United Nations
Economic Commission for Africa

Policy challenges in mobilizing long-term capital in Africa

6 September 2023

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ideas for a prosperous Africa
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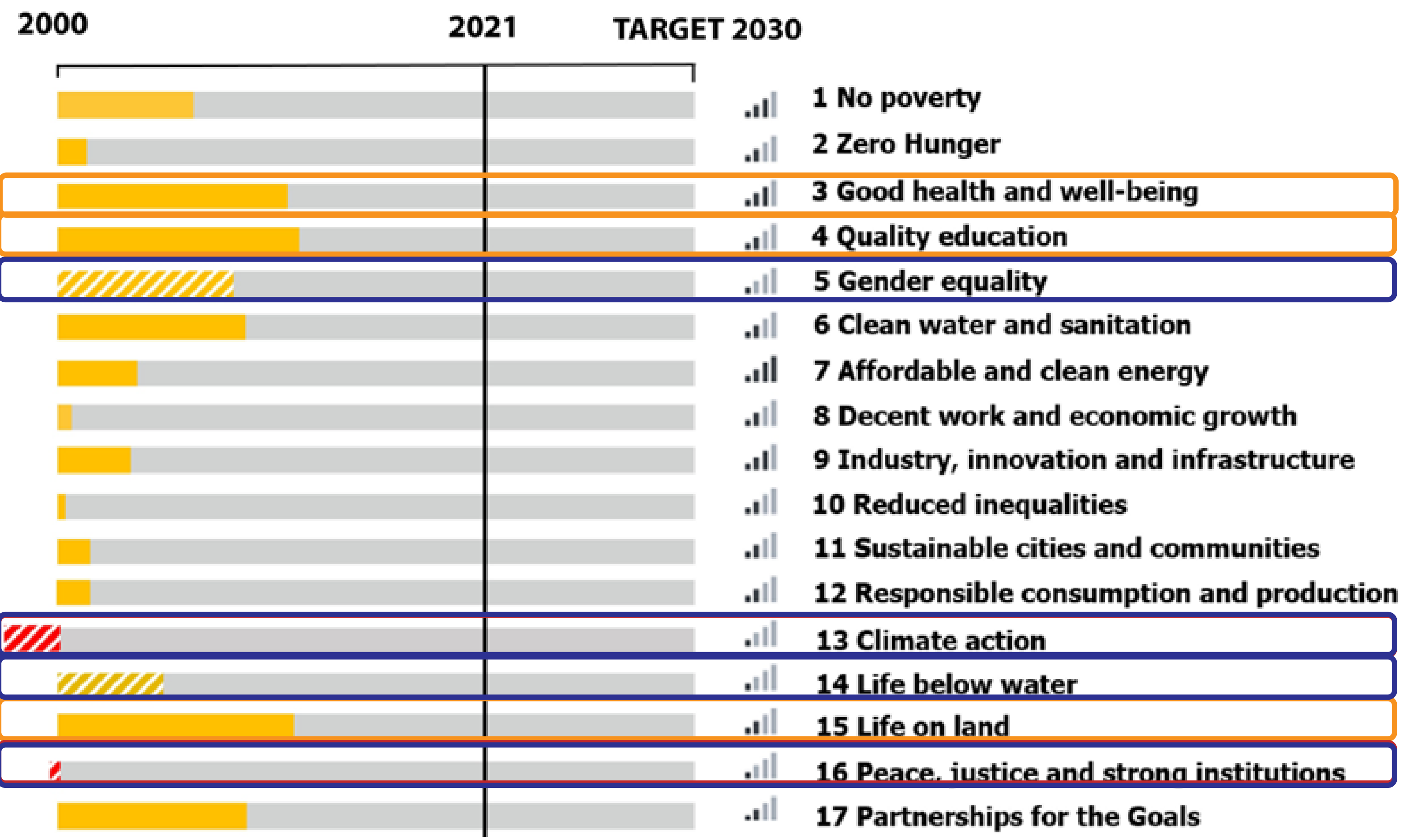
Why should we care about mobilizing long-term capital financing in Africa?

Africa is not on track to meet any of the SDGs, without concerted efforts in the second half of the 2030 Agenda…



- Africa has recorded progress on 15 of the 17 Sustainable Development Goals since 2000; however, the current pace of progress has been insufficient to achieve the Goals by 2030.
- Moderate progress experienced on Goal 3 – Good health and well-being, Goal 4 – Education, and Goal 15 – Life on land.
- Major challenges are related to Goal 13 – Climate action and Goal 16 – Peace, justice, and strong institutions where the continent has regressed. The current trends need to be reversed to meet the promise of these SDGs.
- Positive development in terms of data availability in African countries however it remains poor on Goal 5, 13, 14 and 16.

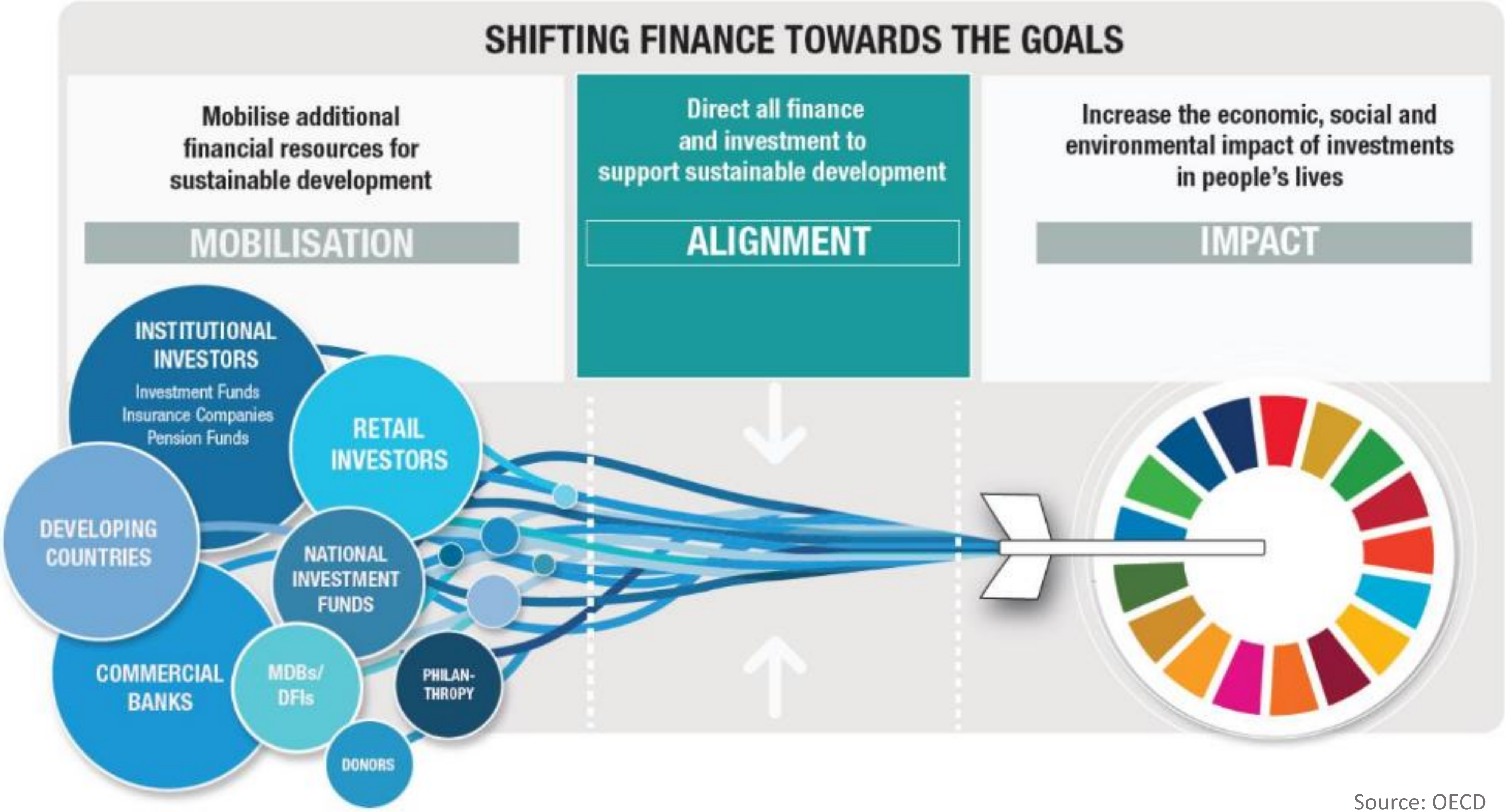
….with substantial financing gap in meeting the SDG targets.

	Annual additional investment
PEOPLE	$850 billion
PLANET	$300 billion
Additional cost due to COVID	$183 billion
Total additional financing needs	>$1,300 billion
Annual average of savings, FDI, ODA	$800 billion

Annual financing gap

$500 billion

Hence, mobilising additional financial resources will be crucial to achieving the SDGs



Source: OECD

However, domestic financial landscape presents serious challenges in mobilising long-term capital

Holds > 90% assets in the financial sector

Retail banking dominates

Just 28 African countries have stock exchanges

Stock exchanges underdeveloped

Issued sovereign bond by all of Africa <30% issued by China

Nascent debt markets

Less attractive to both domestic and foreign investors

Macroeconomic volatility

Limited options for long-term investment

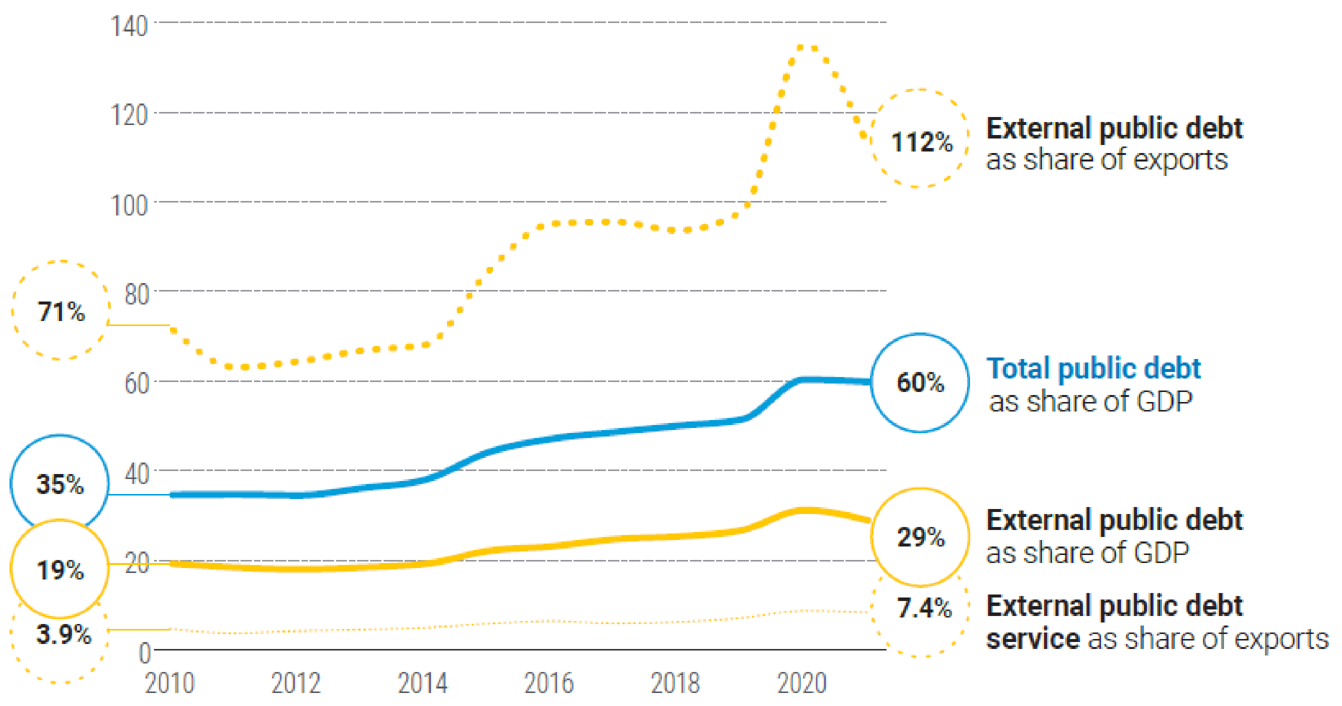
Limited Infrastructure investment bond options

Prices quoted outside the continent

Commodity exchanges underdeveloped

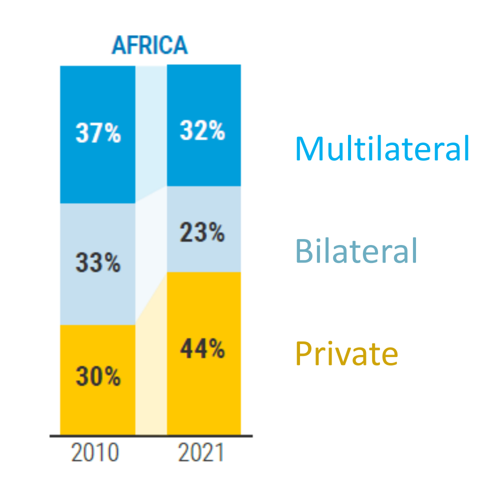
The global financial architecture does not favour this either, compounding the difficulties facing Africa

Developing countries' external public debt



1 Developing countries' external public debt has gone up drastically, leaving them exposed to external shocks

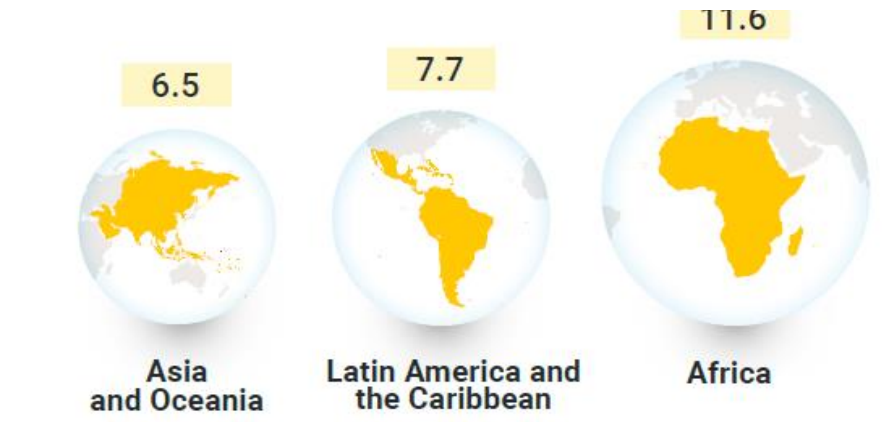
Debt as a share of external public debt



2 Developing countries rely more on private creditors now, making credit more expensive and
debt restructuring more complex

3 **Africa pays much more for borrowing**

Bond yields (2022-2023)



4

Developing economies, particularly those in Sub-Saharan Africa, receive a disproportionately small share of SDR allocations

2021 SDR Allocation by IMF Categorization; by broad and narrow categorization, with special aggregates

Broad IMF Categorization	IMF Categorization	Approximate Share of 2021 Allocation (USD millions)	Percent of 2021 Allocation
World		***$650,000***	***100.0%***
Advanced Economies	Advanced Economies	$399,241	61.4%
Emerging and Developing Economies	Emerging and Developing Economies, total	$250,914	38.6%
	Emerging and Developing Asia	$84,361	13.0%
	Latin America and the Caribbean	$51,505	7.9%
	Middle East and Central Asia	$49,484	7.6%
	Emerging and Developing Europe	$42,634	6.6%
	Sub-Saharan Africa	$22,931	3.5%

Source: Center for Economic and Policy Research and IMF (2021, 2022).

Additionally, Africa loses a lot through illicit financial flows

Mis-invoicing alone amounts to

US$83 billion annually

This is more than twice the debt service of US$40 billion Africa paid in 2020

Given the slow progress on SDGs and huge financing needs, can we do better to mobilize long-term capital in Africa?

The answer is – Yes, with concerted efforts both domestically and internationally

Undertake domestic reforms through the adoption of a 5-P strategy…

Piggyback on the Future

Strengthen regulatory framework for Pension and Insurance Funds to to ensure long-term growth and stability.

Pathway to Prosperity

Develop Infrastructure Bonds, paving the way for long-term, growth-driven investments. Also provide tax incentives for purchasing such bonds.

Pioneer Partnership

Facilitate Private Equity and Venture Capital to fuel innovation and entrepreneurship -> private sector driven growth.

Prudent Regulation

Enhance the Regulatory Framework for Capital Markets to ensure a stable and secure investment climate.

Property Potential

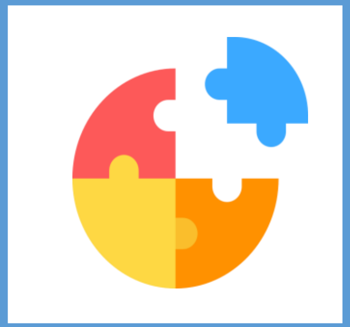
Encourage the Establishment of Real Estate Investment Trusts (REITs) to provide opportunities for smaller investors to participate in the market.

…. and complement them with a 4E approach

Education

Strengthen Financial Education and Literacy

Expansion



Deepen Regional Integration to unlock new opportunities across borders, ex. AfCFTA

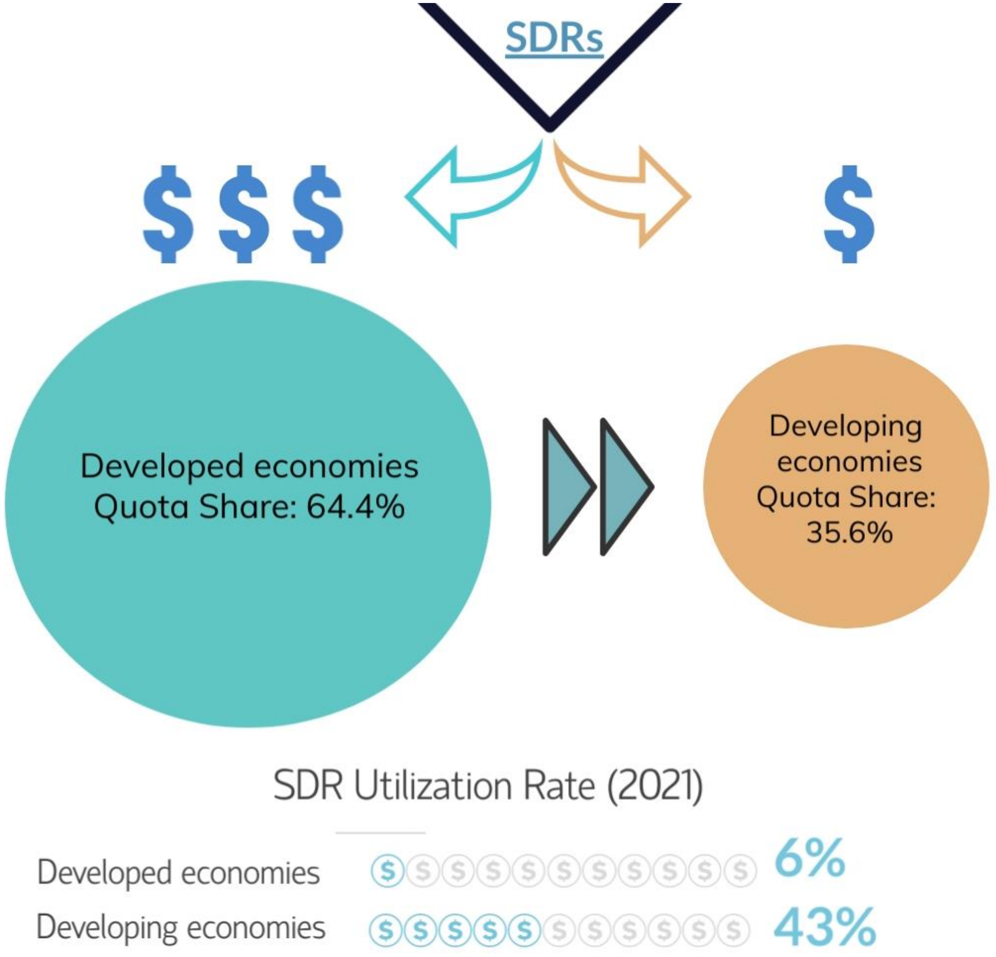
Engagement

Engage Diaspora Bonds to unite the global African community in shaping the financial future of Africa

Embrace

Embrace Public-Private Partnerships (PPPs) to finance long term projects

At the international front, reform multilateral financing mechanisms to ensure they are rules-based

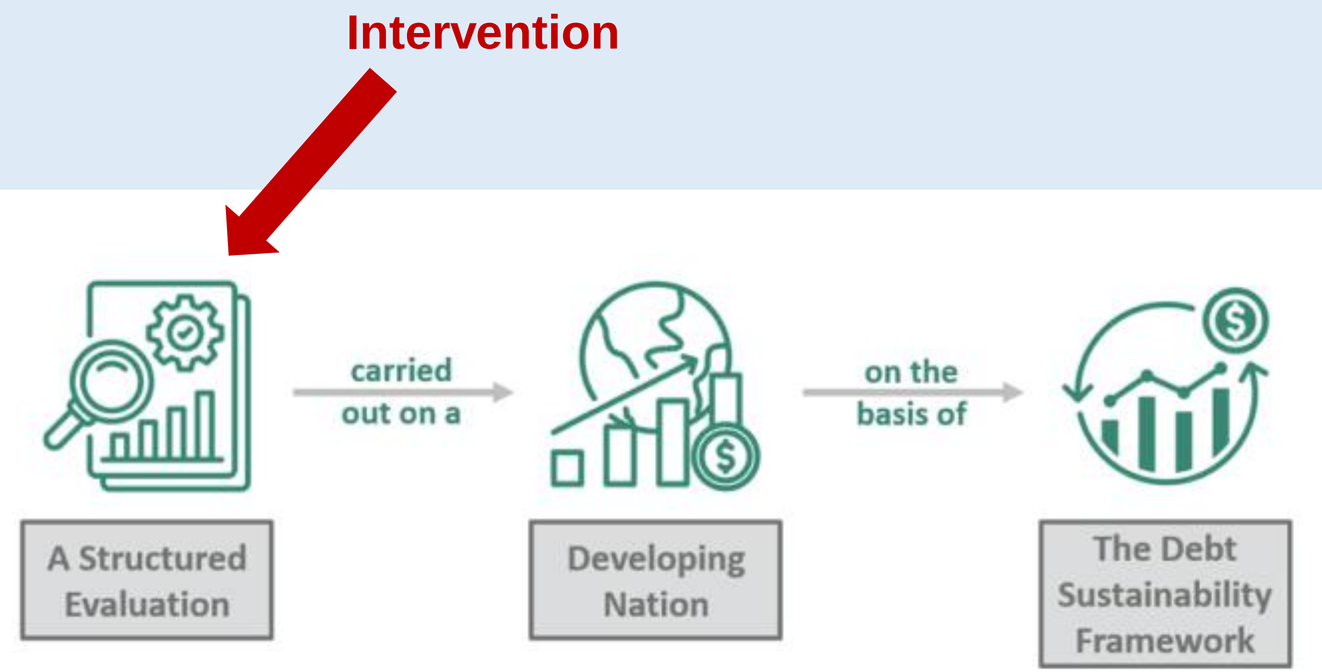


- **Reform the SDR allocation formula and rechanneling mechanism** to consider liquidity needs and promote greater utilization.

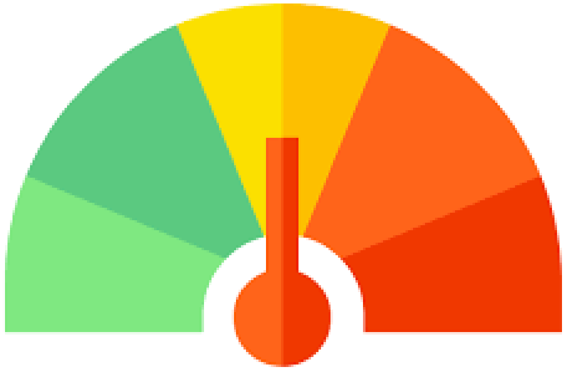
- **Increase the flexibility of eligibility and qualification criteria** of the IMF's **Resilience and Sustainability Trust** to play a catalytic role in sustainable financing.

Revamp Debt Sustainability Analysis (DSA) to better suite the current nature of developing country debt portfolio

❖ **Refine the Debt Sustainability Analysis**, including adopting changes that enable investments that create future savings to have a lower weighting than other debt.



Enhance regulatory framework to make debt work for Africa



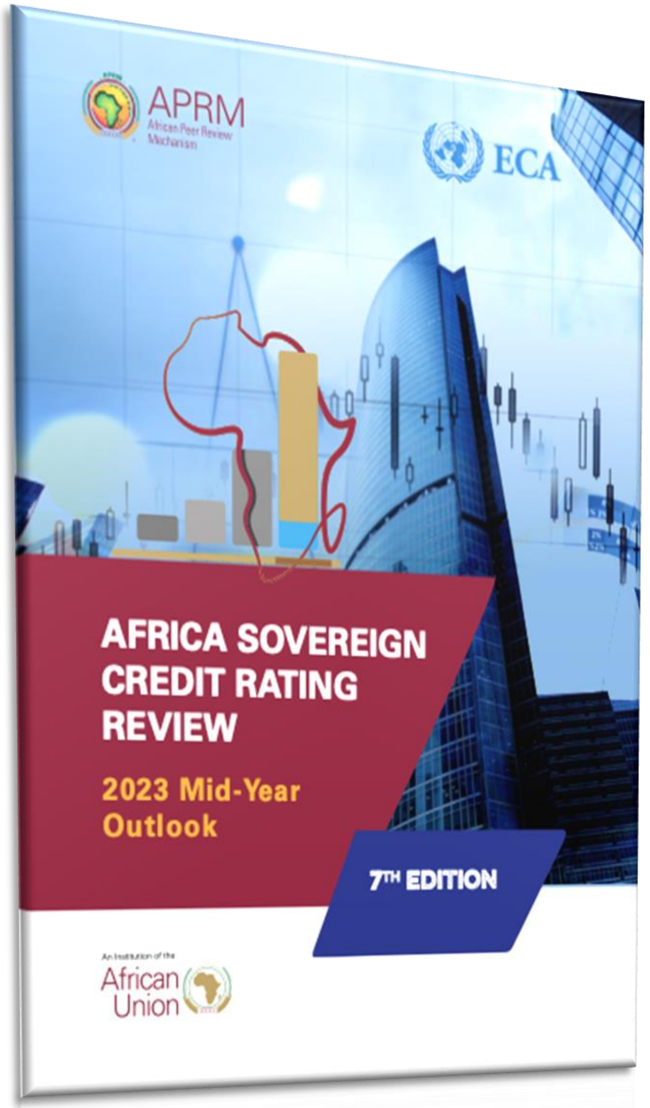
- Enhance regulatory framework for credit rating agencies, ensuring adherence to established rules and accountability. This will positively impact **Africa's risk perception conveyed by sovereign credit ratings**.

- Use **derisking** instruments **to enhance market access**.

- Ensure that debt clauses are more favorable for Africa. This calls for increased attention towards **debt restructuring** (Bridgetown Initiative).

- **Improve the dissemination and transparency** of data to enable better assessment of risk profile. (refer UNECA's work)

UNECA has been tackling some of these challenges head on!



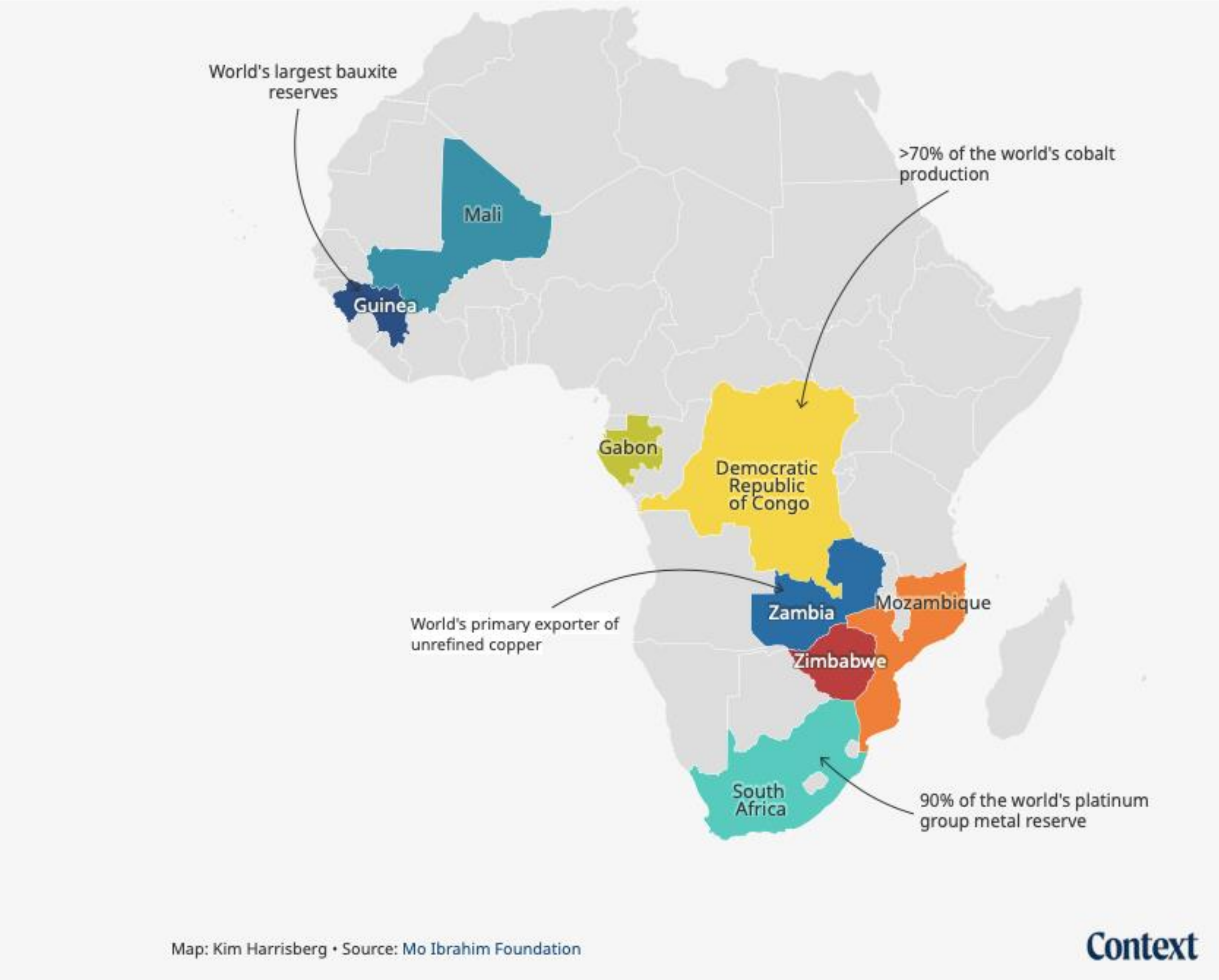
OUR WORK

- **Biannual Credit Rating Analysis** to assess long-term foreign currency sovereign credit ratings by top CRAs (Moody's, Fitch, S&P Global) in Africa.
- **Webinars** to discuss key highlights of the Africa Sovereign Credit Ratings Review Report.
- **Technical support to member states wishing to be rated**, as sovereign rating is a prerequisite for issuing debt in international markets.

Way forward: Leverage on green growth

- **Address "Resource Curse"**: With 30% of global mineral reserves crucial for green transition, Africa needs a clear climate policy vision, attractive clean energy investment environments, and institutional capital engagement.

- **Advance Carbon Markets**: Leverage carbon markets to finance African climate needs, boost energy access, job creation, biodiversity protection, and climate action. ACMI at COP 27 marks a significant initial step.



THANK YOU

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