at the expense of a more constrained ability of these institutions to respond to country-specific priorities and demands, particularly in low-income countries.
  (iii) Greater coordination between international banks at the multilateral level and regional development banks is prioritised, to scale financing, particularly for infrastructure development.

International trade as an engine for development

- As the interplay between trade and climate policy comes into sharp focus, the trading system should facilitate Africa's integration into the new global economy, and its pursuit of green industrialisation. Indirect measures that can have an influence on macro-economic indicators and revenue have been flagged by African countries due to their influence on countries' finance landscape.
- Evidence suggests the Carbon Border Adjustment Mechanism (CBAM) could have a significant impact on the export base in key African industries. This and other unilateral trade measures are not compatible with World Trade Organisation (WTO) rules and the principle of CBDR, as agreed within the UNFCCC.
- Similarly, the discussions on introducing international taxes as a new source of development finance, need to adhere to the 'do no harm' principle and be informed by evidence on their potential impact. In a joint report by the African Policy Research Institute (APRI), the Firoz Lalji Institute for Africa at the London School of Economics and Political Science (LSE), and the African Future Policies Hub (AFPH) the implications of a shipping carbon tax on Africa raise issues that deserve further reflection by key stakeholders. The report provides an assessment of the economic costs and trade-offs of the proposed tax.

Debt and debt sustainability

Much support is needed at the international level, to not only address the high debt service burden some countries face today, but to avoid a new cycle in future. Beyond the need to tackle the current liquidity crunch that feed debt challenges, it is important to deal with debt structurally.

- Lowering the cost of borrowing: Most African countries have some of the highest costs of borrowing globally. To address this, it is important to address subjective risk perceptions created by credit rating agencies and review debt sustainability analysis (DSA) frameworks. As per a 2023 UNDP analysis, African countries could save up to US$74.5 billion if credit ratings were based on less subjective assessments. DSA frameworks, on the other hand, affect the outcomes of debt negotiations, with major consequences for debtors, their debt servicing schedules and their ability to invest for sustainability and the SDGs.
- Debt resolution frameworks: Addressing debt distress has been challenging, partially due to a new mix of creditors that saw the significant rise of private creditors who closed the gap of limited public finance, and

partially due to the slow process in handling negotiations for debt treatment within the G20 framework. Therefore, it is important to overhaul the G20 Common Framework for debt treatment, which has proven to have costly consequences for some African countries. The establishment of 'borrowers clubs' could be considered as an alternative model to the G20 Common Framework.

- Scaling concessional resources: Amid growing debt vulnerabilities and given the diversity of creditors, it is also important to ensure that the quantum of public finance is increased at concessional rates and made accessible.

Addressing systemic issues

- Reinforcing the African voice in global fora should be coupled with more *effective representation* that gives Africa decision making powers and levels the playing field. Reforms of the governance structure of international financial institutions must remain top of the agenda.
- For example, a doubling of IMF quotas for the African continent could significantly increase Africa's access to short-term, automatic liquidity, as opposed to having to default or seek lengthy new IMF or World Bank programmes. Over the 1952-2023 period, the IMF made 609 loan commitments to African countries- accounting for 40% of all agreements. However, in volume terms, Africa accessed less than 10% of the IMFs total commitments. The average IMF loan to an African country was approximately US$200 million, compared to a global average of US$ 887 million.

Science, technology, innovation and capacity building

- To realise the potential for green industrialisation and localisation strategies, Africa will need to be strongly enabled by meaningful international cooperation, technological, research and capacity building support. This will require international commitment to clean technology trade, transfer and diffusion, facilitated by the WTO.
- Addressing the inequality in which countries can access finance for clean technology is key. The Paris Agreement set a vision of advancing technology development and transfer, however, more investments are needed, particularly in technologies that are not yet commercially viable.
- International policies and strategies, in the context of green value chains, should not replicate a model of extractivism, and predatory approach that does not create value domestically.

Data and transparency

- Transparency and accountability principles need to be at the centre for ensuring additionality, and addressing the ambiguity of resource flows. This should include effective and enforceable transparency and accountability mechanisms for climate finance reporting and its delivery.
- Independent mechanisms that track disbursements against commitments are also an important feature of rebuilding trust, and ensuring providers of finance and donors deliver on agreed commitments and responsibilities.