Policy challenges in mobilizing long-term capital in 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…

<table>
<thead>
<tr>
<th>2000</th>
<th>2021</th>
<th>TARGET 2030</th>
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<tbody>
<tr>
<td></td>
<td></td>
<td>1 No poverty</td>
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<td>2 Zero Hunger</td>
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<td>3 Good health and well-being</td>
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<td>4 Quality education</td>
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<td>5 Gender equality</td>
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<td>6 Clean water and sanitation</td>
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<td>7 Affordable and clean energy</td>
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<td>8 Decent work and economic growth</td>
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<td>9 Industry, innovation and infrastructure</td>
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<td>10 Reduced inequalities</td>
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<td></td>
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<td>11 Sustainable cities and communities</td>
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<td>12 Responsible consumption and production</td>
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<td>13 Climate action</td>
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<td></td>
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<td>14 Life below water</td>
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<td>15 Life on land</td>
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<td></td>
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<td>16 Peace, justice and strong institutions</td>
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<td>17 Partnerships for the Goals</td>
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</table>

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.

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

- Retail banking dominates, with 90% of assets in the financial sector.
- Stock exchanges are underdeveloped, with only 28 African countries having stock exchanges.
- Nascent debt markets are present, with less than 30% of all Africa's sovereign bonds issued by China.
- Macroeconomic volatility is a major concern, making it less attractive to both domestic and foreign investors.
- Limited infrastructure for investment bond options.
- Prices quoted outside the continent.
- Commodity exchanges are underdeveloped.
The global financial architecture does not favour this either, compounding the difficulties facing Africa.

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

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

Africa pays much more for borrowing. Bond yields (2022-2023)
Developing economies, particularly those in Sub-Saharan Africa, receive a disproportionately small share of SDR allocations.

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

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 that 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…

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

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

**Piggyback on the Future**
Strengthen regulatory framework for Pension and Insurance Funds to ensure long-term growth and stability.

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

**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.

SDR Utilization Rate (2021)

- Developed economies: 6% (Quota Share: 64.4%)
- Developing economies: 43% (Quota Share: 35.6%)
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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