

# ANALYSIS OF **DEVELOPMENT** **FINANCE LANDSCAPE** IN AFRICA

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## EXECUTIVE SUMMARY

The changing scope of development finance in Africa warranted by the changing developmental needs of African countries, the emergence of new sources of development finance as well as the shifting interests of financiers require landscaping given the dynamic needs to finance Africa's recovery post COVID-19. Besides traditional development finance in the form of grants and concessional DAC loans, other new sources of development finance dubbed Beyond ODA Flows (BOFs) are increasingly popular and they include grants and concessional funds from Non-DAC donors, Other Official Flows (OOFs) from DAC and Non-DAC countries, multilateral organizations, philanthropic assistance, climate finance, international sovereign bonds and Chinese development finance. Other known flows include FDI, remittances, DRM and domestic financial markets. This briefing paper profiles a mix of traditional and new forms of development finance open to African countries – creating a wealth of knowledge capable of informing development financing policy in Africa.

Amidst donor fatigue and minimal increase of ODA in the recent past, ODA remains a key source of long term concessional development finance focused on mostly the social and economic space. Although Africa still receives the highest amount of ODA globally, the share has been declining even prior the pandemic – raising concerns of the feasibility of relying on ODA progressively into the future. Whereas borrowing is a known and aged form of development finance, latest statistics show that the majority of African countries are increasingly at risk of debt strain. A sizeable number of African countries are in debt distress, signifying the need to either limit or cautiously consider new debt contracts. Whilst debt forgiveness is not fashionable, it remains an option for debt distressed African countries outside debt renegotiation and debt restructuring. The calamitous nature of debt overhang in Africa can be solved if DRM is given a chance. DRM encompasses the rallying of domestic resources and the efficient spending of the same. Despite the promising nature of DRM, statistical evidence shows that the average tax revenue/GDP in Africa is a meagre 16% thereby calling for tax reforms, efficiency in revenue collection, plugging of revenue losses and stamping out of corruption.

The limited public resources characterizing most African countries justify the need to harness private capital in development through PPPs. The huge infrastructure gaps in Africa justify the scaling of PPPs through crafting PPP policies to guide and regulate PPP operations. Also, the training of own PPP experts is a worthwhile investment as most African countries fall to skewed PPP contracts favoring the interests of private sector players. Poorly structured PPPs are expensive and inflict social injustice to the disadvantaged. On a different note, the unfolding climate-related challenges facing Africa require appropriate financing to support the transition to clean renewable energy and instituting coping mechanisms. Currently, climate finance commitments by the developed world have failed to materialize – projecting the necessity to consider alternative funding means. Feasible options include dedicated climate and climate-related development finance as they are concessional, otherwise African governments might have to resort to their limited public resources to finance climate change adaptation. The Chinese financing option has been dominant for infrastructure projects in Africa post the promulgation of the Belt and Road Initiative in 2013. Despite being an all-weather creditor, Chinese loans ought to be well negotiated, especially resource-backed loans that are on record for triggering debt distress. Additionally, the opacity around Chinese loans is a concern that must be addressed by African governments.

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## LIST OF ACRONYMS

AfDB	African Development Bank
ATAF	African Tax Administration Forum
AUC	African Union Commission
BOFs	Beyond ODA Flows
DAC	Development Assistance Committee
DFIs	Development Finance Institutions
DFRC	Development Finance Resource Center
DRM	Domestic Resource Mobilization
FAO	Food and Agricultural Organization
FDI	Foreign Direct Investment
GDP	Gross Domestic Product
IFAD	International Fund for Agricultural Development
IFC	International Monetary Fund
IMF	International Monetary Fund
JICA	Japan International Cooperation Agency
MDGs	Millennium Development Goals
NGOs	Non-Governmental Organizations
ODA	Official Development Assistance
OECD	Organization for Economic Co-operation and Development
OOFs	Other Official Flows
PPP	Public-Private Partnerships
RCF	Rapid Credit Facility
RFI	Rapid Financing Instrument
SADC	Southern Africa Development Community
SDGs	Sustainable Development Goals
WB	World Bank
WFP	World Food Programme



## INTRODUCTION

The quest to exterminate poverty, safeguard the planet and advance inclusive prosperity and peace brought about by the UN's Agenda 2030 (2015-2030) for Sustainable Development is anchored by 17 Sustainable Development Goals (SDGs). Agenda 2030 seemingly concurs with Africa's Agenda 2063 (2013-2063) (The Africa we Want) premised on protecting the environment, boosting peace and integration in support for broad-based growth. Attaining the developmental feet defined by Agenda 2030 and Africa's Agenda 2063 require substantial resourcing. Estimates show that low and medium-income countries require \$1.5 trillion-\$2.7 trillion per year between 2015 and 2030 if infrastructure-related SDGs are to be met (Vorisek and Yu, 2020). Gaspar et al. (2019) estimates that a further \$1.3 trillion is required to finance SDGs related to education and health. UNCTAD (2014) envisioned that developing countries required \$3.3 trillion-\$4.5 trillion per year to develop basic infrastructure, ascertain food security, address climate change and match health and education SDGs. WHO (2017) and FAO, IFAD, and WFP (2015) projected that \$370 billion and \$265 billion (respectively) was required per year to meet health SDGs and end hunger.

The aforementioned SDG financing estimates require an upward revision as the advent of COVID-19 meted a disproportionate socio-economic effect on Africa's low-income countries, thus more resources are required to quicken the recovery process. A staggering 120 million people regressed into extreme poverty as 114 million jobs were lost owing to the COVID-19 induced economic hardships. Worse still, tax revenues declined, FDI and global trade dwindled whilst increased public borrowing scaled up debt-vulnerabilities for many countries (UN, 2021). In concurrence, Fakhri and Fakhoury (2021) show that COVID-19 triggered global economic contraction, interrupted supply chains, prompted employees' laying off, and loss of income, impermanent and permanent closure of industries, reduction of revenues, and heightened social protection needs amongst many effects. Whereas developed countries forked out \$16 trillion fiscal stimulus to mitigate the socio-economic effects of COVID-19, it is highly likely that developing countries require more fiscal intervention given their challenging developmental circumstances.

Post COVID-19, Africa needs to fund its recovery from the whims of COVID-19, and catch up with the Agenda 2030 developmental course. Notably, whilst development finance's pre-occupation is to finance prime growth sectors to achieve sustainable development for all; COVID-19 disrupted the texture and construct of development finance. Besides the pandemic, climate change introduced many extreme climate-related atrocities such as floods, droughts and violent weather conditions that expose many to vulnerability. Worryingly, these challenges are pronounced to developing countries whose resource capacity to manage the crises is limited. This calls for an understanding of available options and designs of development finance capable of supporting the recovery and catching up with Agenda 2030 targets. Accordingly, this briefing paper is structured to delineate the changing scope of development finance, the development finance process, assessment of the challenges and opportunities associated with selected development finance tools especially ODA, debt, DRM, PPP, climate finance, and Chinese development finance.





## THE CHANGING SCOPE OF DEVELOPMENT FINANCE

The on-going transition from aid-funded development (ODA) to debt and lately DRM – termed the ‘triple revolution’ (Severino and Ray 2009) is both an opportunity to try new combinations (that lower financing costs) as well as exploit the innovation in development meant to address financing risks whilst winning the pressing developmental goals. As much as Prizzon, Greenhill and Mustapha (2016) acknowledge that SDGs are ambitious, they spread the hope that the massive financing needs associated with SDGs are married to the ‘age of choice of development finance’ where new development finance instruments are in the offing thus developing countries got more financing options at their disposal.

The emergence of new actors and sources of development finance, including non-DAC sovereign donors (China and India), philanthropic organizations, non-governmental organizations (NGOs), special purpose funds (vertical health and climate funds), climate finance and development finance institutions (DFIs) and Public Private Partnerships (PPP) strategies can be exploited for sound SDG financing in Africa. This shift is particularly important to most African countries whose financial markets are underdeveloped, illiquid and cannot support the financing needs for both the private and public sector. Prizzon, Greenhill and Mustapha (2016) acknowledge that developing countries have progressed to issue international sovereign debt at a time aid has been waning. The changes in development finance are taking place at a time there is a shift in developmental needs. For instance, there is need to finance adaptation and management of climate change, mitigation of pandemics as well as adjusting the financing mix as some countries graduate from low-income to lower-middle income economies.

Ingram and Mosbacher (2018) note that SDGs, unlike MDGs rely not only on ODA as the private sector is recognized as a viable source of financing, employment, technology and innovation, and knowledge transfer. The inclusion of DFIs and MDBs to bolster private capital in developing countries is likely to push inclusive growth opportunities through co-lending and co-investing thereby availing more and cheaper capital. Already, in excess of 90% of funds flowing into developing countries is private capital (FDI, philanthropy, and remittances). Prizzon, Greenhill and Mustapha (2016) reiterate that SDGs require copious forms of development finance, that is, beyond ODA flows (BOFs). BOFs are not ODA but are inclusive of assistance from new donors, non-

### DEVELOPMENT FINANCE

**Development Finance is the deployment of public sector resources to enable private sector investment (in developing and emerging economies) where exclusive private capital cannot suffice owing to imbedded commercial, operational and political risks, and where the investment is of developmental essence to the economy (Ingram & Mosbacher, 2018).**

**Development finance takes different forms such as ODA, Public Private Partnerships, Climate Finance, other official flows from non-DAC sovereign donors as well as other novel and engineered interventions to reduce financing costs.**

concessional DAC loans, philanthropic assistance, international sovereign debt, multilateral climate funds and PPP’s. The new scope of development finance is redefined to capture ODA flows, BOFs and other flows as presented in the table 1.

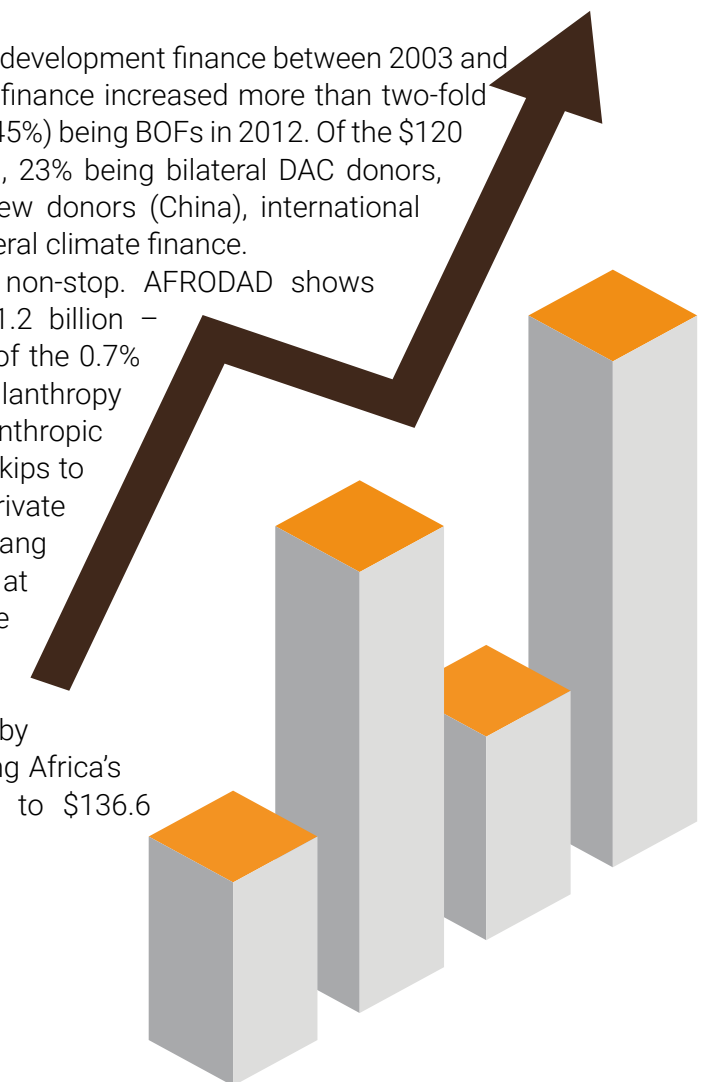
**Table 1: The Scope of Development Finance**

ODA Flows	Beyond ODA Flows	Other Flows
<ul style="list-style-type: none"> <li>Grants,</li> <li>Concessional loans from DAC donors</li> </ul>	<ul style="list-style-type: none"> <li>Grants and concessional funds from Non-DAC donors,</li> <li>Other Official Flows (OOF) from DAC and non-DAC donors,</li> <li>Multilateral organizations,</li> <li>Philanthropic assistance,</li> <li>Climate finance (multilateral commitments),</li> <li>International sovereign bond issuances</li> <li>China</li> </ul>	<ul style="list-style-type: none"> <li>FDI and equity flows</li> <li>Remittances</li> <li>Domestic resource mobilization</li> <li>Domestic financial markets</li> </ul>

*Adapted from Prizzon, Greenhill and Mustapha (2016)*

Figure 1 illustrates the change in the scope of development finance between 2003 and 2012. Notable is that the total development finance increased more than two-fold (\$122 billion - \$265 billion), with \$120 billion (45%) being BOFs in 2012. Of the \$120 billion, 37% were other official flows (OOFs), 23% being bilateral DAC donors, 22% being philanthropic assistance, 13% new donors (China), international sovereign bonds (4%) whilst 1% was multilateral climate finance.

The transition of development finance is non-stop. AFRODAD shows that by 2021, ODA had increased to \$161.2 billion – although constituting 0.32% of GNI instead of the 0.7% benchmark. Additionally, the 2020 Global Philanthropy Tracker shows that \$68 billion worth of philanthropic flows were recorded in 2018 and the figure skips to \$834 billion when ODA, remittances and private capital investment are accounted for.<sup>1</sup> Wang (2022) shows that China funding stood at \$59.5 billion in 2021, whilst MDBs climate commitments stood at \$66.05 billion in 2020 (Watson, Schalatek & Evequoz 2022), and \$11.8 billion was raised as Eurobonds by 7 African countries by July of 2021 – bringing Africa’s outstanding international sovereign bonds to \$136.6 billion.<sup>2</sup>

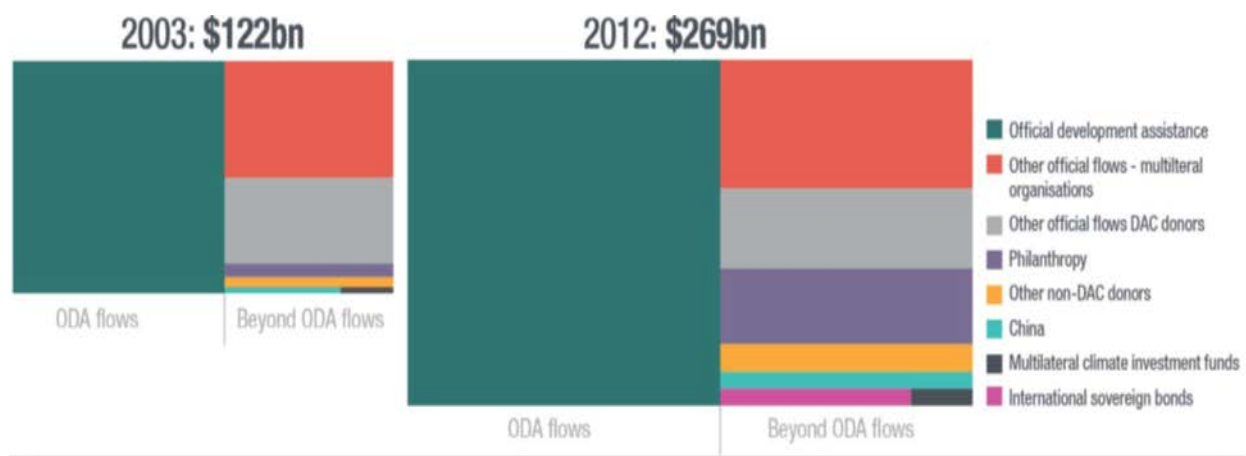


<sup>1</sup> <https://globalindices.iupui.edu/tracker/index.html>

<sup>2</sup> <https://www.bu.edu/gdp/2021/10/22/bond-eurobond-tracking-african-eurobonds-issued-between-2006-2021/>



Figure 1: Illustration of changes in development finance (external) (2003-2012)



Source: Prizzon, Greenhill & Mustapha (2016)

Key derivations thereof show that:

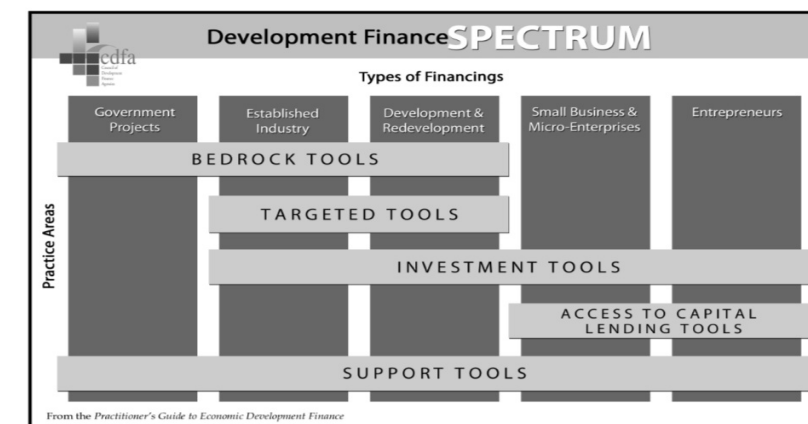
- ODA remains an important source of external development finance despite the changing scope of development finance. ODA has increased in some countries such as Kenya, Ethiopia, Uganda and DRC (OECD, 2022).
- The China Africa Research Initiative notes that 45% of China’s foreign aid from 2013-2018 went to Africa3, thereby defining China as the highest country-level donor for most African countries. Yuan, Su and Ouyang (2022) show that Chinese funding remains a prominent infrastructure funding source for most African countries. A detailed analysis of Chinese development finance is availed in this briefing paper.
- International sovereign bonds are the second largest source of non-traditional flows. Africa’s aggregated value of Eurobonds stands at \$136.6 billion as at July of 2021.
- Philanthropic flows are still minimal at country level (although they are the second largest source of BOFs globally) as donations are not directed to governments directly.
- Climate finance is in its nascent stage and cannot match climate-induced vulnerability.



## OPERATION OF DEVELOPMENT FINANCE

Development Finance can be deployed to a number of developmental areas such as government projects, industry, development and redevelopment, small business and microenterprises, as well as entrepreneurs (see figure 2). The vertical columns in figure 2 represent the generality of projects that can be financed through development finance. Governments normally seek to finance development-enhancing projects such as power generation, roads, airports, schools, and water and sewer facilities amongst many projects. Established industries seek financing for industrial expansion and these include industrial and manufacturing facilities. Development and redevelopment relate to projects that call for huge public resource commitment to attract private sector participation such as urban revitalization and transformative developments.

Figure 2: The development finance spectrum (CDF, 2009)



Small business and micro-enterprises are mostly in the missing middle and are engines of economic development in most developing economies. These businesses lack financing and are not financially included in most economies. Development finance therefore device ways of providing financial access to these businesses whilst addressing default risk to ensure growth of the small business sector. Entrepreneurs are in the formative stage and are supposedly the future businesses that anchor innovation but traditional financing is not appropriate hence innovative financing is the only respite (CDF 2009).

The horizontal rows represent the financing tools that best address the financing needs for the five types of projects that require financing. Bedrock financing tools are huge debt market instruments (bonds) that finance infrastructure development, health care and other peculiar forms of development. Targeted tools specifically cover certain geographic areas (government, district and project-specific abatements). Investment tools are meant to entice private sector participation by ascertaining economic returns on the projects. Access to capital lending tools is about promoting access especially for the underbanked through revolving loans, loan guarantees, venture capital and mezzanine funds. Support tools are mainly government funding resources.







## CHALLENGES AND OPPORTUNITIES FOR DEVELOPMENT FINANCE

As proven earlier, development finance has evolved over time and the relevance of some of the traditional tools is project specific whilst some tools are new and are meant to bridge the weaknesses of the existing traditional tools. Accordingly, this section presents the finer details regarding challenges and opportunities for selected development finance tools (ODA, public debt, DRM, public private partnerships (PPPs), and climate finance and Chinese development finance). The selection is premised on the prominence and perceived impact of the tools in the development discourse.

### Official Development Assistance (ODA)

Coppard et al. (2012) defines ODA as funding availed by governments of 23 countries constituting the Organization of Economic Cooperation and Development (OECD)'s Development Assistance Committee (OECD DAC) and the European Commission. The full complement of these countries is normally referred to as 'DAC'. The classification of ODA is based on the strict alignment to the funding of welfare and economic advancement of developing countries, and that the funds must be provided concessionally (grants and or soft loans). Aid from non-DAC countries is not considered ODA, same as funding from NGOs, foundations and the public.

The route taken by ODA from the donors to the recipient countries is complicated as it involves many actors. Estimates from 2012 show that 40% of ODA is directed to specific projects and investments that are controlled by donors or are allocated to recipient countries' governments. An additional 12% goes through NGOs and public-private partnerships whilst another 40% is channeled through multilateral agencies. A third of the 40% is controlled by the donors whilst the remainder (core contributions) are allocated by multilateral organizations as 'multilateral ODA' – accounting for 25% of total ODA. Bilateral ODA is directly transferred to the developing country by DAC countries and it consists of grants and or finance and investment cooperation (ODA loans and private sector investment finance).

The latest OECD data identifies Sub-Saharan African Region and LDCs as major recipients of ODA. The funds support the social sector

and social infrastructure, economic infrastructure, production, multisector, programme assistance, debt relief and humanitarian sectors. The ODA (Figure 3) summarizes ODA allocation by income group and region, top global ODA recipients and ODA sectoral commitments. Multilateral ODA, bilateral development projects, programmes and technical assistance progressively increased compared to debt relief, refugee and humanitarian aid (see Annexure 1).







Figure 3: ODA Dashboard (ODA growth, ODA allocation by income group and region, ODA sector commitments)

ODA

	ODA		
	2019	2020	Change 2019/20 %
Current (USD m)	151,720.9	162,200.4	6.9
Constant (2020 USD m)	155,927.3	162,200.4	4.0
National Currency * (mill..)			
ODA/GNI (%)	0.30	0.33	
Bilateral share (%)	72	71	

Top Ten Recipients of Gross ODA (USD million)

1	India	4,005
2	Bangladesh	3,004
3	Afghanistan	2,721
4	Syrian Arab Republic	2,387
5	Jordan	2,322
6	Indonesia	2,319
7	Ethiopia	2,284
8	Iraq	1,981
9	Myanmar	1,720
10	Philippines	1,650

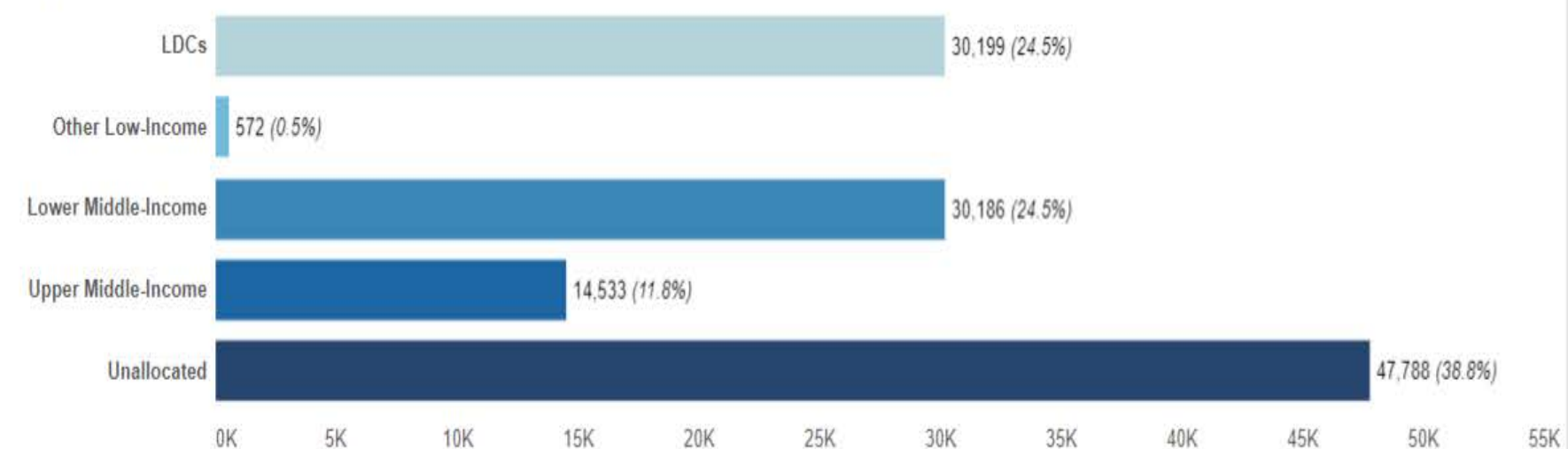
Memo: Share of gross bilateral ODA

Top 20 recipients	32%
Top 10 recipients	20%
Top 5 recipients	12%

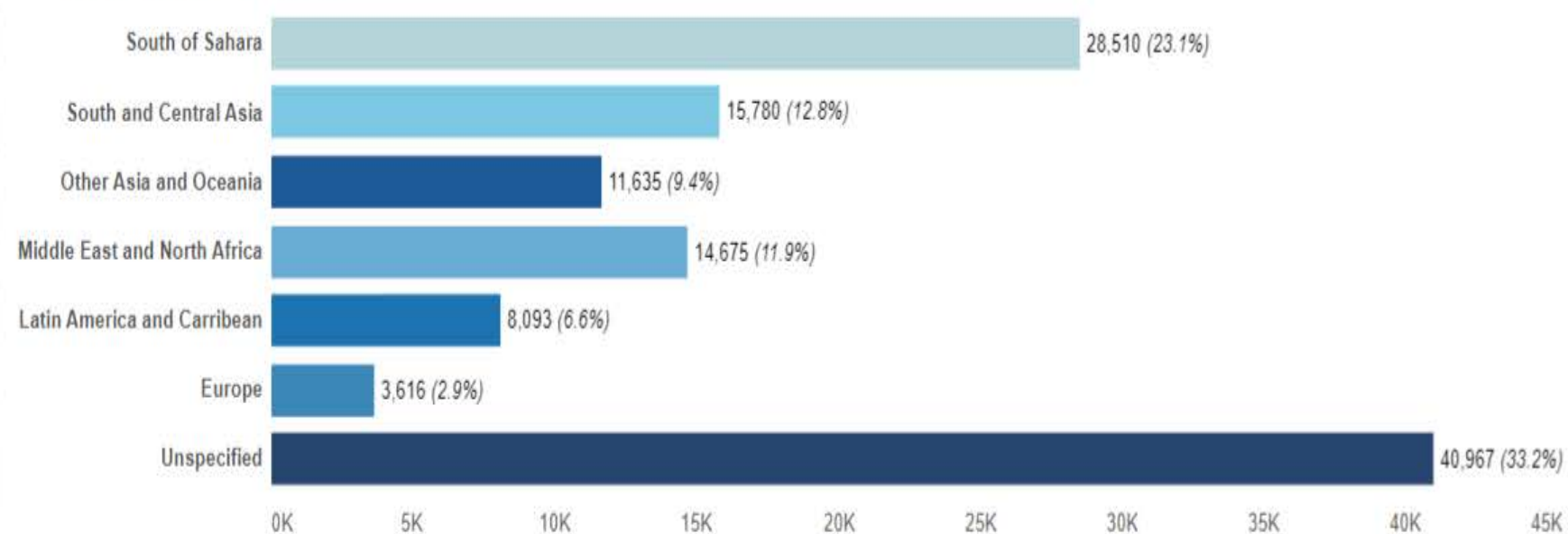
By Sector (commitments)



By Income Group (USD million)



By Region (USD million)



Source: OECD (2022). Available at: [https://public.tableau.com/views/AidAtAGlance/DACmembers?:embed=y&:display\\_count=no&:showVizHome=no#1](https://public.tableau.com/views/AidAtAGlance/DACmembers?:embed=y&:display_count=no&:showVizHome=no#1)



Given the dire social status of the greater African countries who are mostly low-income (Sub-Saharan countries), ODA remains a viable financing option given the concessional nature of its fund. The top ODA recipients in Africa are shown in figure 5.

**Figure 5: Top African recipients of ODA (2020)<sup>4</sup>**

Number	Country	ODA (USD Thousands)
1	Ethiopia	5 301 660.16
2	Kenya	3 987 860.11
3	DRC	3 377 360.11
4	Nigeria	3 375 479.98
5	Uganda	3 082 590.09
6	Somalia	3 039 689.94
7	Mozambique	2 547 300.05
8	Sudan	2 347 719.97
9	Tanzania	2 275 040.04
10	Ghana	2 204 159.91

Ideally, despite the emergence of BOFs, ODA remains a key development finance option for African countries. Despite the fact that its growth has been minimal compared to BOFs, the nominal value for ODA remains the highest amongst available development finance tools. From 1990 to 2017, Africa has been receiving the highest share of ODA, followed by Asia; despite the steady decline in the percentage of regional share of ODA. However, Harcourt (2021) decries the decline of ODA below commitments – with ODA to Africa dwindling well before the pandemic.



Whereas total ODA stood at \$151.7 billion in 2019 (an increase of 0.6% from the 2018 values), the same amount was \$205 billion less of the 0.7% of donor's national income commitment. The \$49.1 billion DAC donations to Africa represent 1.4% decline of ODA compared to the 2018 ODA allocation – signifying 2 consecutive years of decline. ODA to Sub-Saharan Africa totaled \$41.2 bill in 2019, a 3% decline compared to the 2018 ODA allocation. Overall, ODA to least developed countries dropped by 4% to \$43.3 billion in 2019 as main DAC countries failed to meet commitments (Harcourt, 2021). The bigger picture shows a continued decline of ODA to Africa post COVID-19 and as much as ODA is a key development finance tool, Africa ought to start considering BOFs as their dominance might be magnified going forward.

**Public Debt**

Borrowing externally by governments enable the financing of development projects (Hakura, 2020) and this is a development finance option for most African countries facing challenges of mobilizing internal resources. Several channels explain the additive nature of public capital to the economy (Agenor,



2012; Mustapha & Prizzon, 2015). Debt scales-up productive public investment and the upgrading of infrastructure – a prima-facie for socio-economic progress and growth. Although borrowing increases debt ratios in the short run, the resultant higher growth, revenues and exports lowers the debt-GDP ratios in the long run (Atta-Mensa & Ibrahim, 2020). However, the incompetency, inefficiency, corruption and unforeseen risks in the execution of public investment lowers returns for public investment thereby reducing the debt-servicing capacity of most countries – causing debt distress.

Atta-Mensah and Ibrahim (2020) and Harcourt (2021) note that Africa's debt-GDP ratio has been increasing rapidly in the recent past. Between 2015 and 2017, the average debt to GDP ratio stood at 56.58%, exceeding the 55% prescribed by the IMF as more than half of African countries had debt ratios above 50%. Despite the high debt risk prior COVID-19, African low income countries accessed facilities from the World Bank, the IMF and MDBs to ease the effects of the pandemic. The WB provided Health System Performance Strengthening Project, the COVID-19 Emergence Response Project, COVID-19 Emergence Preparedness Response Project, the COVID-19 Fast Track Facility, COVID-19 Crisis Response Emergency Development Policy, the Disaster Risk Management Development Policy, and the Economic Recovery Development Policy Financing. The IMF initiated the Debt Service Suspension Initiative, the Rapid Credit Facility (RCF) and the Rapid Financing Instrument (RFI). The African Development Bank (AfDB) funded the COVID-19 Response Facility amongst many facilities (see Annexure 1 for the facilities accessed by selected African countries.

The emergency financing vehicles offered by the WBG allowed recipient countries to borrow beyond the normal limits through the enhanced access limits, thereby breaching debt sustainability thresholds. During the epitome of COVID-19, the IMF increased limits from 50% to 100% of the annual quota, and further increased them to 150% cumulatively. This increased the public debt for several low-income countries in Africa already facing unsustainable debt. Although some of the facilities were

<sup>4</sup> Net official development assistance and official aid received (US\$) Sub-Sharan Africa. Available at: <https://data.worldbank.org/indicator/DT.ODA.ALLD.CD?locations=ZG>





concessional, they added to the debt stock of African countries. Resultantly, debt levels increased due to the widening fiscal deficits given the associated contraction of economies during COVID-19. The subsequent debt sustainability challenges threaten more than half of the low-income countries as the countries are either increasingly at high risk or are already in debt distress (see figure 5).

Figure 5: Africa Debt Risk Map 2020 (AFRODAD, 2020)



Although debt risk is an evolving phenomenon, as at 2020, Sudan, South Sudan, Somalia, Sao Tome, Mozambique and Zimbabwe were in debt distress. Several African countries were at high risk of debt distress (Ghana, Sierra Leone, Gambia, Mauritania, Tunisia, Chad, Cameroon, Central African Republic, DRC, Congo Brazzaville, Angola, Zambia, Kenya, Ethiopia and Burundi). Africa still got countries facing moderate debt risk and very few (Namibia, Botswana, Madagascar, Tanzania, Uganda, Libya and Morocco) are at low debt risk.

The essence of the Africa Debt Risk Map is that, debt is increasingly becoming a non-viable form of development finance for most African countries (except for the 7 countries with low debt risk). Debt distress implies that debt-servicing capacity is strained and sovereign states fail to extinguish maturing debt. Heavily-indebted countries breed poverty as they pay more in debt service (interest and principal repayments) compared to money invested in addressing health and education delivery challenges, malnutrition, and other basic services. Also, heavily indebted countries got pressure to earn foreign exchange to service debt as well as finance imports. As debt distress increases, lines of credit dry up and this affects public investment in basic infrastructure thereby affecting the growth potential of debt distressed countries. Accordingly, effort must be invested in restructuring debt for the countries at risk and those in debt distress. The debt outlook for Africa calls for the consideration of alternative development finance tools if stability of economic fundamentals is to be attained into the future. Failure to manage debt has seen 24 African countries applying for the debt forgiveness through the Heavily Indebted Poor Countries initiative.

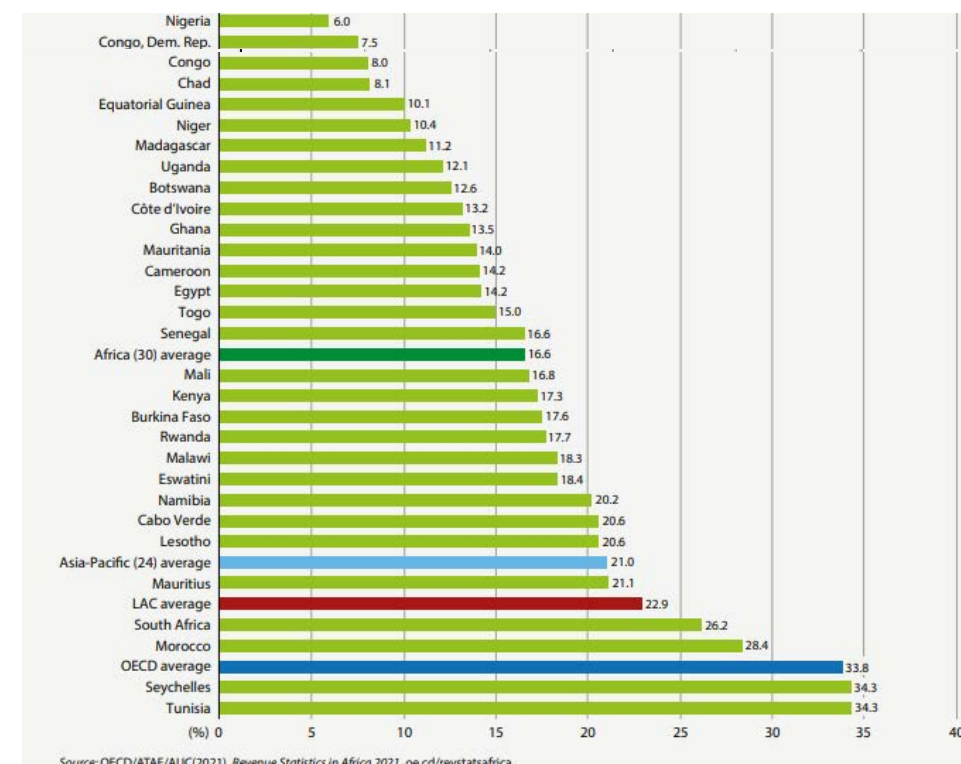
**Domestic Resource Mobilization**

The WB's underpinning ideology on financing for development at the initiation of SDGs emphasized more on domestic resource mobilization (DRM) given the waning potency of traditional development

finance tools. The certainty of aid as a development finance tool is its uncertainty, thus Africa cannot bank on it progressively and, public debt is overly straining if used beyond limits. In contrast, DRM entails the raising and efficient spending of own resources in pursuit of sustainable development. Effectively, DRM untangles developing countries from debt traps as well as aid dependency. DRM reforms are premised on efficient tax collection systems capable of scaling the tax revenues through building fiscal capacity, monitoring and administration and compliance (Boly, Nandelenga and Oduor, 2020).

Despite the potential of DRM, the progress in implementing DRM reforms in Africa is slow as depicted by the current low tax-revenue to GDP ratios (see figure 6).

Figure 6: Tax-to-GDP ratios (2019)



Source: OECD, ATAF & AUC (2021)

The OED, ATAF and AUC (2021) advances that the 2019 average tax-revenue/GDP for the 30 African countries covered by the Revenue Statistics in Africa 2021 was 16.6%, way below the 21% average recorded for 24 Asian and Pacific countries. The Latin America and Caribbean's (LAC) average tax-revenue/GDP stood at 22.9% whilst the OECD recorded the highest average tax-revenue/GDP of 33.8%. It is unsettling that 16 African countries' tax-revenue/GDP ratios were below the 16.6% African average whilst 25 African countries' tax-revenue/GDP ratios were below the 21% average tax-revenue/GDP for Asian and Pacific countries, and only 2 African countries' tax-revenue/GDP surpassed the OECD's average tax-revenue/GDP ratio of 33.8%. From 2010 to 2019, the average tax-revenue/GDP for African countries increased marginally by 1.8 percentage points compared to 1.9 and 2.0 percentage points for LAC and OECD respectively. Ideally, African tax systems ought to be reformed to increase tax equity and increase their efficiency if tax-revenues are to cope with the increasing financing needs for development post COVID-19.

Besides reforming the tax systems in Africa, the WB (2017) noted that, "Domestic resource mobilization and illicit financial flows (IFFs) are closely linked, as tax evasion – the practice of illegally hiding income from tax authorities and sending it abroad – hampers government efforts to mobilize domestic



resources<sup>5</sup>. Moyo (2021) citing a 2020 report by UNCTAD shows that \$88.6 billion (approximately 3.7% of Africa's GDP) is lost through illicit capital flight in Africa thereby depriving the continent of its potential growth. The \$88.6 billion could possibly reduce the SDGs' funding gap of \$200 billion per annum. If DRM is to be successful, Africa must reduce resource leakages linked to IFFs as there is a possibility that more than \$88.6 billion is lost annually given the illegal nature of IFFs. Strengthening of institutions to fight IFFs should be a priority.

DRM also focuses on savings although Boly, Nandelenga and Oduor (2020) decry the underdeveloped state of African financial markets which deprive governments of savings tax revenue. Savings in Sub-Saharan Africa remained at a low average of 19.60% from 2018 to 2020 as compared to the world average savings of 26% (Fuje, Outtara & Tiffin, 2021). Botswana has the highest savings in Africa at 42%, Zambia and Algeria at 37.2%, Cape Verde at 33.3%, and Ethiopia at 32% as of 2016. It is definite that the contraction of economies during the tenure of COVID-19 reduced the tally of savings in Africa, investment and probable tax revenue thereof. On a positive note, the injection of reserves worth \$33 billion to African countries as SDR created legroom for African countries to finance recovery from the doldrums of COVID-19. The SDR allocation reduced reliance on both internal and external debt thereby limiting exposure to debt unsustainability.

Given the less stakes on DRM and its potential to finance Africa's recovery, effort must be invested in reforming the tax systems, promote efficient resource usage, cut on IFFs and promote savings as away increasing the tax base.

### Public Private Partnerships (PPPs)

PPPs are binding contracts between public sector entities (central government, state-owned enterprises, provincial, or local authorities) and private sector players, where the private sector

entity undertakes to provide a public service or asset for a significant assumption of technical and operational risk and management obligations, and returns are linked to the performance of the earnings of the project over the long term.<sup>6</sup> PPPs being long-term development financing tools are increasingly popular and at least one PPP project is running in most African countries (see table 2) – proving the potential of private capital in supporting public infrastructural projects (Prizzon, Greenhill & Mustapha, 2016). The passing of PPP policies or commissioning of government units to oversee PPP in most African countries shows the increasing potency of the private sector in the developmental discourse.

**Table 2: PPP projects for selected African countries<sup>7</sup>**

Country	PPP project details	PPP Policy/Act
Tanzania	25 projects in electricity, railway, ICT and Port valued at US\$1.074 million.	National Public-Private Partnerships Policy (2009)
Zimbabwe	6 Projects covering electricity, roads and railways valued at US\$866 million.	(ZIDA) Zimbabwe Investment Development Agency Act (2019)
Zambia	12 projects in electricity, ICT and railways to the tune of US\$ 3.901 million.	PPP Act, 2009
Botswana	2 projects in electricity, water and sewerage valued at US\$196 million.	Public-Private Partnership Policy (2009)
South Africa	123 projects focused on railway, natural gas, electricity and roads at US\$27.216 million value.	PPP Legislation, South Africa
Kenya	39 projects on electricity, roads, railways, ICT valued at US\$4.769 million.	Project Facilitation Fund Regulations, 2017
Egypt	58 projects covering ports, railway, ICT, water and sewerage, natural gas and electricity, at US\$15.271 million.	Concession Law
Morocco	32 projects valued at US\$22.502 million centered on electricity, natural gas, and ICT.	PPP Law
Angola	11 projects valued at US\$797 million focusing on ICT, ports and electricity.	PPP Laws/Concession Laws (2019)
Nigeria	56 projects valued at US\$14.385 million premised on ports, natural gas, electricity, ICT and roads.	Infrastructure Concession Regulatory Commission Act
Ivory Coast	22 projects at US\$5.741 million covering electricity, ICT, railways, ports and roads.	Decree 2018-358, Decree 2018-359
Uganda	31 projects at US\$2.265 million on roads, electricity, railways.	PPP Framework Policy

Source: Author's Compilation

The PPP model covers the design, construction, the operation, the servicing/maintenance of public infrastructure as well as the management of such assets by the private entities (Linh et al. 2018). Public entities choose PPP models that suit their risk appetite and PPP models are not limited to operation and maintenance, design-build, design-build-operate, design-build-finance-operate, build-transfer-operate, and build-own-operate and the build-own-operate-transfer (JICA & SADC-DFRC, 2020). Private entities assume a key role in public projects compared to public institutions and provide the financing too depending on the structure/model of the PPP (Loxley 2013).

<sup>5</sup> WB, 2017. Illicit financial flows. Available online at: <https://www.worldbank.org/en/topic/financialsector/brief/illicit-financial-flows-iffs#> Accessed 21 June 2022.

<sup>6</sup> World Bank Group "What are Public Private Partnerships?" <https://ppp.worldbank.org/public-private-partnership/overview/what-are-public-private-partnerships>

<sup>7</sup> The projects cited in this table date back to 1990 thus some countries might have implemented more PPP projects than the ones shown in this table.





The growth of PPPs is closely linked to limited public resources given debt unsustainability and narrowing fiscal space for most developing countries, thereby stalling the development of key infrastructure supportive of the growth ambitions of these economies. Also, the general ideological shift in favor of the superior efficiency of private entities compared to their public counterparts, has led to the privatization wave, supported by the need to reverse prevalent crowding out of the private sector by the public sector.

Amidst the PPP growth, most African countries still have infrastructure gaps especially in the water, energy and transport sectors – presenting viable PPP opportunities (ZEPARU, 2016). However, Prizzon, Greenfield and Mustapha (2016) decry that some of the PPP projects are difficult to implement as regulation is weak hence the recommendation premised on finalizing PPP laws for Eastern and Southern African countries studied by ZEPARU (2016). A survey of PPP projects by AFRODAD (2018) shows that most projects fleeced the national purse and posed disproportionate risk to the public sector, thereby overburdening the citizens leading to the increase of the divide between the poor and the rich. African governments normally lack own PPP experts to evaluate PPP contracts and the engagement of consultants is costly. Poor pre-PPP contract assessment are reminiscent of the Lesotho Public Private Integrated Partnership (PPIP) with IFC and Tsepong<sup>8</sup> to develop Lesotho’s only premium health center – QMMH. However, the QMMH’s viability challenges threaten the continuity of the PPIP as the Lesotho government has failed to pay Tsepong’s PPIP fees since 2013 (World Bank, 2018).

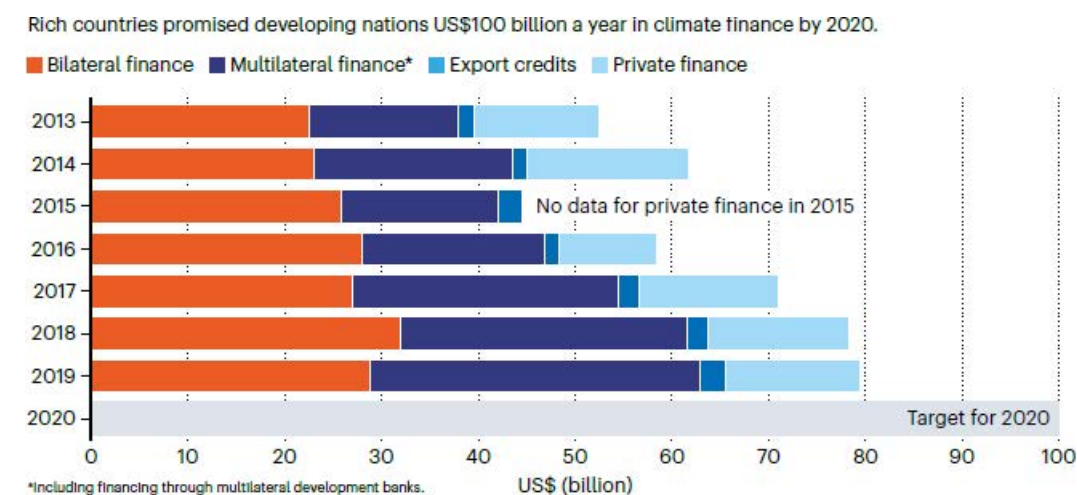
Also, the need to prove bankability of PPP projects comes at the cost of guarantees by DFIs, otherwise governments might have to borrow from DFIs/MDFIs to finance equity investment in PPP to instill confidence to private investors.<sup>9</sup> Also, the commercial projection of PPPs is exclusionary – raising

social justice concerns as services might be expensive to the vulnerable thereby promoting inequality. A case in point is the unaffordability of power generated through a PPP in Zimbabwe, same as the Gautrain whose fares are out of reach for many. Additionally, PPPs raise governance weaknesses as corruption has been highlighted on most PPP projects. The G20 Principle for Quality Infrastructure Investment<sup>10</sup> such as openness, transparency, and economic efficiency in view of life-cycle cost and debt sustainability must be observed. Also, given the threat of climate change, it is vital for governments to integrate environmental considerations in infrastructure PPPs and promote green growth.

**Climate Finance**

Falconer and Stadelmann (2014, p. 1) defines climate finance as “financial resources paid to cover the costs of transitioning to a low carbon global economy and to adapt to, or build resilience against, current and future climate change impacts.” Climate finance is vital as Africa is increasingly vulnerable to climate change effects as evidenced by growing incidences of droughts and extreme weather conditions and natural disasters (floods). All the same, the progression to economic prosperity in the face of climate change requires climate-sensitive infrastructure development, transition to green energy, climate change adaptation and resilience, and green investments. Another emerging challenge is that, climate change effects are manifesting at a time Africa’s population (1.4 billion) is growing at 2.37% per year – thus food productivity ought to be scaled despite climate change limitations. All these needs require financing and Bhattacharya (2022)<sup>11</sup> estimates that Africa needs \$200 billion per year up to 2025, and close to \$400 billion until 2030 to meet climate-related investment adjustments that can support progressive development sustainably. Whereas it is a sure case that the quantum of resources required is out of reach for many African countries, rich nations promised to fund Africa’s climate change needs to the tune of \$100 billion annually as from 2020. Regrettably, the set target has not been met since 2020 (see figure 7).

**Figure 7: The missed \$100 billion Climate finance Pledge**



Source: Timperley (2021).

Timperley (2021) further shows that besides missing the climate financing pledge, the few rich countries that managed to contribute towards climate finance provided the finance more as loans

SPV) through a commercial loan from the private sector, thereby scaling the costs of the PPP.

10 Quality Infrastructure (mofa.go.jp)

11 Bhattacharya, A. 2022. The criticality of climate finance for Africa. Available at: <https://www.brookings.edu/blog/africa-in-focus/2022/02/08/the-criticality-of-climate-finance-for-africa/>

8 A South Africa consortium owned by Netcare

9 This was the case for the Kariba South Expansion Project whereby ZPC financed a 10% equity stake in Kariba Hydro Power Company (the



instead of grants – thereby scaling the debt stock of developing countries. In the face of dwindling and cheap climate funds, it is vital to consider climate financing options. The WB (2020) presents four different forms of climate finance presented hereunder.

- **Dedicated climate finance:** these resources are availed by OECD governments at concessional terms or as grants with the sole target of reducing carbon-emissions in the development process. Facilities such as the Climate Investment Funds (CIF), Global Environmental Facility (GEF), and the Green Climate Fund (GCF) amongst many are examples of dedicated climate funds. However, dedicated climate finance amounts only \$3 billion per annum, an amount too meagre to finance reversal of climate change.
- **Climate-related development finance:** this type of funding is provided by multilateral and bilateral sources to support environmentally friendly economic development. These include MDB investments in government or private sector projects that are meant to address climate challenges. These funds are provided at concessional rates for developing countries. This form of finance amount to \$55 billion per year and is lower than the \$200 billion funding needs per annum.
- **Private capital:** the funds originate from financial institutions and private companies and are provided on commercial basis. This form of financing is expensive to African governments as they are increasingly at risk of debt stress. Dube (2022) citing Buchner et al. (2019) acknowledge that private climate finance flows exceed public climate finance and the commercial orientation of private capital poses as a cost to debt-burdened African countries.
- **Government spending:** these are public funds provided by domestic governments to bankroll climate-friendly activities. African governments might use own resources to climate-related projects but their capacity is limited to achieve the required climatic impact.

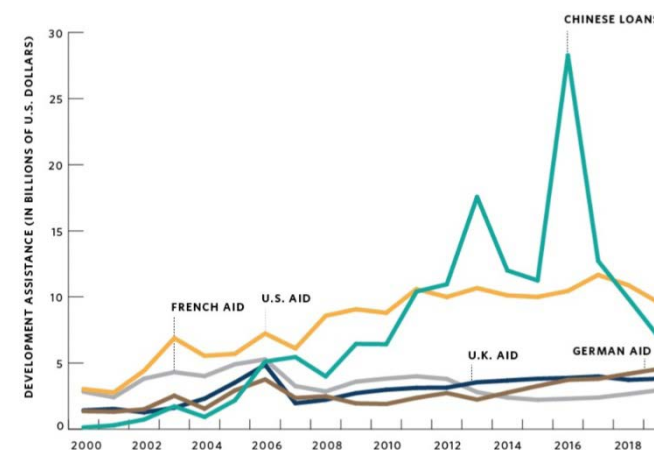
The sources of climate finance fall short of the resources required to ensure low-carbon, climate resilient growth in developing countries (WB, 2020). This comes at a time the annual \$100 billion climate finance pledge to African countries by the rich nations failed to suffice since 2020 thus innovative and cheap financing models ought to be designed for Africa to cope with climate change. Dube (2022) suggests that the donor community can use its clout to attract private capital by de-risking climate projects in Africa.

**Chinese Development Finance**

The landscape of development finance in Africa has a flair of Chinese financing manifesting in different forms. Usman (2021)<sup>12</sup> writing for Carnegie notes that, as much as China is the largest provider of bilateral loans to African countries, both the nature of the loans and the volume are changing. Between 2000 and 2019, China disbursed a total of US\$153 billion to the public sector of different African countries to finance infrastructure projects. Chinese lending progressively increased from 2000 and reached a peak in 2013 – coinciding with the launch of the Belt and Road Initiative (BRI) or the New Silk Road designed to link China with the world as China drives to expand its global economic and political dominance. By 2019, new Chinese lending was only US\$7 billion to Africa, after recording US\$9.9 billion in 2018 – showing a receding trend as USAID took the pole position towards 2020 (see figure 8). Usman (2021) further notes that most of Chinese creditors are gradually being commercially-oriented. Notable is that in 2000, there were only 3 creditors inclusive of the China Eximbank which offered long-term concessional loans to African countries. However, by 2019, there were over 30 Chinese creditors lending to Africa at commercial rates. The new crop of Chinese creditors includes the

China Development Bank, the Industrial and Commercial Bank of China, the Bank of China as well as numerous state-owned non-financial organizations that specialize in engineering and construction (Sinohydro). The China Eximbank and the China Development Bank remain the largest Chinese creditors for Africa based on debt contracts studied by Aid Data.<sup>13</sup>

**Figure 8: Chinese Lending to Africa (2000-2020)**



Source: Usman (2021)

The Chinese loans are linked to the controversial resource-backed lending model where the borrowing country pledges future income from its natural resources' exports to pay off Chinese creditors. Such loans have been extended to DRC, Ghana and Guinea. Resource backed loans enable high-risk countries to get access to development funding as export revenue is deposited into an account that cannot be transacted by officials of the borrowing country. Such loans have been used to finance the construction of key infrastructure in different African countries. Halland et al. (2014) estimated that US\$30 billion infrastructure projects in Africa have been financed by resource-backed loans. The irony



around most resource-backed Chinese loans is the ill-transparency associated with them as well as the lack of fairness in the deals. Also, most resource-backed Chinese loans are extended to countries with poor Resource Governance Index and high corruption incidences. Accordingly, public officials must be trained to discern good and bad deals thereof. The Natural Resource Governance Institute (2020)<sup>14</sup> cautions that resource backed loan agreements are mostly hidden from public scrutiny and, the same loans aggravate debt distress for recipient countries. Notable from the foregoing is that China has become more refined in the manner it lends

to Africa given its experience in Africa and it has developed strict contracts that ensure repayment of loans. African countries must develop their capacities to negotiate Chinese loan contracts and lessen the possibility of being ripped off. Chinese development finance mostly finances infrastructure development as 65% of its lending goes to infrastructure projects in Africa. This is contrary to the DAC funding as more than half of ODA is directed towards the social sector (education, health, population and humanitarian aid). The infrastructure projects financed by Chinese funding include industry,

13 An database that details all Chinese investments worldwide providing the nature of debts contracts entered into same as the terms of the contracts.  
 14 Available at: <https://resourcegovernance.org/news/controversial-high-value-resource-backed-loans>

12 <https://carnegieendowment.org/2021/06/02/what-do-we-know-about-chinese-lending-in-africa-pub-84648>

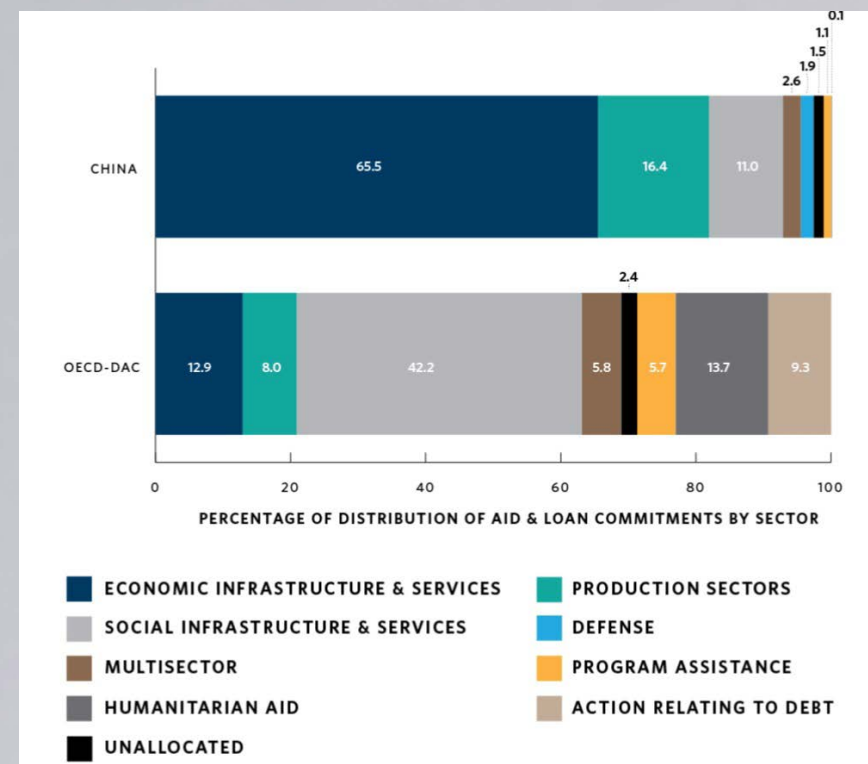


energy, communication, water and sanitation, construction, mining amongst many. Ideally, a mix of traditional DAC assistance and Chinese financing might address both the social sector and the economic infrastructure sector concurrently. However, weighing the risks against availability of these forms of financing is critical for African countries. By 2019, China was the largest bilateral creditor for Sub-Saharan Africa accounting for 62% of the region's bilateral debt (Hooper, Le Clainche & Seitz, 2022). A comparison of the different sectoral investment preferences for Chinese financing and ODA/ DAC funding is provided in figure 9.



## SPECIAL DRAWING RIGHTS (SDRS)

**Figure 9. Sectoral preferences for DAC countries and Chinese funding (2005-2019)**



Source: Usman (2021)

In August of 2021, the IMF made the largest SDR allocation in history amounting to \$650 billion meant to quicken the recovery of the global economy from the COVID-19-induced recession by boosting liquidity and foreign exchange reserves. The slackening growth is expected to return to the pre-2020 levels only after 2030 – hitting hard LICs (inclusive of Africa) who are set to lose about \$12 trillion by 2025 yet they are saddled with debt and increasing need to finance recovery and social protection. Africa cumulatively received \$33 billion translating to a mere 5% of the total SDR allocation – an amount too meagre to tow Africa's magnified developmental burden post COVID-19. Of the \$33 billion, South Africa and Nigeria claimed a lion's share, receiving \$4.2 billion and \$3.3 billion respectively. Plant (2021) notes that most of the SDRs were allocated to wealthy nations who necessarily do not require external reserve mitigation, hence the call to re-allocate/recycle a portion of SDRs allocated to developed countries. However, no consensus has been reached on how to structure the recycling of SDRs and what the resources should be used for. This explains why countries with excess SDRs have not ceded such liquidity to needy countries despite lending pledges worth \$15 billion from SDRs through the IMF's Poverty Reduction and Growth Trust (PRGT) (Warah, 2021).

SDRs are not debt and they are perfect for financing recovery in debt strapped Africa. At the same time, SDRs are accepted in settling international debts. Whilst SDRs can be used to service public debt, the resources are not enough to address the pillaging needs triggered by COVID-19. Even if all SDRs allocated to African countries were channeled to servicing debt, the SDRs are far less than the outstanding debt stocks for many countries. A survey of debt in Southern Africa by Hooper, Le Clainche and Seitz (2022) shows that Africa's total debt stock in 2019 amounted to \$395 billion – well before the COVID-19 borrowing frenzy. Africa's \$33 billion SDR is less than 10% of Africa's \$395 billion debt stock implying inadequacy of SDRs in defeating the debt overhang. Also, in less than 12 months after the allocation of SDRs, many African countries exhausted their SDRs without any noticeable impact as the resources are too minute versus the financing needs. Allocating SDRs according to need might serve Africa's recovery and developmental needs if ever IMF is to consider another SDR. At the same time, Africa must channel SDRs towards key growth enhancing sectors to quicken recovery. Also, addressing increasing vulnerability using the SDRs is central to reducing poverty for the greater of African countries.







## POLICIES AND MEASURES TO SCALE DFI FINANCING IN AFRICA

▲ 138.42

As noted earlier, over 90% of the funds flowing to developing economies originate from the private sector and such funds are channeled through DFIs<sup>16</sup> (Ingram & Mosbacher, 2018). McHugh (2021) attests that DFI partnerships with the private sector is a rich source of development externalities in the realm of technology transfer, infrastructure development, employment creation and service provision. Africa's high public debt coupled by aid uncertainty require that the private sector be accorded a bigger role in reviving and recovering economic fortunes for African countries. The dominance of private capital comes at a time ODA commitments by the DAC are falling short of the 0.7% GNI/ODA benchmarks (see annexure 3) and DRM is still to catch up with the financing needs of Africa – creating a funding gap for the majority of African countries. Also, Chinese funding and climate finance are increasingly being offered as loans, thereby creating a legroom for more private sector participation in development. Hooper, Le Clainche and Seitz (2022) submit that multilateral DFIs churned out \$230 billion by April of 2020 to address COVID-19 related emergencies. This amount dwarfs the \$33 billion SDRs allocated Africa and the \$162.2 billion ODA for 2020. Instinctively, capitalizing on DFI financing for Africa is worth a consideration.

Since DFIs' shareholders are mostly national governments, the resultant development finance allows for the use of public resources to attract the private sector to invest in LICs whose commercial and political risks (reminiscent of Africa) are too high to attract pure private capital and effect the expected developmental impact. DFIs structure loans, loan guarantees, co-lend, co-invest, do equity investments, and adopt innovative financing models to ameliorate commercial and political risks. To complement DFIs, Africa must structure policies and measures to attract sustainable financing from DFIs. Taking from McHugh (2022), such measures are provided hereunder.

### Strengthening legal framework

The success of development projects is affected by political risk in recipient African countries. It is the responsibility of African governments to weigh trade-offs between the strength of local legal frameworks and the political cover that DFIs can offer to the private sector lenders. It is prudent for Africa to prioritize sound legal frameworks capable of protecting the interests of creditors in case of political turbulence.

### Capitalizing on the structures of project finance

Governments can use project finance structures to mitigate political and legal risk. Inclusion of DFIs ameliorates project risk and reduces the cost of financing thereby enhancing the use of private capital. DFIs act as political umbrellas and the protection is not presented as a formal contract but exists as a halo effect from preferred credit status that DFIs bring to the lending arrangements.

▲ 138.64

### Leveraging on technical support from donors and DFIs

To manage project risk, African governments ought to leverage on financial and technical support by donors and development banks in doing feasibility studies, project design and other preparatory activities that increase the bankability of projects. Bankable projects attract private capital.

### Ensuring the stability of macro-economic fundamentals

Currency risk is prevalent in foreign investments especially where the host country's currency is unstable. Returns to any project are undermined by currency depreciation thus apt macroeconomic policies and sound foreign exchange management are critical in reducing currency-related losses. The stability in fundamentals motivates private sector to participate in funding development projects.

### Re-working exist risk

Most African countries make it difficult for private investors to exit investments owing to de-facto capital control and underdeveloped financial markets. Reworking these challenges can increase capital flows (Eyraud, Pattillo & Selassie, 2021).

### Incentivizing the private sector

The provision of incentives for private investment to make infrastructure projects attractive has been the resolve of East Asia and the Pacific leading to successful infrastructure projects. Africa should adopt the same to increase private sector participation in infrastructure development.

### Debt serving

Most DFIs provide financing based on a plausible debt serving history. It becomes an obligation for most African countries to service or extinguish their outstanding debt if they are tap into new credits lines.

16 DFIs are bilateral, regional and multilateral financial institutions that concentrate in investing in the private sector and the public sector and their activities contribute positively to growth, employment and labor productivity (Marbuah et al., 2022).





## CONCLUSIONS AND RECOMMENDATIONS

African countries got a variety of development finance options capable of supporting their recovery post COVID-19. However, the potency of different forms of development finance has changed over time owing to the changing financing needs of African countries given new challenges facing their economies, the changing scope of what the funds can support and the emergency of new players in development finance environment (the age of choice). The age of choice in development finance implies that African countries got many options at their disposal to finance their various development programmes. Beyond the grants and concessional loans from DAC countries, there are new Non-DAC donors, other Official Flows from both DAC and Non-DAC countries, multilateral organizations, philanthropic assistance, climate finance (multilateral commitments), international sovereign bonds and Chinese financing.

Peculiar to Africa, the COVID-19 era witnessed an acute reversal of financial flows, thereby infringing on the growth potential of the continent. DAC countries had own challenges requiring them to finance own fight and recovery from COVID-19 hence the reduction in ODA. At the same time, over indebtedness strain access to new credit lines thereby suppressing the amount of tenable debt-related resources. Still, DRM reforms are in transitory stage – further limiting the mobilization of resources to recover Africa from the abyss. Africa ought to realize the growing role of private capital in financing development, thus resolving hindrances linked to DFI financing is non-negotiable.

To maximize sustainable financing through DFIs, Africa ought to strengthen own legal frameworks, mitigate political risk through project structuring, leverage on technical support from donors and DFIs to enhance the bankability of projects by reducing project risk, diffuse currency risk by way of stabilizing macroeconomic fundamentals, re-working exit strategies for private investors, incentivizing private investors and building a reputable credit history.

Private capital aside, this briefing paper landscaped the various forms of development finance available to African



countries and key considerations for each financing source are resented hereunder.

**Official Development Assistance (ODA)** – ODA remains a key source of development finance for African countries as it still constitutes the highest component of development finance flows. Although some African countries are reportedly experiencing an increase in ODA flows, there is notable donor fatigue as well as a shift in development priority areas funded by ODA. Since ODA is predominantly focused on the social sector, alternative financing sources are required for variant projects such as infrastructure.

**Public Debt** – Africa is increasingly at risk of debt distress given the increased borrowing during and prior the pandemic. Noting that 22 African countries' debt/GDP ratios passed the 50% mark, debt has to be engaged cautiously given its negative effects on macroeconomic fundamentals, the social sector, crowding out of the private sector, service delivery flops and increased vulnerability and poverty. Except for the few countries with low risk of debt distress, African countries ought to invest in managing their debt stock and reduce the debt burden or extinguish the debt to ease its debilitating effects.

**Domestic Resource Mobilization (DRM)** – Noting the imminent debt strain for most African countries and the changing texture of ODA, mobilizing and spending own resources is a viable option. As much as the majority of African countries' revenue/GDP ratios are suppressed, the situation has a positive potential of scaling domestic revenues as appropriate DRM reforms kick in. The financing for SDGs require more resources than what can be funded by ODA and, African countries got the responsibility of reforming their tax systems to enhance tax efficiency and widening of the tax base, plug resource leakages (IFFs) and corrupt-free management of state resources. DRM has the potential of upping national reserves, allow for the servicing of debt and progressively edify home-grown sustainable growth.





**Public Private Partnerships (PPPs)** – The existing infrastructure gaps with respect to road, rail, airports, industry, energy, communication technology, water and sanitation represents a huge potential for PPP in Africa. This briefing paper showed that most African countries got at least 1 PPP contract at some instance. PPP are increasingly popular as they are capable of mobilizing private capital where public resources fall short of the pressing development needs. However, it is imperative for African governments to regularize PPP policies to guide the conduct of PPP as well as regulating PPP operations. African countries have also fallen for poorly constructed and expensive PPP contracts as they lack expertise in PPP deals thereby propagating inequality related to PPP-developed infrastructure. Accordingly, building own capacity related to PPP is a priority for Africa.

**Climate Finance** – The US\$100 billion annual climate finance commitments by the developed world to finance Africa’s transition to safe and climate-smart energy and climate change coping mechanisms have failed to materialize. This comes at a time the initial estimates for Africa’s climate finance needs keeps increasing given the escalation and changing severity of climate-related challenges. The available options for Africa include dedicated climate finance from DAC countries which are at concessional rates. Climate-related development finance from MDBs is another concessionally-priced form of funding although the resources are limited compared to the growing need. Private capital is another option though its viability is constrained by the indebtedness of most African countries. Otherwise, Africa has to spend its public resources to finance climate-related developmental aspirations.

**Chinese development finance** – China has been bank-rolling Africa’s development and at one time, Chinese bilateral flows surpassed other official flows into Africa. The popular Belt and Road Initiative sponsored a number of infrastructure projects in Africa ranging from sea and air ports, roads, energy, construction and railway and communication technology. However, China’s new project financing is gradually going down and more of the active Chinese creditor are now commercially-oriented. Commercial loans are not the best of a choice for Africa given the debt overhang bedeviling most economies. All the same, the curse of resource-backed Chinese loans got be exorcized in Africa as such loans exacerbate debt-induced vulnerability. Going forward, Africa must invest in fair negotiation of Chinese loans given the opacity of most Chinese loans.

**Special Drawing Rights** – this source of development is not ubiquitous especially to African countries whose total allocation constituted 5% of the 2021 SDR allocation of \$650 billion. The \$33 billion allocated to Africa cannot ameliorate the increasing vulnerability post COVID-19 and sponsor the recovery of African economies. Whereas SDRs can be used to service public debt, the SDR allocations

to different countries are not enough to extinguish the debt stock of African countries. The recycling of SDRs is on the cards but no internationally recognized framework exists to govern how SDR re-allocations are to be treated, same as the use of the same. All the same, Africa must allocate SDRs to key growth-enhancing sectors to quicken recovery and limit the spread of extreme poverty.

**Policy imperatives** – The development finance landscape of Africa shows that the financing needs of the continent outdo the available sources of development finance. However, tapping more development-oriented resources require apt strategies and policies as presented hereunder:

- Reduce the debt burden by either serving outstanding debt, restructuring the debt or opting for concessional financing instead of commercial loans.
- Consider debt forgiveness/cancelation through the HIPC initiative.
- Scale DRM by activating appropriate reforms meant to arrest resource leakages.
- Adopt deal transparency and fairness for PPP projects to lessen costs.
- Address political, currency and projects risk so as to attract private capital at lower costs.
- Reform the legal framework to accommodate the interests of creditors.
- Use public resources to reduce risks thereby attract the participation of the private sector.
- Build a reputable debt serving history.







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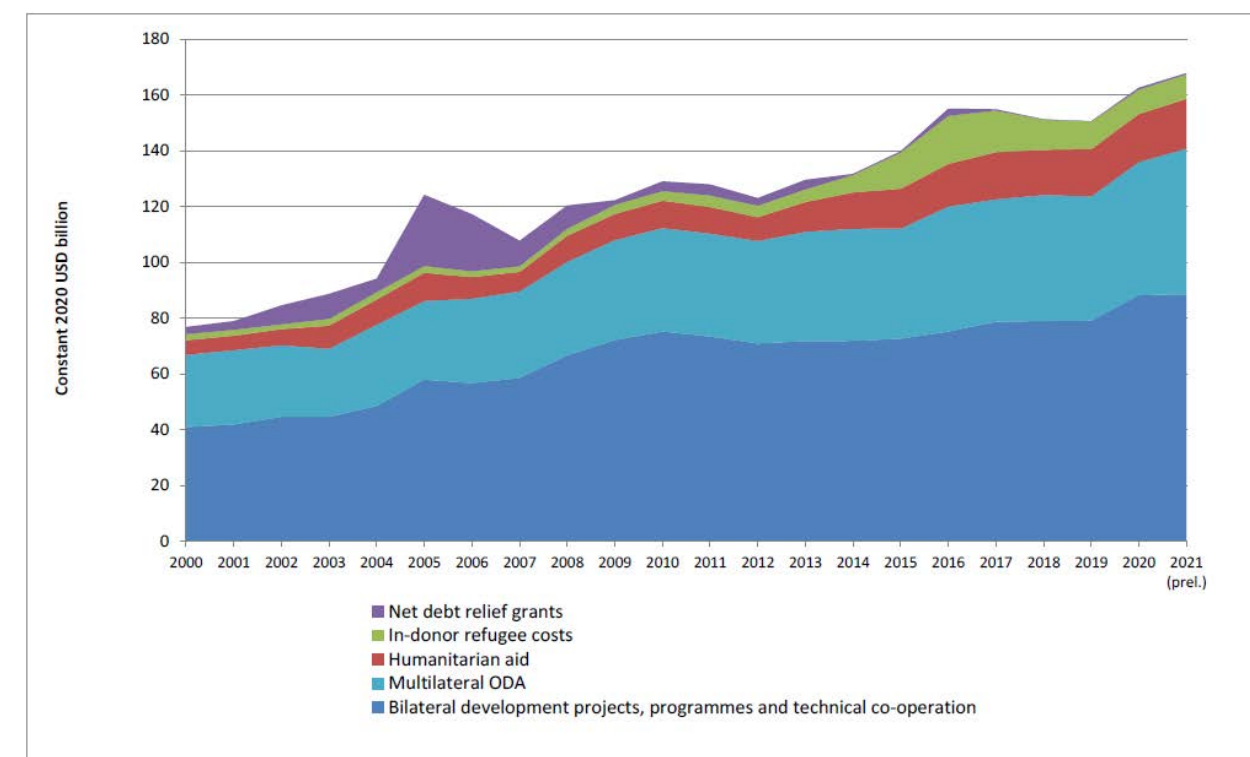
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## ANNEXURES

### Annexure 1: ODA Composition (2022)



Source: OECD (2022)

### Annexure 2: Loans Availed to Southern Africa by International Monetary Funds

Country	Amount	Institution	Category
Angola	US\$ 110 million	WBG	Health System Performance Strengthening Project
	US\$ 40 million	ADBG	Support Small and Medium-sized Enterprises during COVID-19
DRC	US\$ 47 million	WBG	COVID-19 Emergence Response Project
Lesotho	US\$ 7.5 million	WBG	COVID-19 Emergence Preparedness Response Project
	US\$ 11.66 million	SDR 23.24 million	IMF
	US\$ 32.6 million	US\$ 16.5 million	
Malawi	US\$ 7 million	WBG	COVID-19 Emergency Response Project
	US\$ 86 million		Financial Inclusion and Entrepreneurship Scaling Project
	US\$ 91 million	SDR 66.44 million	IMF



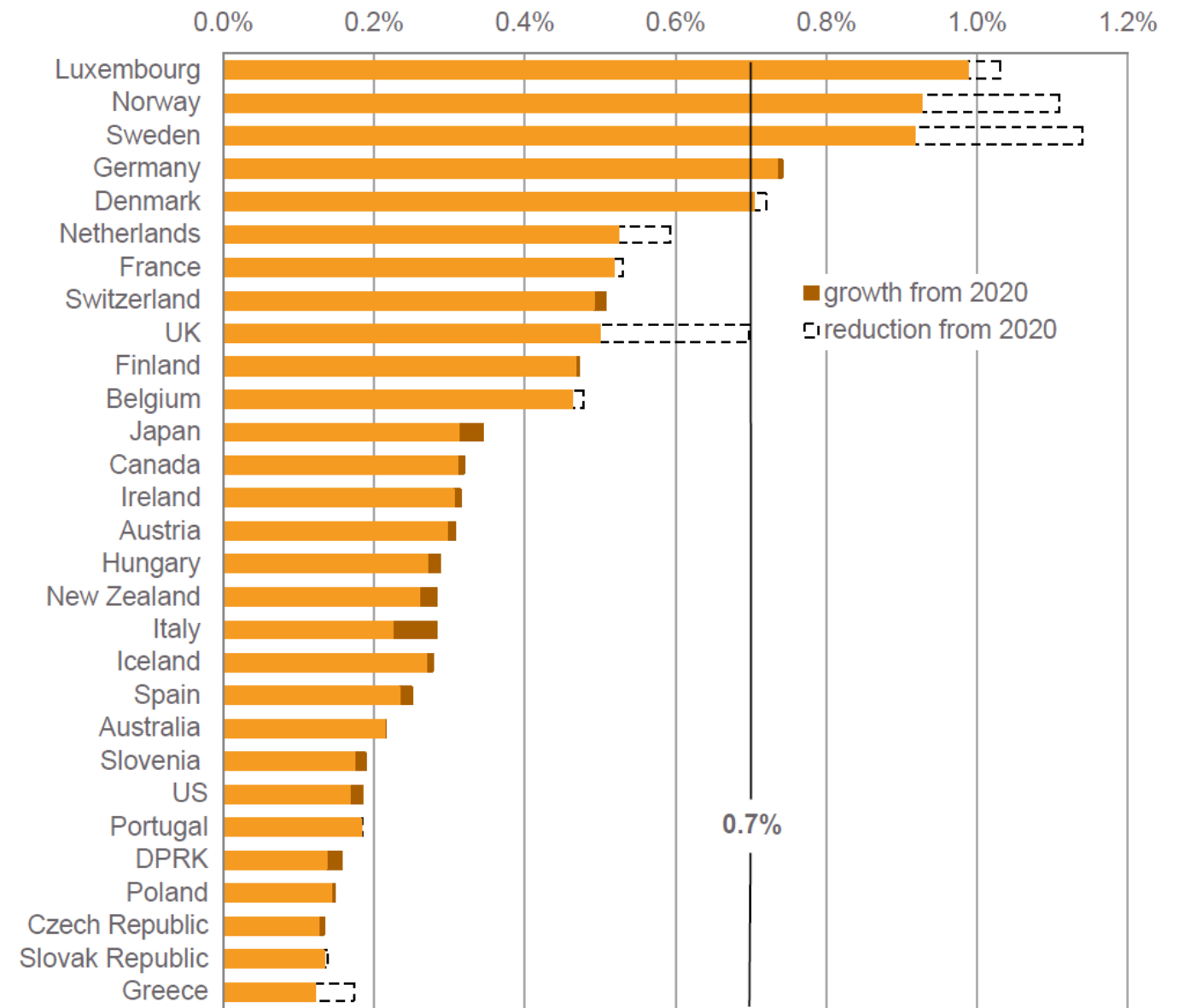


Mauritius	US\$ 5.2 million			COVID-19 Strategic Preparedness and Response Project
Zambia	US\$ 20 million	WBG		COVID-19 Emergency Response and Health Systems Preparedness Project
	US\$ 25 million			Health Service Improvement
South Africa	US\$ 50 million	WBG		COVID-19 Fast Track Facility
	US\$ 1 billion	New Development Bank		
	US\$ 4.3 million	SDR 3.05 million	IMF	Rapid Instrument Financing
Zimbabwe	US\$ 13.7 million	AFDBG		COVID-19 Response Facility
Seychelles	US\$ 15 million	WBG		COVID-19 Crisis Reponses Emergency Development Policy
	SDR 22.9 million	31.23 million	IMF	Rapid Financing Instrument
	US\$ 10 million		AFDBG	COVID-19 Response Facility
Union of Comoros	US\$ 30 million	WBG		Comprehensive Approach to Health System Strengthening
	US\$ 10 million			Emergency DPO for COVID-19 Response
	US\$ 9.52 million		AFDBG	COVID-19 Response Facility
	US\$ 4.05 million	SDR 2.97 million	IMF	Rapid Credit Facility (RCF)
	US\$ 8.08 million	SDR 5.93 million		Rapid Financing Instrument
Madagascar	US\$ 75 million	WBG		COVID-19 Response Development Policy Operation
	US\$ 50 million			Disaster Risk Management Development Policy
	SDR 122.2 million	US\$ 179.9 million	IMF	Rapid Credit Facility (RCF)
	UA 30 million		AFDBG	Multi-Country COVID-19 Response Support Program (MCRSP)
Eswatini	US\$ 40 million	WBG		Economic Recovery Development Policy Financing
	US\$ 110.4 million	SDR 75 million	IMF	Rapid Financing Instrument

Mozambique	US\$ 100 million	WBG		COVID-19 Response Development Policy Operation
	US\$ 26.20 million			Social Protection Third Additional Financing and COVID-19 Response
	UA 30 million		AFDBG	COVID-19 Response Facility
	US\$ 91 million	SDR 64.44 million	IMF	Rapid Credit Facility

Source: Compilation from various institutions

Annexure 3: ODA as a percentage of GNI, per donor country



Source: Development Initiatives (2022)





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