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THE REFORM OF THE GLOBAL FINANCIAL ARCHITECTURE:

Toward a System that Delivers for the South

By Otaviano Canuto, Hafez Ghanem, Youssef El Jai, and Stéphane Le Bouder

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Table of Contents

Introduction

BACK TO THE SPIRIT OF BRETTON WOODS

The World Bank and International Monetary Fund (IMF) Annual Meeting in Marrakech, Morocco, in October 2023 was a turning point. Thanks to Moroccans' incredible resilience following a devastating earthquake in the region, not only was the meeting held in Africa for the first time in fifty years, but Morocco hosted the historic call for "the creation of a 25th chair on the IMF Executive Board for Sub-Saharan Africa to improve its voice and representation and the overall balance of regional representation at the Board."[1]

Just eighteen months earlier, on April 13, 2022, at the Atlantic Council in Washington, US Secretary of the Treasury Janet Yellen indicated a striking openness to reforming the Bretton Woods institutions. The world was absorbing the shocks from the Russian invasion of Ukraine, high rates of inflation across the globe, and food insecurity facing millions of people, and was thrust into a historic era of challenges while recovering from the unprecedented COVID-19 pandemic.

An exceptional situation required an exceptional response. While Yellen was expected to talk about sanctions to be imposed on Vladimir Putin's regime, her remarks also prioritized developing countries. "Let's revisit our strategies, policies, and institutions to better mobilize capital in support of people in developing countries," Yellen said that day.[2] "Going forward, we need to evolve the development finance system, including the World Bank and the regional development banks, to our changing world, in particular to better mobilize private capital and fund global public goods....These institutions, while I feel they should play an important role going forward, they need to be modernized to address problems...that are really challenges that we face today and these institutions were not really designed to address. So, I don't think we need to invent a completely new financial architecture, but we do need to enable these institutions to address modern-day challenges."

This was not the first time that reform of the international financial system has been on the table. In 1944 delegates from forty-four countries came together in a small town in New Hampshire to create the Bretton Woods institutions, which would serve as the basis of the international monetary system and define the foundations of institutions that also help countries rebuild following conflict, finance their development projects, and work to address future challenges. Today there is no parallel for the IMF, the International Bank for Reconstruction and Development, and the World Bank Group (WBG).

Yet, the functioning of this new international economic governance has not been without controversy. Even though development should be its priority objective, the fate of developing countries has not always been at the heart of discussions.[3]

Governance, financial regulation, and an exchange-rate regime are the axes of reform in the international financial system that has emerged since 1944, not to mention the World Trade Organization (WTO). Throughout this period, the IMF and the World Bank, both of which were often quick to use the tool of structural adjustment, had to fight against a damaged reputation in African countries. In the 1980s and 1990s, conditionality imposed in exchange for fiscal austerity and further liberalization of African economies was criticized for its high social price—and even its role in the political unrest in countries implementing these tough measures. The IMF and the World Bank have tried to address these criticisms with the creation of the International Finance Corporation in 1956, the International Development Association in 1960, the Multilateral Investment Guarantee Agency in 1988, the decentralization of staff in 1997, the Financial Sector Assessment Program and the Poverty Reduction and Growth Facility in 1999, a Capital Markets Consultative Group in 2000, and an Independent Evaluation Office in 2001. Some reforms, such as the creation of the International Monetary and Financial Committee (IMFC) in 1999 to strengthen the IMF's role vis-à-vis the Group of Seven (G7), left an impression of continued marginalization of poor countries.

Countries of the Global South acknowledge the important role that these institutions and their subsidiaries play through the instruments they deploy to address unanticipated shocks and help countries further develop. However, as the world is navigating through a shock-prone global economy, it is necessary to transform the global financial architecture to fit the current century. The main demands from the Global South relate to the size of the Bretton Woods institutions—especially the World

1 "Chair's Statement: Forty-Eighth Meeting of the IMFC," International Monetary Fund, press release, October 14, 2023, https://www.imf.org/en/News/Articles/2023/10/14/pr23353-chairs-statement-forty-eighth-meeting-of-the-imfc.

2 https://www.atlanticcouncil.org/news/transcripts/transcript-us-treasury-secretary-janet-yellen-on-the-next-steps-for-russia-sanctions-and-friend-shoring-supply-chains/

3 Eric Helleiner, "Restoring the Development Dimension of Bretton Woods," United Nations Conference on Trade and Development, 2015, https://unctad.org/system/files/official-document/gdsmdp20151helleiner_en.pdf.

Bank—the scale of their interventions, and issues pertaining to governance including calculation of quotas, representation in decision-making bodies, voting rights, aid conditionality, better evaluation of development policies, and inclusion of new global challenges. Institutions such as the Stiglitz Commission in 2009 have supported these demands, suggesting the removal of conditionality and its replacement with a new international credit facility, the doubling of special drawing rights for the hardest-hit countries, or, as a democratic alternative to the Group of Twenty (G20), the creation of a new elected and more representative Global Economic Coordination Council.[4] Additionally, as this report focuses on the reform of the Bretton Woods institutions, let us not forget the necessary and complementary effort that needs to be undertaken to upgrade regional development banks.

The fiscal tightening resulting from the historic systemic shocks caused by the COVID-19 pandemic, the acceleration of global warming, and the war in Ukraine with its threats to food security combined to create a turning point. In December 2022, the Biden-Harris administration hosted the first US-Africa summit in eight years, and sent senior cabinet officials to visit eighteen African countries in the following three months as a concrete expression of its interest in reconnecting with African leaders. At the top of the agenda was the reform of the international financial architecture.

In January 2023, Yellen visited Senegal, where she interrupted her planned remarks to address the World Bank about upcoming reforms: "We do have some concerns…We would like to see some progress on a quicker timeline. And think there are some things that could be done to expand lending given the current capital release."[5] Her comments echoed those of Macky Sall, president of Senegal and then chair of the African Union, a few weeks earlier on the same stage at the Atlantic Council in Washington: "Beyond our national and continental responsibilities, Africa's place in the international system also depends on fairer and more equitable global governance. This is what the advocacy that I have been leading since the beginning of my mandate at the head of the African Union on several fronts is all about."[6] A few months before, at the opening of the fifty-fourth session of the United Nations Economic Commission for Africa (UNECA) in May 2022 in his country, Sall had been even clearer: "No sooner had we begun to recover from the constraints of COVID than the war in Ukraine came. Although the war affects the globe, it has unique consequences for Africa. We are now forced as a continent to speak up and call for changes in the global system. Thankfully, these days, everybody seems to concur that the international system needs restructuring."[7]

Specific and urgent calls for reform include more representative global governance, increasing the World Bank's operational and financial capacity, prioritizing programs that would integrate Africa into the global economy, connecting the continent's critical infrastructure and trade routes, and increasing participation and collaboration with bilateral public and private lenders and investors, such as China, sovereign wealth funds, and multinationals.

In the meantime, African countries are not standing by, but are taking the lead on initiatives to move forward with the continent's integration and development, including through the adoption of an African Continental Free Trade Area (AfCFTA). Another significant step is the Atlantic Initiative, recently launched by Morocco and championed by King Mohammed VI, which aims to create space for Sahel countries to reach the Atlantic Ocean through enhanced economic cooperation to exploit common opportunities in strategic sectors including infrastructure development and regional transportation. This initiative showcases the numerous paths to securing a prosperous future for the African continent and its people. The continent is also taking action to deal with climate risks. In 2023, the African Climate Summit was organized to discuss avenues for climate action.[8] In 2022, the African Union also adopted an action plan to address climate change and resilient development strategy.[9]

Because of the challenging world economic context, "these shocks have reduced the continent's real GDP growth from 4.8 percent in 2021 to 3.8 percent in 2022. However, African economies remain resilient, with average growth projected to stabilize at 4.1 percent in 2023–24."[10] According to the African Development Bank Group's 2023 Economic Outlook, "Despite the confluence of multiple shocks, the African region

4 Jose Antonio Ocampo and Joseph E. Stiglitz, "From the G-20 to a Global Economic Coordination Council," Journal of Globalization and Development 2, 2 (2011), https://business.columbia.edu/sites/default/files-efs/imce-uploads/Joseph_Stiglitz/2012_G20_Glob_Econ_Coord.pdf.

5 Andrea Shalal, "U.S. Wants to See Quicker Progress on World Bank Reforms—Yellen," Reuters, January 22, 2023, https://www.reuters.com/world/us-wants-see-quicker-progress-world-bank-reforms-yellen-2023-01-23/#:~:text=%22We%20would%20like%20to%20see,her%20biggest%20priorities%20this%20year.

6 "Macky Sall: Africa Needs 'Justice and Equity in International Relations' to 'Build Its Own Destiny,'" Atlantic Council, December 19, 2022, https://www.atlanticcouncil.org/commentary/transcript/macky-sall-africa-needs-justice-and-equity-in-international-relations-to-build-its-own-destiny/.

7 "CoM2022—Remarks by President Macky Sall, Senegal," United Nations Economic Commission for Africa, May 17, 2022, https://www.uneca.org/stories/com2022-remarks-by-president-macky-sall%2C-senegal.

8 "Resources," Africa Climate Summit 23, 2023, https://africaclimatesummit.org/about.

9 "African Union Climate Change and Resilient Development Strategy and Action Plan (2022–2032)," African Union, June 28, 2022, https://au.int/en/documents/20220628/african-union-climate-change-and-resilient-development-strategy-and-action-plan.

10 "African Economic Outlook 2023," African Development Bank, 2023, https://www.afdb.org/en/knowledge/publications/african-economic-outlook.

is projected to grow at the second-fastest rate in the world in 2023–24, demonstrating the resilience of its economies."[11] These estimates are higher than the World Bank's expectations for the global economy.[12] Therefore, it is crucial to implement extensive and substantial policies to support African nations' efforts and maximize their chances to unleash their immense economic potential.

It is in this context, the Atlantic Council and the Policy Center for the New South publish this report, "The Reform of the Global Financial Architecture: Toward a System that Delivers for the South," authored by Otaviano Canuto, Hafez Ghanem, Youssef El Jai, and Stéphane Le Bouder.

As 2024 marks eighty years of the Bretton Woods system, these recommendations presented during the 2024 IMF-World Bank Spring Meetings reflect the urgency of both operational and more inclusive reforms for the African continent.

Dr. Karim El Aynaoui
Amb. Rama Yade

11 Ibid.

12 M. Ayhan Kose and Franziska Ohnsorge, eds., "Falling Long-Term Growth Prospects: Trends, Expectations, and Policies," World Bank, 2024, https://openknowledge.worldbank.org/server/api/core/bitstreams/3f6fa335-c843-47c1-b466-74be203875fc/content.

The Reform of the Global Financial Architecture: Toward a System that Delivers for the South

Otaviano Canuto, Senior Fellow, Policy Center for the New South
Hafez Ghanem, Senior Fellow, Policy Center for the New South
Youssef El Jai, Economist, Policy Center for the New South

The current global financial architecture, developed in 1944 at the Bretton Woods Conference, is no longer able to respond to the needs of the world of the twenty-first century.[13] Many voices are calling for reforms, including the secretary general of the United Nations, and the various reform proposals will be discussed at a UN Summit in September 2024.[14] This report contributes to the ongoing debate by proposing reforms of the global financial architecture in three areas: governance, sovereign-debt management, and increasing financing for climate and economic development.

GOVERNANCE REFORMS

Governance reforms are required to enhance the legitimacy of the global financial system by providing countries of the New South with a voice commensurate with their size and role in today's economy. Only forty-four delegations attended the Bretton Woods conference, compared to 190 members of the IMF and World Bank today. Africa was represented at that conference by four countries: Egypt, Ethiopia, Liberia, and South Africa. Egypt, Ethiopia, and Liberia were only nominally independent, and South Africa was ruled by a minority apartheid regime. Today, all fifty-four African countries want to ensure that the international financial architecture reflects their interests.

Governance reforms are necessary to enhance the legitimacy of the international financial institutions (IFI). This is especially true for the IMF, which is the IFI responsible for supporting countries during crises. Brahima S. Coulibaly and Eswar Prasad argue that the distribution of quotas among IMF member countries, which determines access to resources as well as voting rights, does not reflect today's economic reality.[15] They note, for example, that India's gross domestic product (GDP) is larger than that of the United Kingdom. Yet India's share of IMF quotas is only 2.75 percent, while the United Kingdom's is 4.23 percent. IMF member countries are aware of this problem and are trying to resolve it. The IMF Board of Governors completed its 16th General Review of Quotas on December 15, 2023.[16] In the press release following the meeting, the Board asked the Executive Board for reform proposals including possible approaches for quota realignment, potentially through a change in the formula that is used to determine quotas by June 2025[17]. Normally, an IMF quota realignment would be followed by a change in voting rights at the World Bank.

IMF quota realignment should provide greater voice to countries of the New South and especially to Africa, which is today grossly underrepresented in IFI governance. Despite a population of nearly 1.5 billion, Africa's share of the IMF's quotas (6.47 percent) is about the same as Japan's (6.14 percent for a population of 126 million), and less than half that of the United States (16.5 percent for a population of 330 million). Nigeria, the largest African country with a population of 228 million, has a share of only 0.52 percent of quotas, which is less than half that of Switzerland (1.17 percent for a population of 8.8 million people.)

Agreement on a reallocation of IMF quotas and of voting rights at the World Bank may take some time. It is hard to build consensus around a change in voice in international forums, especially during this period of mounting geopolitical competition. But

13 This paper has benefitted immensely from Canuto and Ghanem's participation in the roundtables organized by the Global Economies program at the Brookings Institution to discuss the reforms of the global financial architecture proposed by the United Nations secretary general. For more details on the recommendations presented here please see https://www.brookings.edu/articles/reforms-for-a-21st-century-global-financial-architecture/.

14 The secretary general issued a report on the reform of the multilateral system and a companion policy brief setting out action-orientated recommendations to reform the international financial architecture. The reports and recommendations are to be discussed at the Summit of the Future, which is scheduled for September 2024. "Our Common Agenda: Report of the Secretary-General," United Nations, 2021, https://www.un.org/en/content/common-agenda-report/assets/pdf/Common_Agenda_Report_English.pdf; "Our Common Agenda Policy Brief 6: Reforms to the International Financial Architecture," United Nations, May 2023, https://www.un.org/sites/un2.un.org/files/our-common-agenda-policy-brief-international-finance-architecture-en.pdf; "The Summit of the Future in 2024," United Nations, last visited March 29, 2024, https://www.un.org/en/common-agenda/summit-of-the-future.

15 Brahima S. Coulibaly and Eswar Prasad, "A Reform Proposal for a Fit-for-Purpose International Monetary Fund," Group of Twenty and ThinkTwenty, May 2023, https://t20ind.org/wp-content/uploads/2023/05/T20_PolicyBrief_TF7_Fit-IMF.pdf.

16 "IMF Board of Governors Approves Quota Increase under 16th General Review Quotas," International Monetary Fund, press release, December 18, 2023, https://www.imf.org/en/News/Articles/2023/12/18/pr23459-imf-board-governors-approves-quota-increase-under-16th-general-review-quotas.

17 https://www.imf.org/en/News/Articles/2023/12/18/pr23459-imf-board-governors-approves-quota-increase-under-16th-general-review-quotas

other important governance reforms do not need to wait. These could include: the use of double-majority rule for most IFI decisions; delinking access to IMF resources from quotas; separating the role of chief executive of the IFIs from that of chairpersons of the boards of directors; and expanding IFI boards of directors by including independent directors.

The use of a double-majority rule (which would include a majority of shares plus a majority of members) in IFI decision-making would enhance the voice of the New South. It would not change the various countries' shares and voting rights, and it would still mean that countries holding a majority of shares in an IFI could veto a decision even if most member states supported it. The concept of double majority is already applied at the IMF: a super double majority is required to change its articles of agreement. A double-majority rule could slow decision-making. On the other hand, it would increase the IFIs' credibility, as it gives more weight to smaller and weaker members. The Council of the European Union applies a double-majority (qualified-majority) rule for some of its decisions.[18] For a decision to pass under the qualified-majority rule, it needs the support of 55 percent of European Union (EU) member states representing at least 65 percent of the EU's population. In the case of an IFI, to minimize delays in decision-making, the rule could be a simple majority of shares and a simple majority of member states.

In addition to determining country contributions and voting rights, IMF quotas provide a nominal ceiling on a country's access to resources beyond which it must pay higher charges and its program becomes subject to more oversight. This system made sense at the time the IMF was created, because its main mission was to support the gold standard and the fixed exchange-rate system by providing balance-of-payments financing to countries to protect their exchange rates. Under a fixed exchange-rate system, larger economies would need more support than smaller economies. But countries got off the gold standard in the early 1970s. Today, it is the smaller and middle-sized economies that need more support from the IMF. That is why access to IMF lending should now be based on a country's needs and its creditworthiness (i.e., its ability to repay the loan) rather than on its quota. This also means that the policy of surcharges, which penalizes countries that need more support, should be cancelled.

In most large corporations, there is a clear division of responsibility between the board of directors and the company's executives, and the roles of chief executive officer (CEO) and chair of the board are usually played by different people. In the United Kingdom and continental Europe, the two roles are always separated. In the United States, the trend is to separate the two roles.[19] The percentage of Standard and Poor's (S&P) 500 companies with a unified CEO and chair fell from 56 percent in 2013 to 43 percent in 2023. The general view is that, for most companies in normal times, best practice is to have an independent chair of the board. At the World Bank and IMF, however, the executive head of the institution is also the chair of the board.[20] This needs to change to reflect corporate governance best practice. Because the positions of executive heads of the IMF and the World Bank are reserved for Europeans and Americans, respectively, the roles of chair of the board could be taken by representatives of the New South, with one of the two chairs reserved for Africa.

The intergovernmental structure of the IFIs' governing bodies is not well adapted to the realities of the twenty-first century, for at least two reasons. First, as IFIs start getting more involved in financing global public goods, having members of boards of directors who represent shareholder governments may not be the best way to go. People who sit on the boards of IFIs and focus on global public goods should be people whose interest is the planet rather than that of a specific nation state or a group of nation states, as is the case today. Second, even if an IFI continues to only focus on national public goods, or on macroeconomic issues like the IMF, there is a need to bring in voices other than those of government officials who may not always represent the views of project beneficiaries or the priorities of different groups of citizens. The role and importance of non-state actors are being increasingly recognized.[21] The experience of the Global Fund shows that bringing in the voices of beneficiaries in the governance of IFIs tends to increase their effectiveness.[22] That is why it would be desirable to expand the boards of directors of the IMF and World Bank to include two to three independent directors representing civil society and the private sector.

18 "Voting System: How Does the Council Vote?" European Council, last visited March 29, 2024, https://www.consilium.europa.eu/en/council-eu/voting-system/.

19 Lila MacLellan, "Here's When Having a CEO Serve as Board Chair Really Pays Off," Fortune, November 14, 2023, https://www.thecorporategovernanceinstitute.com/insights/news/heres-when-having-a-ceo-serve-as-board-chair-really-pays-off/.

20 While they chair their respective boards, the two heads of the institutions do not have voting rights.

21 For example, Dervis and Ocampo argue that cooperation with civil society and the private sector has helped improve the credibility of the UN itself. Kharas and McArthur argue that transparent and effective governance of an outcome-oriented institution should include representation from a relevant mix of stakeholders including public and private funders, recipient country officials, technology leaders, independent experts, and civil-society leaders. "Essays on a 21st Century Multilateralism that Works for All," Brookings, February 2022, https://www.brookings.edu/wp-content/uploads/2022/02/21st-Century-Multilateralism.pdf; Homi Kharas and John W. McArthur, "Updating Institutional Technologies: A Purpose-Driven Fund to End Extreme Poverty," Brookings, August 2023, https://www.brookings.edu/wp-content/uploads/2023/08/Kharas-McArthur-Purpose-driven-fund-Working-Paper.pdf.

22 The Global Fund's board of directors includes nongovernmental organizations, representatives of communities affected by HIV, tuberculosis, and malaria, the private sector, and private foundations as voting members.

SOVEREIGN-DEBT MANAGEMENT

Debt-sustainability risks have increased in countries of the New South, and the world appears to be heading toward yet another sovereign-debt crisis. Over the past decade, a combination of high investment needs, low domestic revenue, low interest rates, a greater availability of credit from private lenders, and the emergence of China as an important new lender has to have contributed to debt accumulation in the New South. The COVID-19 pandemic induced economic slowdowns, rising commodity prices followed the Russian invasion of Ukraine, and higher interest rates raised both the cost of debt financing and countries' debt vulnerabilities. According to the World Bank, about half of the world's poorest countries are either currently in debt distress or at a high risk of debt distress.[23]

Dealing with today's debt problems is proving to be more difficult than managing previous crises. This is due, in large part, to the importance of new official lenders (e.g., China) that are not members of the Paris Club, and because a significant share of the debt is held by private bondholders. Coordination among these different groups of lenders is difficult. As a result, implementation of the G20's Common Framework for Debt Treatments (CF) has been disappointingly slow. The CF's implementation problems explain why only four (Chad, Ethiopia, Ghana, and Zambia) of the thirty-seven eligible countries that are either in or at high risk of debt distress have applied for treatment under the CF.

The problems with the CF are mainly caused by the difficulty of coordinating different classes of creditors. The structure of the public and publicly guaranteed debt of low- and middle-income countries (LMICs) today is very different from the structure of such debt in the late twentieth century. At the time, in addition to multilateral creditors, the debt was held mainly by bilateral creditors that were members of the Paris Club and by private banks that were members of the London Club. Today, Paris and London Club creditors hold less than 25 percent of LMICs' debt. About 45 percent of LMICs' debts are in the form of bonds, and new non-Paris Club bilateral creditors are increasingly important. China holds about 31 percent of LMICs' official bilateral debt, and that share is even higher in Sub-Saharan Africa, where China holds 55 percent of the bilateral debt.[24]

Debt rescheduling, which in the past only required an agreement with the Paris and London Clubs, is now extremely hard to obtain. It requires an agreement with many disparate bondholders with different interests and constraints. Their incentives are very different from those of London Club members. Rescheduling also requires an agreement with China, in addition to the Paris Club. China's geopolitical interests and its domestic financial and institutional constraints are very different from those of the Paris Club members.

Dealing with outstanding bonds requires a market-based approach similar to what was proposed by Brookings.[25] Their proposal is similar to the Brady Plan of the 1980s, with some adjustments to reflect today's realities. They recommend the creation of a special-purpose fund to be capitalized by the IFIs and official bilateral donors. This fund would be used to secure collateral against new tradeable bonds issued by the debtor countries. The collateral, which implies a credit enhancement, would allow the new bonds to be issued at better terms—longer maturities and lower coupon rates. The proceeds would then be used to reduce the outstanding balance on the current debt. The lower coupon rates and longer maturities—plus a possible haircut—could lead to sizeable reductions in debt burdens that reach sustainable levels.

Dealing with bilateral and multilateral debt could be facilitated by a new initiative similar to that proposed by the Policy Center for the New South.[26] It proposes a "debt relief for climate initiative" that includes reductions of both bilateral and multilateral debt to finance climate mitigation and adaptation. The proposal had been developed for Africa, but it could be easily extended to other parts of the world. Under this proposal, eligible countries would be provided with partial debt relief in exchange for their commitment to investing the savings from debt service into climate-related projects, such as renewable energy or forest protection on the mitigation side, or irrigation or food security on the adaptation side. A list of eligible projects would be agreed upon at negotiations and the World Bank could be tasked with monitoring implementation. This proposal is interesting because it requires sacrifices from all classes of

23 "Global Economic Prospects," World Bank Group, June 2023, https://openknowledge.worldbank.org/server/api/core/bitstreams/6e892b75-2594-4901-a036-46d0dec1e753/content.

24 "International Debt Report," World Bank, 2023, https://www.worldbank.org/en/programs/debt-statistics/idr/products.

25 Brahima S. Coulibaly and Wafa Abedin, "Addressing the Looming Sovereign Debt Crisis in the Developing World: It Is Time to Consider a 'Brady Plan,'" Brookings, April 2023, https://www.brookings.edu/wp-content/uploads/2023/04/Coulibaly-Abedin-2023.pdf.

26 Otaviano Canuto, et al., "External Debt Management in Africa: A Proposal for a 'Debt Relief for Climate Initiative,'" Policy Center for the New South, June 20, 2023, https://www.policycenter.ma/publications/external-debt-management-africa-proposal-debt-relief-climate-initiative.

THE DEBT RELIEF FOR CLIMATE INITIATIVE

A proposal by the Policy Center for the New South links debt reduction with investments in climate mitigation and adaptation, drawing inspiration from past models such as the Highly Indebted Poor Countries (HIPC) Initiative. This approach suggests channeling the savings from partial debt relief into climate investments.

Building on theoretical collective-decision problems, the mechanism comes with a strong structure of incentives to ensure that all the parties involved in the debt contract are open to participate in the initiative. This is enforced by three conditions: the program must provide at least the same outcome as the status quo; no free riding from the creditors, with sanctions in the form of “loan on arrears” post default; and limited scope for earmarking.

Successful debt-swap operations require clear commitment from borrowing countries and the existence of a pipeline of bankable green projects. Drawing on it, the stakeholders can define projects that are eligible for a swap agreement. Moreover, there should be an understanding among the stakeholders on a regular independent audit of the swap’s intermediate targets. This is relevant irrespective of the nature of green financial products that would be used in the swap. A natural candidate is the World Bank, which can provide rigorous evaluations.

creditors—even those with a preferred-creditor status—and it provides financing for the most important global public good of the twenty-first century. It could garner support from all types of creditors.

The shift away from syndicated bank loans and toward traded securities as the principal instrument for sovereign financing, and the greater diversity of claims and interests, has made it more difficult to secure collective action from creditors when a sovereign’s debt is unsustainable. As early as 2002, the IMF proposed the creation of a sovereign-debt restructuring mechanism. This proposal was developed by Anne Krueger, when she was first deputy managing director of the IMF, and was echoed by the 2009 Stiglitz Commission on reforms of the international monetary and financial system.[27] The goal is to facilitate the orderly and rapid restructuring of unsustainable debt to support the debtor country, while also protecting the rights of creditors.

The idea of a centrally managed sovereign-bankruptcy regime has been proposed repeatedly by some of the world’s most respected economists over the last two decades, but has so far gained little traction. It probably needs more time before it is accepted by the international community. In the meantime, there are reforms that could be implemented immediately while building the necessary political support for a centrally managed bankruptcy mechanism. G20 countries could consider enacting legislation to encourage private creditors’ participation in debt workouts. Most sovereign debt is governed by the laws of a few jurisdictions, such as New York or England. Those key financial centers could be encouraged to enact statutory reforms that would codify a duty on creditors to cooperate in the context of sovereign-debt restructuring, limit the amount that a creditor can receive in a legal proceeding if an agreement is reached with a majority of creditors, immunize sovereign debtors’ assets from seizure if the debtor has initiated an orderly debt-restructuring process, and retrofit collective-action mechanisms into existing instruments.[28]

INCREASING FINANCING FOR CLIMATE AND FOR ECONOMIC DEVELOPMENT

A 2023 report prepared for the G20 by the expert group on multilateral development bank (MDB) reform argues that total financing needs for the New South are about $3 trillion annually ($1.3 trillion for Africa), of which $1.8 trillion is for climate action and $1.2 trillion is for the other Sustainable Development

27 “Report of the Commission of Experts of the President of the United Nations General Assembly on Reforms of the International Monetary and Financial System,” United Nations, September 21, 2009, https://www.un.org/en/ga/econcrisissummit/docs/FinalReport_CoE.pdf; Jeffrey D. Sachs, “Resolving the Debt Crisis of Low-Income Countries,” Brookings, January 2002, https://www.brookings.edu/wp-content/uploads/2002/01/2002a_bpea_sachs.pdf.

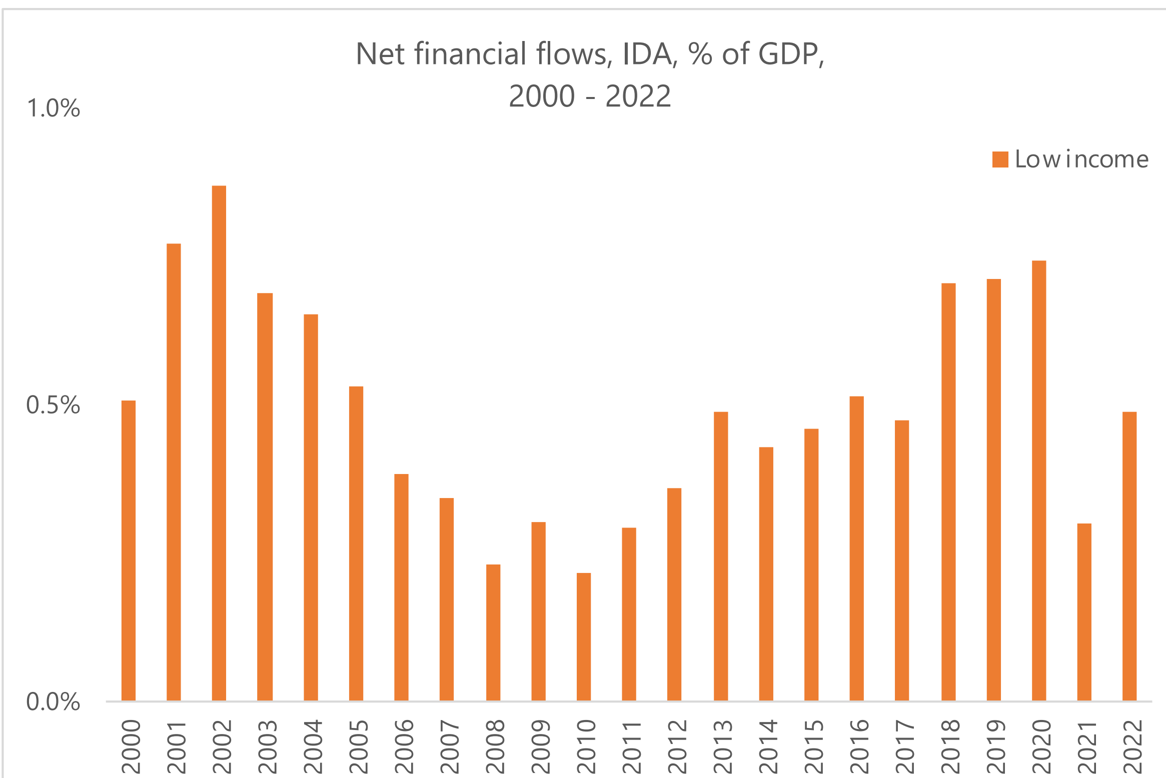
28 For more on the potential statutory options to encourage private-sector participation in debt workouts, see: “Potential Statuory Options to Encourage Private Sector Creditor Participation in the Common Framework,” World Bank Group, 2022, https://documents1.worldbank.org/curated/en/099802006132239956/pdf/IDU0766c0f2d0f5d0040fe09c9a0bf7fb0e2d858.pdf. The UK Parliament’s International Development Committee has recommended the adoption of some of those reforms, and legislators have introduced three bills in the New York Assembly that go in that direction. “Debt Relief in Low-Income Countries: Government Response to the Committee’s Seventh Report of Session 2022–23,” House of Commons International Development Committee, June 8, 2023, https://committees.parliament.uk/publications/40279/documents/196581/default/; Brahima S. Coulibaly and Wafa Abedin, “Revitalizing the Global Architecture for Sovereign-Debt Restructuring: The New York Legislature Steps in,” International Banker, September 5, 2023, https://internationalbanker.com/finance/revitalizing-the-global-architecture-for-sovereign-debt-restructuring/.

Goals (SDGs).[29] The international finance system needs to provide an additional $500 billion, one-third of which needs to take the form of concessional financing and grants, while international private capital must provide an additional $500 billion. For this system to work, the MDBs will need to provide an incremental $260 billion per year. This is needed at a time when official development assistance (ODA) is declining in real terms. According to the Organisation for Economic Co-operation and Development (OECD) Development Assistance Committee (DAC), total ODA in 2022 was $211 billion, which is about the same as in previous years.[30] However, this figure includes expenditures that should not be counted as ODA, such as in-donor refugee costs ($29.3 billion) and support for Ukraine ($16.1 billion), so that the actual country programmable ODA transferred to developing countries has declined. Figure 1 describes the evolution of net financial flows from the International Development Association (IDA) to low-income countries (mostly in Africa). Financial flows to low-income countries have plateaued over the last two decades, despite the increased needs for climate mitigation, adaptation, and achieving the SDGs.

Financing climate mitigation is a top priority and clearly a global public good. Action is needed urgently because, according to the latest Intergovernmental Panel on Climate Change (IPCC) report, the world is not on track to meet the Paris Agreement's target of limiting global warming to 1.5 degrees Celsius (°C), and it seems unlikely to limit warming below 2°C.[31] Climate change is already negatively affecting people's lives and livelihoods around the world—particularly in the Global South, where bouts of extreme weather events, droughts, and desertification are causing immense human losses, as well as increased hunger and food insecurity.

Many voices in the North are calling for the MDBs—particularly the World Bank—to become banks for global public goods, es-

Figure 1: Evolution of IDA Net Financial Flows to LICs, World Development Indicators, World Bank[1]



1 World development indicators. Washington, D.C. :The World Bank.

29 "The Triple Agenda," Independent Expert Group, 2023, https://www.cgdev.org/sites/default/files/The_Triple_Agenda_G20-IEG_Report_Volume1_2023.pdf.

30 "2022 Final ODA Statistics," Flourish, January 30, 2024, https://public.flourish.studio/story/2150513/.

31 "AR6 Synthesis Report: Climate Change 2023," Intergovernmental Panel on Climate Change, 2023, https://www.ipcc.ch/report/sixth-assessment-report-cycle/.

pecially climate. But that would probably mean that resources that were targeted for development expenditures—e.g., health and education—will be diverted to climate mitigation. Priorities of Global South countries do not always match those of the Global North, which control MDB governance structures. A 2022 survey by ODI of five hundred senior government officials and seventy-three office heads found that the top two sectors for which countries demand World Bank support have nothing to do with climate mitigation; they are education and health.[32] The same survey found that MDB staff is much more likely than government officials to suggest that MDBs should focus their operations on climate-change adaptation and mitigation. Reflecting this, the Center for Global Development emphasizes the need to consider the demand side for climate finance, and not simply to assume that more supply will create its own demand.[33] Moreover, it points out that a focus on climate mitigation will imply a shift in the allocation of World Bank financing away from lower middle-income countries and toward upper middle-income countries, because they tend to emit more greenhouse gases. Those countries are very sensitive to the cost of borrowing. They may borrow for renewable-energy projects that are efficient and profitable but not for other types of mitigation projects, unless that borrowing is somehow subsidized.

The MDB system, with its current financing structure that depends upon governments' contributions in terms of capital and grants, would only be able to raise a small fraction of the $2.4 trillion per year that—according to the Independent High-Level Expert Group on Climate Finance (IEGCF)—is needed to fight climate change.[34] It will need to be complemented by new and innovative sources of financing.

As a first step, climate activities need to be divided into two groups: those that are closer to national public goods and those that are pure global public goods. Adaptation, loss and damage, and just transition could be considered as national public goods. They also tend to be more public-sector driven. Those could easily be supported by the current country-driven model used by the World Bank and other MDBs. According to the IEGCF, those activities will need more than $600 billion per year. Providing this level of financing would be a stretch for MDBs, requiring them to carry out reforms to optimize the use of their balance sheets, as well as requiring more shareholder support in terms of capital increases and grant financing.

Mitigation is a pure global public good—the mother of all global public goods according to Brookings.[35] The main components of mitigation spending are the energy transition ($1.5 trillion per year) and natural capital and agriculture ($300 billion per year). These are also activities that could be financed by the private sector with little or no public participation.

The current global institutional structure for climate financing is chaotic, with many uncoordinated climate-mitigation funds providing very little financing—sixty-two multilateral climate funds disbursing only $3–4 billion a year. A possible approach is to replace the sixty-two multilateral climate-mitigation funds with a green bank that could be completely independent or could be part of the World Bank Group. This is the approach proposed by the Policy Center for the New South.[36] A green bank would be different from existing MDBs in five ways: it would be a public-private partnership; countries of the South, the North, and private actors would have equal voice in its governance; it would only finance mitigation projects; it would only provide financing (equity, loans, and guarantees) to private projects without adding to governments' debts or asking for government guarantees; and it would specialize in mobilizing innovative forms of financing such as the sale of carbon credits and green bonds. A green bank that includes private

32 Annalisa Prizzon, Michael Josten, and Hayk Gyuzalyan, "Country Perspectives on Multilateral Development Banks," ODI, April 2022, https://cdn.odi.org/media/documents/Country_perspectives_on_MDBs_-_a_survey_analysis.pdf.

33 Clemence Landers, Karen Mathiasen, and Samuel Matthews, "Warming or Cooling on World Bank Climate Finance," Center for Global Development, December 2023, https://www.cgdev.org/sites/default/files/warming-or-cooling-world-bank-climate-finance-what-drives-country-demand.pdf.

34 "A Climate Finance Framework: Decisive Action to Deliver on the Paris Agreement," Independent High-Level Expert Group on Climate Finance, November 2023, https://www.lse.ac.uk/granthaminstitute/wp-content/uploads/2023/11/A-Climate-Finance-Framework-IHLEG-Report-2-SUMMARY.pdf.

35 Brahima Sangafowa Coulibaly, et al., "Essays on a 21st Century Multilateralism that Works for All," Brookings, February 16, 2022, https://www.brookings.edu/articles/essays-on-a-21st-century-multilateralism-that-works-for-all/.

36 Hafez Ghanem, "The World Needs a Green Bank," Policy Center for the New South, February 1, 2023, https://www.policycenter.ma/publications/world-needs-green-bank; Hafez Ghanem, "8 Reasons to Support a New International Green Bank," Finance for Development Lab, July 6, 2023, https://findevlab.org/a-new-international-green-bank-8-reasons-to-support/.

THE WORLD NEEDS A GREEN BANK

Given the importance of climate risks in developing countries, the world needs an international green bank.[1] With a different governance structure, reflecting the views of all the major stakeholders in the green transition, it can achieve the desired outcomes, overcoming the tradeoffs that arise in the traditional development-finance architecture.

1. Different governance structure

Unlike the current governance structure of MDBs, the green bank's decisions would reflect the views of the private sector, donor countries, and the borrowing countries. The idea of including private non-voting shares in the capital of MDBs has emerged in recent years. The proposal for a green bank takes this idea further. The decision-making process in the green bank would allocate voting shares to the private sector, proportional to its contribution. However, decisions will be taken based on a multiple-majorities system that guarantees the fair representation of each group.

2. Financing from three sources: shareholder contribution, issuance of green bonds, and sale of carbon credits

The capital structure will be split into paid-in and callable capital. The inclusion of private capital is key to circumventing limited fiscal space in low- and middle-income countries and the reluctance of donor countries to increase their participation, both issues that will exacerbate as countries turn their focus to domestic policy objectives. In addition, the green bank can leverage this capital to issue bonds on the international markets. These bonds, green in nature, can be designed based on the existing green financial products, and will come with the double dividend of increasing the funding capacity for climate-mitigation projects and increasing the depth of green financial markets, especially in countries of the South. Furthermore, as the carbon market develops, the green bank can mobilize additional resources through the sale of carbon credits.

3. Instruments of intervention

The green bank is expected to provide a full-fledged system of project identification, financing, and risk pooling. It would carry out analytical work to identify mitigation projects in developing countries. It can contribute to those projects through equity injection in green firms or through loans to the private sector. In addition, the bank will provide hedging against sovereign risks by the means of insurance and guarantees, which will be inherent to the composition of its financial products. Finally, the bank would need to provide a scientific rationale for its interventions and rely on facts-based approaches to evaluate its operations, thus contributing to the crucial mission of knowledge origination and dissemination.

1 Ghanem, H. (2023), "The world needs a green bank". PB 06/23. February 2023. Policy Center for the New South. Rabat, Morocco.

shareholders and uses innovative financing instruments would be able to leverage public money and would be much more effective than the existing sixty-two multilateral climate-mitigation funds.

Carbon credits are potentially an important source of climate-mitigation financing. It is true that questions about the carbon market's integrity persist, and there is a concern that some developers are inflating their projects' climate impact. This has been especially true for reducing emissions from deforestation and forest degradation (REDD) projects.[37] In view of the potential benefits from a transparent and well-functioning carbon market, this should not be an argument for giving up on carbon markets altogether. Instead, governments—and maybe the UN or another international body—should play a stronger role in regulating carbon markets and imposing rules of transparency and integrity. At the time of the 1997 signing of the Kyoto Protocol, the vision was for a single global market for trading carbon permits. This reflects the fact that a ton of greenhouse gas has the same impact on the climate regardless of where it is emitted. The Kyoto Protocol also set up the Clean Development Mechanism as a vehicle for translating emission-reduction efforts in the South into credits that can be used to offset capped emissions in the North. However, the vision of a single global market never materialized, and instead many national and regional markets have developed.[38]

37 REDD stands for projects to reduce emissions from deforestation and forest degradation in developing countries.

38 Richard G. Newell, William A. Pizer, and Daniel Raimi, "Carbon Markets 15 Years after Kyoto: Lessons Learned, New Challenges," Journal of Economic Perspectives 27, 1 (2013), https://pubs.aeaweb.org/doi/pdfplus/10.1257/jep.27.1.123.

The sale of carbon credits on a global market could potentially help finance climate-mitigation efforts in the South without adding to debt. The creation of a single global carbon market appears to be impossible right now. An alternative would be to link the existing national and regional markets. That is, instead of building a global market from the top down as was envisioned at Kyoto, do so from the bottom up. Such an approach was recommended in 2017's Climatic Change, which proposed the creation of a club of carbon markets that would establish common standards for carbon-market infrastructure and offer mutual recognition of members' emission units.[39] As more national and regional jurisdictions join that carbon-market club, it would get closer to being a global market that promotes national and cross-border green investments.

The creation of a green bank would help avoid diverting development funds—especially those needed for health, education, and social protection—to climate mitigation, so that climate financing is truly additional. Moreover, there is a need to increase development financing. The world is off track for achieving the SDGs, and much more funding is needed to get back on track. Expanding MDB financing capacity is essential for mobilizing sufficient resources for climate action while protecting development and SDG financing. This would require implementing the reforms recommended by the independent review of the MDBs' capital adequacy framework (CAF) that was commissioned by the G20, as well as general capital increases for the World Bank and the other MDBs, and higher replenishments for the World Bank's IDA.[40]

It is estimated that implementing all the reforms recommended in the CAF report would provide additional headroom of about $80 billion for the MDB system. The report suggested five areas for reform: adapting the MDBs' approach to risk tolerance; giving more credit to callable capital; expanding the use of financial innovation; improving credit-rating agencies' assessments of MDB financial strength; and enhancing transparency and increasing access to MDB data. All the MDBs are committed to implementing the CAF reforms, but that will not be sufficient. There will be a need for a general capita increase for all the MDBs, as well as generous replenishments of their concessional-financing arms. Supporting the MDBs is a good investment for donor countries. Each dollar of MDB capital increase raises support for development by about $15, which includes $7 of direct MDB lending and $8 of direct and indirect mobilization of private financing.

CONCLUSION

It is time to modernize and rejuvenate the global financial architecture, and the current momentum for change offers an opportunity to implement much-needed reforms, despite the complicated geopolitical environment and superpower rivalries. This chapter proposes fourteen specific reform actions, which if implemented would greatly enhance the global financial system's credibility and its ability to play its role, especially as far as financing climate and development is concerned. Many of the reforms supported here have been proposed on other occasions, but some—like the separation of the roles of IFI chief executive and chairperson of the board of directors—are proposed here for the first time.

We propose five governance reforms.

1. Adjust the IMF's quota-allocation formula to reflect the new economic, social, and demographic realities of today's world.
2. Introduce a double-majority rule (a majority of shares and a majority of members) for most IFI decisions.
3. De-link access to IMF financing from the size of a country's quota.
4. Separate the roles of executive head of the World Bank and IMF from those of chairperson of the board. Reserve the role of chairperson for the New South, with one of the two chairs always given to an African.
5. Expand the boards of directors of the World Bank and IMF by adding two to three independent directors from the private sector and civil society.

We propose four sovereign-debt resolution system reforms.

1. Introduce a market-based system to buy down unsustainable Eurobond debt, like the Brady bonds of the 1980s.
2. Put in place an initiative of debt relief for climate, inspired by the HIPICS approach that provided debt relief for poverty reduction.
3. Consider the creation of a sovereign bankruptcy mechanism.
4. Have the G20 adopt a framework to encourage private-creditor participation in debt workouts.

39 N. Keohane, A. Hanafi, and A. Petsonk, "Toward a Club of Carbon Markets," Climatic Change (2017), https://link.springer.com/content/pdf/10.1007/s10584-015-1506-z.pdf.

40 "Boosting MDBs' Investing Capacity: An Independent Review of Multilateral Development Banks' Capital Adequacy Frameworks," Expert Panel, 2022, https://www.dt.mef.gov.it/export/sites/sitodt/modules/documenti_it/rapporti_finanziari_internazionali/rapporti_finanziari_internazionali/CAF-Review-Report.pdf.

We propose five reforms aimed at increasing financing for climate and the SDGs.

1. As far as climate action is concerned, the World Bank and other MDBs should focus on financing national public goods: climate adaptation, loss and damage, and just transition.

2. Create a green bank—which could be completely independent or part of the World Bank Group—that would be a private-public partnership and would replace the current sixty-two climate-mitigation funds.

3. Redouble efforts to create a global carbon market, perhaps by working to connect the existing regional markets and putting in place a strong regulatory system.

4. Optimize the use of MDB balance sheets by implementing the reforms recommended by the CAF report prepared for the G20.

5. Carry out a general capital increase for the World Bank and other MDBs, and ensure a large replenishment of their concessional-lending arms.

Humanity is facing huge challenges including climate change, pandemics, increased conflict, de-globalization, mass migration, and superpower rivalry. It needs a global financial system that is fit for purpose and can contribute to dealing with these various challenges. That is why it is very important to seize the current momentum for change—which has been driven, in large part, by the UN secretary-general as well as by the IFIs themselves—to implement reforms to improve global financial governance, overhaul the system of sovereign-debt restructuring, and mobilize much-needed resources for climate and the other SDGs. This chapter contributes to the ongoing global discussion by putting forward concrete, action-oriented reform proposals. The world needs to act now because the cost of waiting is too high.

Accelerating Development: Crowding in Capital to Mobilize the Private Sector

Stéphane Le Bouder, Nonresident Senior Fellow, Atlantic Council, Africa Center

DEFINING THE SCOPE AND LIMITATIONS OF THIS PAPER

This chapter focuses on reforms and policy changes to the International Bank for Reconstruction and Development (IBRD) and some consideration of other development-finance institutions (DFIs) to better mobilize and crowd in private capital—more specifically, institutional capital—to accelerate and sustainably achieve development goals across the African continent. While sustainable development in Africa necessitates crowding in capital markets and the private sector, the authors of this report acknowledge that these goals are achievable in frontier and emerging countries only in a broader context of positive reforms to governance, politics, and the democratic process, and in the presence of peace and security. Although the paper touches on these aspects selectively, it does not provide detailed reforms in these areas, concentrating instead on targeted reforms and policy changes to DFIs to enhance capital mobilization.

INTRODUCTION

Driven by a combination of high birth rates and decreasing mortality, the population of Africa is growing at the fastest rate of any continent's. According to the United Nations, Sub-Saharan Africa alone is expected to contribute more than half of the global population growth by the year 2050.[41] This demographic bulge will either prove to be an engine for global economic growth or a demographic timebomb with implications for economic growth and global security. Driven by a combination of the pursuit of economic opportunity, security, and the impacts of climate change, African populations are on the move. Internal migration is leading to rapid urbanization of a continent that is often ill-prepared for the challenges this represents. Indeed, even as populations continue to grow at a rapid pace, according to the United Nations, the share of African populations living in urban areas has grown from 27 percent in 1950 to 40 percent in 2015, and is projected to reach 60 percent by 2050.[42] And while Africans represent only 14 percent of international migration, compared to 41 percent from Asia, these numbers may grow as demographic and economic pressures push Africans to seek opportunities outside their home countries or continent.[43]

Harnessing the African demographic bulge, unlocking the economic potential of the continent, and driving poverty alleviation require massive investments in infrastructure. Closing Africa's infrastructure gap is, and must remain, a top priority for African governments and international development agencies alike. The African Development Bank estimates that Africa's infrastructure deficit shaves as much as 2 percentage points from the continent's annual GDP growth rate, which on a compounded basis represents an opportunity cost of a doubling of GDP every thirty-five years.[44] But closing the infrastructure gap requires massive investments, at a scale that is achievable only by crowding in global capital markets and institutional investors. Indeed, the African Development Bank estimates that Africa's infrastructure needs amount to $130–170 billion per year, with an annual financing gap in the range of $68–108 billion.[45] This includes core critical infrastructure such as power, water, roads

41 "World Population Prospects 2022," United Nations Department of Economic and Social Affairs, 2022, https://www.un.org/development/desa/pd/sites/www.un.org.development.desa.pd/files/wpp2022_summary_of_results.pdf.

42 Joseph Teye, "Urbanisation and Migration in Africa," United Nations, November 1–2, 2018, https://www.un.org/development/desa/pd/sites/www.un.org.development.desa.pd/files/unpd_egm_201811_joseph_teye_ppt.pdf.

43 Pragna Rugunanan, "Megatrends and Families: Focus on Digital Technologies, Migration and Urbanization," United Nations Expert Group Meeting, September 7–8 2022, https://www.un.org/development/desa/dspd/wp-content/uploads/sites/22/2022/09/Pragna-Rugunanan-Migration-and-Urbanization-Trends-in-Africa.pdf.

44 "Tracking Africa's Progress in Figures: Infrastructure Development," African Development Bank, last visited March 29, 2024, https://www.afdb.org/fileadmin/uploads/afdb/Documents/Publications/Tracking_Africa's_Progress_in_Figures_-_Infrastructure_Development.pdf.

45 "Africa's Infrastructure: Great Potential but Little Impact on Inclusive Growth," African Development Bank, 2018, https://www.afdb.org/fileadmin/uploads/afdb/Documents/Publications/2018AEO/African_Economic_Outlook_2018_-_EN_Chapter3.pdf.

and rail, telecommunications, health and sanitation, and education, without which sustainable economic development is not feasible. Western nations and traditional donor countries have relied heavily on direct investments by MDBs and DFIs to mobilize investments, but these are insufficient to meet the financing needs.

Attempts to crowd in capital markets have had limited success for a host of reasons, including a mismatch of solutions to the underlying problems and a failure to adequately address the core drivers of capital-market decision-makers. In the absence of success, other pools of capital have stepped in to partially fill the void, bringing capital and infrastructure, though often not in a manner that is economically, socially, or environmentally sustainable like DFI-supported capital. As McKinsey rightly identified in a publication titled "Solving Africa's Infrastructure Paradox," pools of investment capital with interest in African investments exist in adequate volumes to meet the known pipeline of African infrastructure projects, but many go unfunded and the pools of capital fail to mobilize. This paradox, as McKinsey labeled it, is driven by a combination of market failures that DFIs and donor countries are well situated to solve, in partnership with African nations that demonstrate a willingness to implement required reforms to receive investment capital. Doing so would unlock capital at scale, meet Africa's urgent infrastructure needs, and unleash the continent's latent economic potential, to the benefit of the whole world. But doing so also requires deliberate action and coordination across development agencies and donor countries, and active engagement and reforms by African governments. Pools of investment capital will only mobilize if and when the enabling environment and risk-adjusted returns enable them to do so responsibly. This paper explores the hurdles to overcome, and possible solutions that may help bridge this gap.

INFRASTRUCTURE INVESTMENT NEEDS

Without core infrastructure, sustainable economic growth and poverty reduction are not achievable. According to the International Energy Agency, achieving comprehensive energy inclusion would require increasing investments in African energy-grid infrastructure to $50 billion per year, while most African energy-distribution companies currently strain to sustain minimum investments required for grid maintenance.[46] Similarly, in information and communications technology (ICT), the investment required to achieve universal and affordable broadband internet access in Africa by 2030 is estimated to be around $100 billion.[47] The numbers are daunting, but they must be achieved if Africa and its people are to achieve their full potential.

The imperative of addressing the infrastructure investment gap in Africa extends not only to the continent, but holds global significance as a slew of global and multilateral initiatives have been announced to confront this challenge. These include, but are not limited to, the African Union's Agenda 2063, a strategic framework for the socioeconomic transformation of the continent that includes significant emphasis on infrastructure development. The Programme for Infrastructure Development in Africa (PIDA), integrated into Agenda 2063, is a collaborative effort by the African Union Commission, the New Partnership for Africa's Development Planning and Coordination Agency, and the African Development Bank. PIDA focuses on accelerating infrastructure development in key sectors such as transport, energy, transboundary water, and telecommunications/ICT.

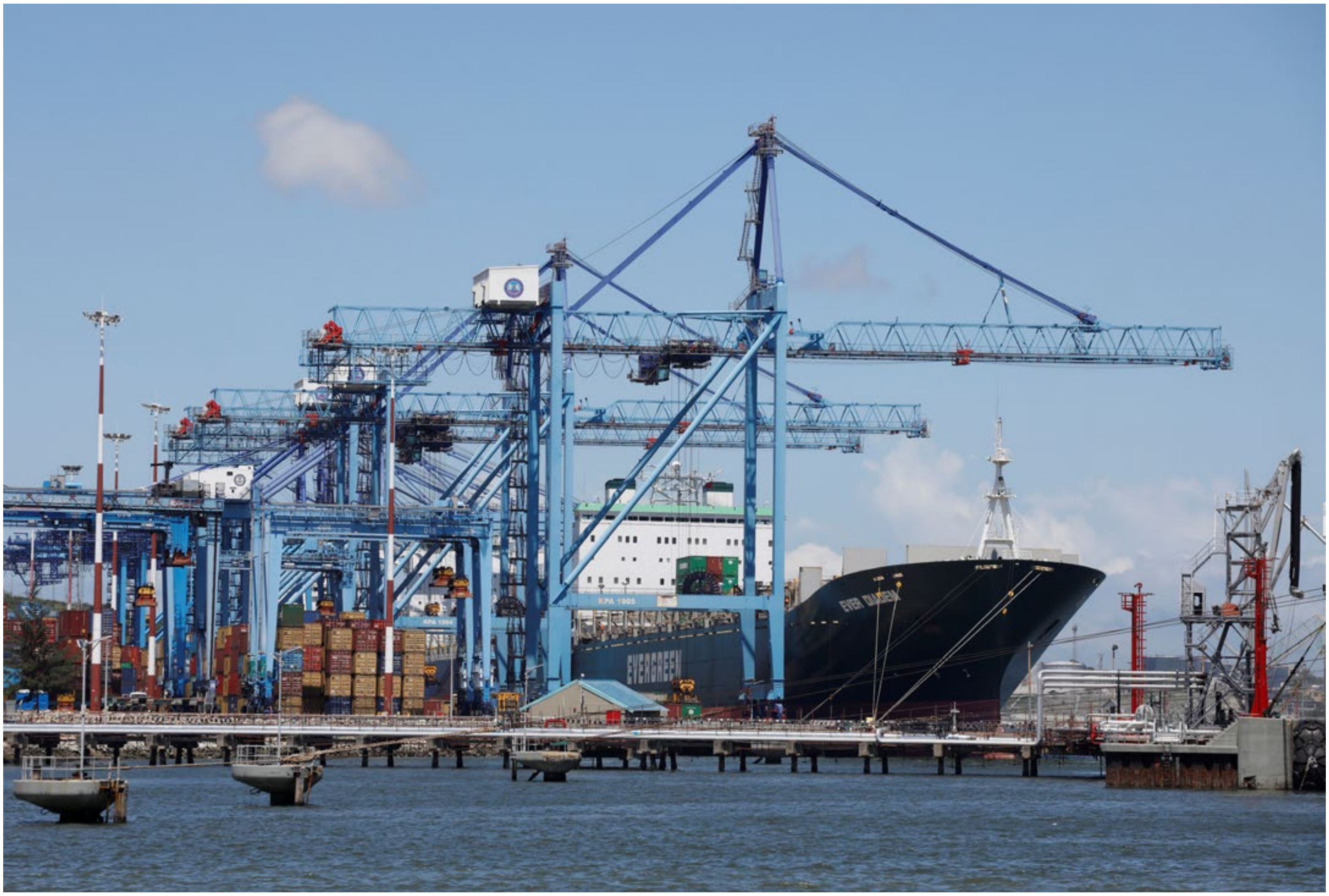
Furthermore, the AfCFTA underscores the need for substantial infrastructure investment to facilitate the creation of a single market for goods and services in Africa. This involves investments in ports, cross-border infrastructure, and payment/settlement systems. Globally, initiatives like the G20 Compact with Africa (CwA) and the World Bank's Africa Infrastructure Program aim to enhance infrastructure investment by improving the business environment and leveraging private participation.

Sector- and agenda-specific initiatives abound, such as the Alliance for Green Infrastructure in Africa—launched by the AfDB, Africa 50, and partners—to accelerate financing for green-infrastructure projects. The Distributed Access through Renewable Energy Scale-Up Platform, introduced by the World Bank Group and other partners, targets accelerated electrification. The European Union's flagship Global Gateway initiative, unveiled at the 2022 EU-AU summit in Brussels, plans to mobilize 150 billion euros this decade in blended finance for Africa, leveraging European DFIs to crowd in private capital.

Given the scale and scope of these and other similar announcements by donor countries and multilateral development organizations, criticism of the gap between ambitious announcements and the stark reality of the infrastructure capital shortage may be tempting. However, instead of placing the blame solely on development institutions for failing to effectively close the gap, it is more constructive to emphasize the value of sustained focus on this critical issue. Building on successful initiatives and learning from those that fell short can allow key actors of the

46 "Financing Clean Energy in Africa: Executive Summary," International Energy Agency, November 2023, https://www.iea.org/reports/financing-clean-energy-in-africa/executive-summary.

47 "Achieving Broadband Access for All in Africa Comes with a $100 Billion Price Tag," World Bank, press release, October 17, 2019, https://www.worldbank.org/en/news/press-release/2019/10/17/achieving-broadband-access-for-all-in-africa-comes-with-a-100-billion-price-tag#:~:text=WASHINGTON%2C%20October%2017%2C%202019—,investment%20of%20US%20%24100%20billion.



A container ship is docked next to cranes at the port of Mombasa, Kenya, October 23, 2019. Source: REUTERS/Baz Ratner

global development-finance ecosystem to better achieve sustainable development outcomes at scale. Addressing structural hurdles that impede success is paramount, providing an opportunity for upcoming initiatives to thrive where predecessors faced challenges. This nuanced approach acknowledges both the achievements and shortcomings of existing DFI-led programs and initiatives, offering a foundation for a more effective and sustainable strategy for closing the infrastructure investment gap in Africa.

AN INFRASTRUCTURE GAP THAT CAN ONLY BE CLOSED BY MOBILIZING CAPITAL AT SCALE

Inadequate infrastructure stunts African economic development in a multitude of ways, including productivity and yields, production costs, post-production losses, and market-access costs. As mentioned, the African Development Bank estimates that Africa's infrastructure gap costs the continent 2 percentage points of annual growth.

Trade and trade infrastructure offer a prime example of how inadequate infrastructure is a drag on Africa's economic growth potential. Regional and global trade in goods and services is a typical driver of economic growth for emerging economies. However, Africa's economic outlook shows stunted contributions to global trade. Indeed, while the continent accounts for 16 percent of the world population, based on World Bank data, Africa accounts for only about 3 percent of global GDP, with each percentage point of global GDP representing $1 trillion.[48] Similarly, data from Infrastructure Consortium for Africa show that Africa accounts for only 2 percent of world trade, and trade between African countries accounts for significantly lower percentages of economic activity than trade between countries on other continents, partially due to inefficient cross-border transportation networks.[49]

48 "World Bank Open Data," World Bank, last visited March 29, 2024, https://data.worldbank.org.

49 Mathilde Lebrand, "Better Transport Can Bring African Countries Closer Together and Support Their Economies," World Bank, April 6, 2022, https://blogs.worldbank.org/en/transport/better-transport-can-bring-african-countries-closer-together-and-support-their-economies; "Addressing Africa's Infrastructure Challenges," Deloitte, last visited March 29, 2024, https://www2.deloitte.com/content/dam/Deloitte/global/Documents/Energy-and-Resources/dttl-er-power-addressing-africas-infrastructure-challenges.pdf.

Roads, railways, and trade infrastructure such as ports are often insufficient and poorly maintained, and cross-border infrastructure is severely lacking. Intra-Africa trade is seen as a critical step in strengthening Africa's trade capacity and share of global trade. The African Continental Free Trade Area is a critical step in realizing this vision, with an aim to unleash the capacity of the continent-wide market. A report by the IMF estimates that, if accompanied by comprehensive reforms and meaningful investments in trade infrastructure, the AfCFTA could increase intra-African trade by more than 53 percent and trade with the rest of the world by 15 percent, and increase real GDP per capital on the continent by 10 percent, with a dramatic impact on severe poverty, lifting up to fifty million people from extreme poverty across the continent.[50]

The AfCFTA provides a useful example of how the scope and scale of infrastructure investments required to close the infrastructure gap and make the continental free-trade area a reality are truly daunting, but these investments are necessary to achieve the intended economic and development outcomes. According to the Africa Finance Corporation, implementation of the AfCFTA agreement would require more than doubling maritime freight, from 58 million to 131.5 million tons, and doubling to 4.5 million tons the volume of goods transported by plane within and across the continent.[51] The United Nations Economic Commission for Africa projects that full implementation of the AfCFTA and supporting infrastructure would increase the share of rail transport in trade from 0.3 percent to 6.8 percent. In addition to these ambitious investments in physical infrastructure, success of the continental free-trade area would require massive investments in digital trade infrastructure to support the surge in trade, as well as regulatory reforms on trade and tariffs, trade-related staff recruitment and training, and harmonization of systems and infrastructure to reduce friction in trade. While some governments may have the internal capacity for such comprehensive reforms, many require technical assistance across the board, an area in which multilateral and bilateral development institutions have a critical role to play. The shared, continent-wide nature of the project—meant to overcome market, cultural, governance, and resource differences—requires a harmonized, consistent approach across countries, and effective strategic planning and coordination across development agencies and governments engaged in implementing the initiative. For a sense of scale, the World Economic Forum estimates that total investments of $130 billion are required for implementation of the AfCFTA in the four critical sectors of transport/logistics, automotive, pharmaceutical, and agro-industries.[52] The scale and scope of investments required will only be achievable through a mix of development investments in common or shared infrastructure, blended finance solutions, private-sector investments for commercial opportunities, and public-private partnerships on core infrastructure like ports, roads, and other hard infrastructure for which local governments are partners or offtake guarantors.

Beyond cross-border trade infrastructure, roads and physical infrastructure allowing the movement of people, goods, and services within countries require major investments. According to the Center for Strategic and International Studies (CSIS), only about one-third of the rural population in Africa has access to an all-season road, impacting not only trade and mobility, but also the delivery of basic services and crisis response, including those driven by increasingly erratic weather patterns resulting from climate change.[53]

Cross-cutting trends of urbanization, migration, and a growing "youth bulge" will affect any proposed solution to this infrastructure gap. Unprecedented urbanization rates across the continent will affect infrastructure and investment needs in large, medium, and small cities alike. Urban clusters and corridors, which occur when towns and cities grow and overlap with one another, can cross countries and present both economic opportunities and challenges.[54] Urban agglomeration effects are not yet fully tapped in these areas.[55]

Energy poverty also persists across the continent. A recent CSIS study cited Africa as the most energy-deficient continent in the world, as it is home to 75 percent of the world's popula-

50 Asmaa ElGanainy, "Trade Integration in Africa: Unleashing the Continent's Potential in a Changing World," International Monetary Fund, 2023, https://www.imf.org/en/Publications/Departmental-Papers-Policy-Papers/Issues/2023/05/03/Trade-Integration-in-Africa-Unleashing-the-Continent-s-Potential-in-a-Changing-World-529215.

51 "AfCFTA Risks Turning Africa's Infrastructure Gap into a Crater," Africa Finance Corporation, last visited March 29, 2024, https://www.africafc.org/news-and-insights/insights/afcfta-risks-turning-africas-infrastructure-gap-into-a-crater.

52 "An Action Plan to Accelerate Global Business and Investment in Africa," World Economic Forum, January 2024, https://www3.weforum.org/docs/WEF_An_Action_Plan_to_Accelerate_Global_Business_and_Investment_in_Africa_2024.pdf.

53 Daniel F. Runde, Conor M. Savoy, Janina Staguhn, "Small and Medium-Sized Enterprises, Blended Finance, and Climate Change in Sub-Saharan Africa," Center for Strategic and International Studies, August 31, 2021, https://www.csis.org/analysis/small-and-medium-sized-enterprises-blended-finance-and-climate-change-sub-saharan-africa#:~:text=Only%20one%2Dthird%20of%20Africa's,vulnerable%20and%20require%20more%20maintenance.

54 "The Growth of Africa's Towns and Small Cities Is Transforming the Continent," Economist, March 9, 2023, https://www.economist.com/middle-east-and-africa/2023/03/09/the-growth-of-africas-towns-and-small-cities-is-transforming-the-continent.

55 "Africa's Cities: Opening Doors to the World," World Bank, 2017, https://www.worldbank.org/en/programs/africa-regional-studies/publication/african-cities-opening-doors-to-the-world.

tion without access to electricity.[56] Africa currently consumes less than 6 percent of global energy consumption despite being home to 18 percent of the world's population. Energy demand is higher than supply, and many countries face severe energy shortages. Inadequate electricity generation and distribution networks lead to frequent power outages, affecting businesses, households, and government capacity to function. For context, Sub-Saharan Africa, excluding South Africa, generates roughly the same amount of power as Spain, despite having eighteen times the population.[57]

Without private-sector funding, Africa is unlikely to meet targets of universal access to electricity by 2030.[58] Africa's energy-infrastructure gap spans the entire energy value chain, including generation, the grid, and last-mile infrastructure. Nigeria's infrastructure deficit alone is estimated at $100 billion annually, as up to 85 million Nigerians did not have access to electricity in 2021.[59] The challenges are compounded by fast-growing populations, aging existing infrastructure, a vast continent, and an urgent need to implement a just energy transition, balancing the needs of energy-starved countries and populations that are among the most vulnerable to climate change. Aging infrastructure means the productive energy base is often far lower than the listed installed base, and inadequate grid infrastructure often cannot sustainably bear and distribute what power there is. In South Africa, where the energy crisis looms large and caused repeated states of disaster in 2023, the central bank estimates that the electricity crisis costs the country $51 million every day that the issues remain unresolved.[60] As a result, the lack of reliable grid-scale energy drives up the cost of what energy there is, as companies, governments, and households alike rely on their own power generation—whether that be unit-scale generators or burning wood and coal, further accelerating emissions, degrading the environment, and negatively impacting population health. Grid-scale power infrastructure and distributed renewable energy offer a path for a just energy transition, requiring heavy capital investment and modernized regulatory and governance infrastructure.

A view of the newly commissioned Dangote Petroleum refinery in Ibeju-Lekki, Lagos, May 22, 2023. Source: REUTERS/Temilade Adelaja

56 Gracelin Baskaran, "Achieving Universal Energy Access in Africa amid Global Decarbonization," Center for Strategic and International Studies, January 31, 2024, https://www.csis.org/analysis/achieving-universal-energy-access-africa-amid-global-decarbonization#:~:text=Africa%20is%20the%20most%20energy,access%20to%20electricity%20on%20the.

57 Kingsley Anfom, et al., "The State of Energy in Sub-Saharan Africa and the Urgency for Small Hydropower Development," Energy Reports 9, 12 (2023), 257–261, https://www.sciencedirect.com/science/article/pii/S2352484723014476#:~:text=The%2049%20countries%20within%20sub,below%2030%25%20of%20the%20level.

58 Benjamin Batinge, Josephine Kaviti Musango, and Alan C. Brent, "Perpetuating Energy Poverty: Assessing Roadmaps for Universal Energy Access in Unmet African Electricity Markets," Energy Research and Social Science 55 (2019), 1–13, https://www.sciencedirect.com/science/article/abs/pii/S2214629618311691?via%3Dihub.

59 Benson Adenuga and Chris Chijiutomi, "Progressive Capital Partnerships Will Plug Nigeria's Infrastructure Gap," Business Day, September 13, 2021, https://businessday.ng/opinion/article/progressive-capital-partnerships-will-plug-nigerias-infrastructure-gap/; "Energy Infrastructure Enhancements Boost Nigeria's Capacity," Oxford Business Group, 2023, https://oxfordbusinessgroup.com/reports/nigeria/2023-report/energy/fuel-for-growth-infrastructure-and-security-improvements-continue-to-enhance-both-revenue-and-generation-capacity-overview/.

60 Ben Payton, "Solving South Africa's Power Crisis," Infrastructure Investor, May 9, 2023, https://www.infrastructureinvestor.com/solving-south-africas-power-crisis/.

FOCUS ON NIGERIA: ENERGY-INFRASTRUCTURE DEBT

Electricity infrastructure remains behind in Nigeria, where the World Bank estimates that only 55.4 percent of the population has access to electricity, and many individuals and businesses must still rely on generator sets.[61] Further, the electricity grid that exists is often unreliable. In 2021, the World Bank estimated that Nigeria lost $26.2 billion due to electricity power failure; the 2020 World Bank "Doing Business" report ranked Nigeria 171st out of 190 countries in getting electricity, and identified electricity access as a severe obstacle for private-sector development.[62] The Nigerian national grid suffers from unreliability due to inadequate generation capacity, limited transmission capacity, and other infrastructure issues.[63] The World Bank Energy Sector Management Assistance Program (ESMAP) reliability index estimated in 2020 that 94 percent of grid-connected households in Nigeria face frequent, unpredictable power outages, and most face between three and fourteen interruptions per week that last more than two hours in total.[64]

Recent efforts by the Nigerian government to address energy poverty have focused on improving grid infrastructure, including the implementation of various electrification projects and investments in upgrading transmission and distribution networks. However, challenges such as funding constraints, technical deficiencies, and bureaucratic hurdles have hindered progress. Additionally, the country's reliance on fossil fuels for power generation, coupled with aging infrastructure and insufficient maintenance, has further strained the grid's reliability and efficiency, while contributing to particularly high carbon emissions and pollution for what little power is produced and distributed.

The Nigerian government's initiatives to address this have focused on rural electrification, like the Rural Electrification Fund (REF) to support off-grid electrification projects in rural and underserved areas, and the Energizing Education Programme (EEP), which focuses on providing reliable electricity to universities and teaching hospitals across the country.[65] However, while these initiatives address the problem of electricity access, they may not be directly addressing the underlying grid-reliability concerns.

The Nigerian government has made efforts to attract private-sector investment in the power sector through various mechanisms, such as the 2014 Nigerian Electricity Market Stabilization Facility (NEMSF) and the Power Sector Recovery Program (PSRP).[66] These initiatives seek to address financial challenges within the power sector, improve operational efficiency, and promote private-sector participation in the development and rehabilitation of power infrastructure. Nigerian government initiatives such as the Transmission Rehabilitation and Expansion Programme (TREP) aim to modernize and upgrade the transmission infrastructure to improve the efficiency and stability of the grid, thereby reducing power outages and increasing access to electricity for consumers.

However, problems persist. Attempts at implementation of the NEMSF did not reduce liquidity challenges in the electricity market, and the power crisis worsened, as the country's liquidity issues and rising inflation negatively impacted investments across the board. A Centre for Social Justice analysis of the problems with the initiative revealed that the policy environment toward private renewable-energy investment in the country is poor.[67]

61 "Going Green: Scaling Up Access to Clean Electricity for over 17 Million Nigerians," World Bank, December 15, 2023, https://www.worldbank.org/en/news/feature/2023/12/15/going-green-scaling-up-access-to-clean-electricity-for-over-17-million-nigerians.

62 Chika Otuchikere, "Nigeria Loses $26bn Annually to Power Failure—World Bank," Business Day, February 8, 2021, https://businessday.ng/business-economy/article/nigeria-loses-26bn-annually-to-power-failure-world-bank/

63 Saki Shah, Olatunde Okeowo, and Osa Imoukhuede, "Increasing Affordable Electricity Supply in Nigeria through Embedded Generation," RMI, September 15, 2022, https://rmi.org/increasing-affordable-electricity-supply-in-nigeria-through-embedded-generation/.

64 "Nigeria: North-West Geo-Political Zone," International Bank for Reconstruction and Development and World Bank, 2020, https://energydata.info/dataset/a0aae2fc-5753-4dca-91f6-f08c297b0a5c/resource/3d77f2c1-6667-417e-83d2-77d98f342b31/download/nigeria_mtf-energy-access-country-diagnostics-report.pdf.

65 "About Rural Electrification Fund," Rural Electrification Fund, last visited March 29, 2024, https://rea.gov.ng/rural-electrification-fund/; "Energizing Education," Rural Electrification Agency, last visited March 29, 2024, https://eep.rea.gov.ng.

66 "Energy/Infrastructure," Central Bank of Nigeria, last visited March 29, 2024, https://www.cbn.gov.ng/DFD/Energy.asp; Heinrich Böll Stiftung, "Implementing the Nigerian Electricity Market Stabilisation Facility: A Review," Centre for Social Justice, 2017, https://csj-ng.org/wp-content/uploads/2018/06/IMPLEMENTING-THE-NIGERIAN-ELECTRICITY-MARKET-STABILISATION-FACILITY.pdf.

67 Böll Stiftung, "Implementing the Nigerian Electricity Market Stabilisation Facility."

Access to clean water and sanitation remains an issue across Africa. Many areas lack reliable water-supply systems, as well as adequate sanitation infrastructure, leading to health problems, reduced quality of life, and excessive pollution and waste buildup. Indeed, according to the World Bank, approximately one-third of the African population, or some 387 million people, lack access to a basic level of safe drinking water, while 60 percent lack basic sanitation services, with the overwhelming majority of those facing the most severe lack of access living in rural communities.[68] Estimates attribute the loss of 5 percent of GDP in sub-Saharan Africa each year to water scarcity, pollution, and sanitation issues.[69] The challenge of building and delivering access to water and sanitation is compounded by rapid urbanization, failed urban planning, and aging infrastructure. The failure of delivering water and sanitation—aside from depriving people of what should be considered a basic human right—has a major impact on economic development, keeping children out of school and impacting economic productivity through higher rates and duration of illness for the working-age population. Investment in water and sanitation infrastructure is foundational for meeting Africa's health and economic-development objectives.

While Africa has experienced dramatic growth in digital connectivity, access and connectivity remain unevenly distributed, as many regions still suffer from limited access to telecommunications and internet services. The International Finance Corporation and Google reported that the internet economy in Africa could add $180 billion to the continent's GDP by 2025, although current investment levels are well below what is needed to meet demand.[70] Even regions with more ready access to telecommunications often use technology that is one or more generations behind. This lingering digital divide hampers education, business, and access to information, especially for Africa's growing youth population. According to CSIS, Africa needs $100 billion in new investments before 2030 to connect more than a billion new users and close the internet-coverage and digital-usage gaps.[71]

The healthcare systems in many African countries face multifaceted challenges characterized by underfunding, understaffing, and a lack of essential infrastructure, equipment, and supplies. This critical situation significantly impacts the overall quality of healthcare, leads to disproportionate loss of productivity and lives, and hampers the ability to respond effectively to health crises. Notably, continent-wide per capita health spending is alarmingly low, estimated at $83, representing less than 2 percent of the expenditure seen in wealthier countries.[72] Furthermore, the ratio of healthcare workers to the population averages 2.3 per 1,000 people, one-tenth that of the Americas, where this ratio is 24.8 healthcare workers per 1,000 people.[73] Compounding the issue, healthcare professionals in Africa often operate with insufficient training and resources, and their reach is limited by poor transportation infrastructure, preventing them from adequately serving the most vulnerable communities. Digital health technology also lags behind on the continent, and countries face challenges in adopting and integrating advanced technologies into their healthcare systems.

Insufficient educational infrastructure remains a pressing concern across many regions in Africa, where schools grapple with chronic issues of overcrowding, limited resources, and a dearth of basic facilities. This educational deficit is starkly reflected in statistics, which show that one-fifth of African children do not attend primary school, and 60 percent are no longer in school by age fifteen.[74] The continued failure to close the gap in education infrastructure risks losing current and future generations to poverty, and further stunting African economic growth and productivity potential at a time when African populations are forecasted to be the fastest growing in the world.

68 Ayat Soliman and Saroj Kumar Jha, "Closing the Access Gap for Water and Sanitation in Eastern and Southern Africa: Raising the Ambition," World Bank, March 27, 2023, https://blogs.worldbank.org/en/water/closing-access-gap-water-and-sanitation-eastern-and-southern-africa-raising-ambition.

69 "Background Note: Diversifying Sources of Finance for Water in Africa," Roundtable on Financing Water, Organisation for Economic Co-operation and Development, November 22–23, 2023, https://www.oecd.org/water/background-note-diversifying-sources-of-finance-for-water-in-Africa-10th-rt-meeting.pdf.

70 "Africa's Digital Infrastructure Opportunity," Invest Africa, last visited March 29, 2024, https://www.investafrica.com/insights-/africas-digital-infrastructure-opportunity.

71 Daniel F. Runde and Thomas Bryja, "The Role of AGOA in Accelerating Africa's Digital Transformation," Center for Strategic and International Studies, November 7, 2023, https://www.csis.org/analysis/role-agoa-accelerating-africas-digital-transformation#:~:text=In%20order%20to%20achieve%20Africa's,over%20the%20next%2010%20years.

72 "Health Financing in Sub-Saharan Africa" in The Continuing Epidemiological Transition in Sub-Saharan Africa: A Workshop Summary (Washington, DC: National Academies Press, 2012), https://www.ncbi.nlm.nih.gov/books/NBK114514/#:~:text=In%20the%20Africa%20region%20of,spending%20in%20high%2Dincome%20countries.

73 Saraladevi Naicker, "Shortage of Healthcare Workers in Developing Countries—Africa," Ethn Dis 19 (2009), https://pubmed.ncbi.nlm.nih.gov/19484878/#:~:text=Africa%20has%202.3%20healthcare%20workers,of%20the%20global%20disease%20burden.

74 Leora Klapper and Mansi Vipin Panchamia, "The High Price of Education in Sub-Saharan Africa," World Bank, March 13, 2023, https://blogs.worldbank.org/en/developmenttalk/high-price-education-sub-saharan-africa.

Dr. Fabien Kongolo does his morning rounds, followed by nurses and trainee doctors at the Yakusu General Hospital, in Tshopo, Democratic Republic of Congo, October 5, 2022. Source: REUTERS/Arlette Bashizi

MOBILIZING CAPITAL TO MEET AFRICAN INFRASTRUCTURE NEEDS AT SCALE

Sources of capital to meet infrastructure needs include governments, development banks, DFIs including the Bretton Woods institutions, and pools of private capital. African governments have the strongest incentive to invest in their own infrastructure, but they face challenges of capacity in the face of the issue's scale. Beyond financial requirements, planning, implementing, monitoring, and maintaining large infrastructure projects is extremely demanding in terms of human capital and experience. Development organizations—including, in particular, the World Bank, but also bilateral programs such as the US Treasury Department's Office of Technical Assistance—play a key role in capacity development for ministries of finance and international cooperation, as well as other ministries and government agencies tasked with developing and implementing countries' economic-development agendas.

The financial resources required for these programs far exceed the capacity of most African countries, which lack the fiscal space to support the capital-investment requirements to close the infrastructure gap while meeting other domestic obligations and priorities. The lack of fiscal capacity has been made worse in recent years, as many African countries struggled with debt-service obligations in the face of rising global interest rates, inflationary pressures, and tightening markets for emerging-market sovereign debts. Here again, development banks and bilateral aid and development programs play a key role in supporting fiscal planning and stability of emerging- and frontier-market governments, and investing in priority infrastructure projects with high developmental outcomes. But even with the direct participation of development banks and DFIs, the financing gap remains. For reasons of both scale and long-term financial sustainability, participation of capital markets is crucial to close the infrastructure gap in Africa.

The majority of investment capital under management that could be mobilized to help close the African infrastructure gap in a sustainable manner at scale is managed by US and European fund managers. For a sense of scale, it is useful to consider US managed funds, which would generally include any investments in Africa either as part of their alternative-investment allocations or their global infrastructure investments. According to the Chartered Alternative Investment Analyst Association, in the United States alone, alternative-fund allocations represent

12 percent of total managed funds, or $18 trillion.[75] McKinsey estimates that as much as $550 billion of global assets under management have a targeted interest in African infrastructure, including government agencies and institutional capital.[76] Of this, McKinsey estimates that 53 percent of available funds are private-capital allocators, including fund managers and investment banks, and that US investors represent 38 percent of potential investors. The issue, therefore, is not availability of capital, but rather closing the gap between demand in Africa and global allocators of capital. Understanding the drivers of that gap is critical to better understanding the key role that Bretton Woods institutions and other DFIs have to play to help sustainably close the financing gap at scale.

DRIVERS AND INCENTIVES OF LARGE-ASSET ALLOCATORS AND AFRICAN PROJECT SPONSORS

In 2018, with funding from USAID, MiDA Advisors, and Mercer, a global leading consultant to pension funds and endowments, jointly published a comprehensive report which was a deep dive into the potential, hurdles and impediments to institutional investors seeking to deploy capital to Africa[77]. A follow-on report, in partnership with Standard Bank of South Africa, entitled "Infrastructure Financing in Sub-Saharan Africa: Opportunities and Impact for Institutional Investors," compiled detailed case studies of infrastructure investments in Africa, and lessons learned to scale the mobilization of institutional capital for African infrastructure.[78] The key findings of these reports are useful to understand the gap between capital and opportunities in Africa.

For the most part, the funds under management being considered for crowding in to African investments are those of pension funds, endowments, and large family offices. These funds are typically managed by pooled-fund managers, and on occasion by leading outsourced chief investment officer (OCIO) service providers. There are several implications of this—including, importantly, the size of funds, the minimum investment sizes required by these investors, and the reality that African infrastructure investments are benchmarked against other alternatives. With few exceptions, managers of pooled capital do not have dedicated allocations or investment targets for Africa. Any investment opportunities in Africa must be weighed against other investment opportunities in terms of risk-adjusted returns and any other criteria that the investment-management team might consider as part of any such investment. Finally, it is important to consider most asset allocators' lack of depth of understanding or physical presence in African markets, as well as other hurdles to investing in Africa that are outlined below.

High Barriers to Investing in African Infrastructure

Given the challenges of investing in Africa, many prospective investors—both at the individual staff level and as institutions—may perceive a disincentive to even building a pipeline of African investment opportunities, or seeking to advance such investments through their approvals processes.

Very few institutional investors have a specific mandate or allocation to invest in Africa, or in African infrastructure. Rather, they will typically consider investments in Africa as either part of global emerging/frontier markets or global infrastructure. Specifically, if considering direct investments in infrastructure opportunities, these are typically categorized and benchmarked against global infrastructure investments, whereas investments into African private-equity or venture-capital funds would be considered emerging/global-market alternative investments. The implication is that most institutional investors do not have dedicated allocations to Africa that must be deployed over a set period. Every African investment opportunity is benchmarked against other competing options on a global basis, considering risks, rewards, diligence, transaction-management costs, paths to realizing the investment via market or structured exit, and reputational risks.

The large size of most managed funds requires them to write relatively large minimum tickets for any investments they make. This conflicts with the reality that the majority of African investments are relatively small, single-country investments. As a result, most institutional investors must consider making any Africa investments allocations via Africa-focused funds, such as Africa-focused private equity funds, which dilutes returns and adds a layer of management and fees. And yet even in this scenario, the scale may remain too small, in part because African private-equity and venture-capital funds are relatively small by global standards, and institutional investors in these funds (limited partners, or "LPs") typically cannot represent more than a set percentage of each fund—a percentage that is often even lower when investing in a fund, region, or sector for the first time. As a result, even when there may be interest, opportunities for investment in Africa that meet the minimum

75 Aaron Filbeck, "The State of Alternative Investments in 2022," CAIA Association, April 6, 2022, https://caia.org/blog/2022/04/06/state-alternative-investments-2022.

76 Kannan Lakmeeharan, et al., "Solving Africa's Infrastructure Paradox," McKinsey & Company, March 6, 2020, https://www.mckinsey.com/capabilities/operations/our-insights/solving-africas-infrastructure-paradox.

77 "Investment in African Infrastructure: Challenges and Opportunities," Mercer, MiDA Advisors, NASP, and USAID, September 2018,

78 "Infrastructure Financing in Sub-Saharan Africa: Opportunities and Impact for Institutional Investors," Mercer, MiDA Advisors, and Standard Bank, September 2021, https://corporateandinvestment.standardbank.com/static_file/CIB/PDF/2021/Insights/Infrastructure_Financing_in_Sub-Saharan_Africa_for_Inst_Investors.pdf.

size and concentration requirements of institutional investors can be few and far between.

Few leading institutional investors have a deep understanding of the African investment environment and landscape. Africa is extremely large, with a tremendous diversity of countries, regions, economies, population sizes, cultures, languages spoken, levels of development, capital-market rules and controls, and investment environments. This diversity—paired with many relatively small countries and economies, opaque markets, broadly negative media narratives on the continent as a whole, and a limited pipeline of investment opportunities—imposes high diligence costs relative to investment opportunities. Given the extremely low ratio of investment opportunities that go from initial screening to final approval in general, and the complexity and fragmentation of African markets, many institutional investors opt not to commit to deepening their understanding of the African investment environments or conducting due-diligence activities on investment opportunities they are presented.

Leading global institutional investors measure investment performance in US dollars, euros, or other hard currencies. The steep erosion in recent years of most African currencies against the US dollar and other hard currencies, driven both by rising interest rates in the United States and Europe in the face of rising inflation and weak fiscal and monetary management in many African economies, has had a dramatic impact on hard-currency risk-adjusted returns for institutional investors. The general lack of long-tenor forward markets for African currencies to match infrastructure-investment horizons, and growing fiscal pressure on many emerging markets including in Africa, serves as a major deterrent for institutional investors even considering investments on the continent in general, and in smaller countries more specifically. The clear exception on the continent are the fourteen African countries that use the CFA as a common currency, which has sustained a steady peg to the euro or the franc for more than thirty years, allowing investors stability and currency-hedging options if needed, via proxy of the euro, leaving only currency-parity revaluation risk as unhedgeable.

Institutional investors, managing retirement funds and other similar pools of capital with very long-term horizons, are held to high fiduciary standards that heavily emphasize downside risks. What's more, as large aggregators of capital, they have access to a global pipeline of investment opportunities. And, as trustees of pooled funds, they are typically held to high social, environmental, and governance standards, as well as reputational risk assessments, which they pass through to their investees, and for which supplemental screening and diligence requirements may be added. As such, the process from initial screening to final approval for any investment opportunity can be lengthy and expensive, with multiple layers of review and approval—including staff, senior management, boards of trustees, and external consultants and advisers—all of which may have stronger incentives to reject African investment opportunities that they may not understand well, than to give consent or approval.

Finally, institutional investors consider the composition and representation of other investors in a given transaction as part of their due diligence and final investment-approval process. Knowing and understanding co-investors provides diligence comfort, an assurance that other investors whose systems and processes they respect are also participating, and trust in the shared burden of governance and oversight of the project sponsor, impacting expected investment outcomes and reputational risk management. Conversely, the absence of such investors in any given transaction may serve as a deterrent to institutional investors who lack prior experience investing in Africa, even if all other aspects of diligence appear positive.

Challenges Faced by African Project Sponsors

As is the case with allocators of capital, understanding the drivers and binding constraints of African project sponsors is critical to closing the gap between institutional capital and investment opportunities on the continent. African infrastructure project sponsors face a combination of challenges and economic circumstances, which help inform why so few projects have historically reached financial close despite the well-documented gap and opportunity set.

Local and federal governments are typically critical stakeholders for infrastructure investments, not only through the definition and enforcement of the enabling investment environment, but also often as the ultimate backers of projects through parastatal companies, at the heart of public-private partnerships (PPP), or as guarantors of offtake agreements. As such, governments and the enabling regulatory environment are key to the success or failure of any strategy to crowd in institutional capital to close the infrastructure gap. It must be noted that, given the key role played by governments as transaction enablers or gatekeepers, corruption and opaque decision-making processes are particular risks to project sponsors in countries with poor governance.

A large share, if not the overwhelming majority, of prospective infrastructure investments are stuck at pre-bankability, and far too little capital targeting the African continent specializes in pre-bankability investments. Indeed, pre-bankability investments, defined broadly as investments in companies and projects that have not yet demonstrated a sustainable business model and revenue-generation capacity, are a specialized skillset in infrastructure investing. These investments typically require investors to have a higher risk appetite and capacity to support project sponsors in critical areas of strategy, operations, management, and governance with a hands-on approach to accelerate a project's trajectory to bankability. Without access to this specialized group of investors, and the value addition they bring at the local and regional levels, pre-bankable project sponsors are left to navigate the journey alone, often lacking both the capital and broad knowledge base required to successfully achieve the commercial viability needed to attract capital at scale. Indeed, McKinsey estimates an existing pipeline of $2.5 trillion in African infrastructure projects with a target completion in 2025, of which 80 percent will fail to get past the feasibility and business-plan development stages, while half of those that make it past these stages will fail to reach financial close.[79] Based on these data, only 10 percent of the existing pipeline of infrastructure projects will reach financial close.

The process and costs associated with raising capital for infrastructure projects are often daunting for project sponsors. In addition to business-plan development and feasibility studies, infrastructure projects typically involve partnering with or securing authorizations from local governments and demonstrated compliance with regulatory, environmental, health and safety, social, and technology standards. Institutional investors may have even higher compliance standards than what is required at the local level. Once an infrastructure project reaches bankability, raising institutional capital requires extensive investor engagement and outreach, and lengthy and expensive diligence. McKinsey estimates the cumulative prefinancial close costs for the known pipeline of projects with near-term completion timelines at $30 billion, representing daunting costs that many project sponsors cannot bear, and which will lead many otherwise viable projects to remain unbanked and stalled.

Infrastructure projects typically have high capital-expenditure (capex) investment requirements and limited capacity to adjust end-user prices to demand, whether because pricing is set by regulators or because offtake agreements are long term and with pre-agreed pricing. As such, investments in infrastructure projects are particularly sensitive to the blended cost of capital. This is a particular challenge for infrastructure investments in many African countries, where capital is subject to a risk premium, and where foreign-exchange (forex) volatility can impose a steep local-currency pricing penalty or interest-rate premium, making the cost of capital too burdensome to sustainably support infrastructure investments in the long run.

BRETTON WOODS INSTITUTIONS PLAYING A MEANINGFUL ROLE

Bretton Woods institutions have a host of properties that should make them well positioned to play a central role in bridging the gap between institutional investors, project sponsors, and investment opportunities across Africa. Importantly, these institutions and their shareholders have a permanent commitment to the continent and capital allocated specifically for investment in the region, including in hard-to-reach countries and markets. Also key to their capacity is the extensive physical presence and staff in nearly every country on the continent. This presence, combined with their active work on governance, and social and capital-market reforms in the target markets, puts them in a uniquely powerful position to help drive coordinated and impactful capital mobilization. Their local footprints and staffs also give them visibility into priority sectors, and a pipeline of projects and investment opportunities covering the entire continent that no other single institution has.

Beyond just local footprints and scopes of work, the institutional capacity and knowledge accrued by Bretton Woods institutions over decades of work and investment experience, in global emerging and frontier markets, and through periods of growth, economic contractions, civil unrest, and conflict, put them in a unique position of having the deepest and broadest experience investing in global emerging markets. This institutional capacity and experience includes due diligence, transaction structuring, public-private partnerships, transaction monitoring, risk management, and impact assessment. This knowledge and experience, accrued only thanks to the unique funding, governance structure, and mission of the institutions—if shared broadly and treated as a public good, rather than a comparative advantage—can be a tremendous asset to drive and inform the global investment community.

Indeed, much of this is possible only because Bretton Woods institutions have the unique advantage of benefitting from donor funding, sovereigns as shareholders, and access to a host of subsidized pools of money targeting specific sectors, countries, and impact outcomes. While this may not always be immediately evident in the pricing or structuring of transactions, it is a material benefit these institutions have over purely commercial investment organizations seeking to operate in frontier

79 Lakmeeharan, et al., "Solving Africa's Infrastructure Paradox."

World Bank President Ajay Banga and International Monetary Fund (IMF) Managing Director Kristalina Georgieva attend a signing ceremony with Thailand to host the 2026 IMF and the World Bank annual meetings on the last day of the meeting in Marrakech, Morocco, October 15, 2023. Source: REUTERS/Susana Vera

and emerging markets. Similarly, the in-house credit-enhancement tools, combined with the scope of work of the broader MDBs, gives the Bretton Woods-affiliated DFIs access to both implicit and explicit credit enhancement. This is a tremendous asset in a region and in countries where political change, civil unrest, and external shocks can rapidly change the prospects of investments.

RECOMMENDATIONS AND PROPOSED POLICY PRIORITIES TO CROWD IN INSTITUTIONAL CAPITAL

Considering all the above, the Bretton Woods institutions and the broader development-finance ecosystem should consider a host of innovations, reforms, and scaling of existing initiatives in a concerted, coordinated manner, with a clear focus to rapidly and sustainably scale the participation of private capital in closing the African infrastructure gap. Coordination is critical for success. While the idea is not new, and attempts to do so are ongoing, a redoubling of efforts to harmonize efforts and solutions for mobilizing private capital can achieve meaningful outcomes. Most of the key requirements and products for success exist, but are siloed, misaligned, or burdened by conditionalities that frustrate capital markets, and ultimately undermine the intended private-sector outcomes.

1. Significantly scale the use and availability of credit-enhancement tools.

Credit enhancement can play a critical role in unlocking capital. If properly structured, credit-enhancement solutions can allow a correction in the mispricing of risk, helping institutional investors build exposure to direct investing in Africa. Well-structured credit-enhancement solutions can reduce the overall cost of capital mobilization and lower the hurdle for institutional investors to gain direct exposure to investing in Africa. If properly structured and executed, credit-enhancement tools can help unlock capital but play a diminishing role as investors gain confidence investing in frontier markets, requiring less credit enhancement over time and instead seeking high risk-adjusted returns. Recommendations for credit enhancement tools include the following.

- Increase funding for credit-enhancement solutions and promote their adoption for mobilization of institutional investment capital.

- Establish a clearinghouse for DFI-affiliated credit-enhancement solutions. Credit-enhancement tools have multiplied over time, but are fragmented across and even within institutions. Understanding the availability, conditionalities, costs, and approval processes can be opaque to both project sponsors and investors, leading to underutilization. A clearinghouse that maps, improves transparency, and assists in the screening and processing of credit-enhancement solutions of participating DFIs could greatly improve adoption and use of such solutions, playing a key role in unlocking institutional capital.

- Establish a taskforce for the harmonization of credit-enhancement terms and contracts across DFIs. To be effective, credit-enhancement solutions need a range of coverage, from partial or limited guarantees to 100-percent guarantees, and must also cover a range of default scenarios. These tools would be more effective if they worked more closely together and harmonized both terms and contracts to allow project sponsors and investors to bundle DFI-sponsored credit-enhancement solutions to meet project needs. DFIs may also consider creating joint solutions to target known market needs that none of the existing siloed products adequately cover.

- Promote the development of technical-assistance grant funding to help defray costs of credit enhancement for high-impact projects and smaller project sponsors, driving the uptake of credit enhancement and mobilization of commercial capital for these projects.

2. Increase funding and holistic support for pre-bankability projects.

Bretton Woods institutions, working in close partnership with bilateral aid programs of leading donor countries, should explore ways to develop holistic solutions to support pre-bankability projects, bringing to bear grants, technical assistance, early-stage business development skills, and target human capital to markets where these are lacking. In addition to helping crowd in capital, such holistic solutions that include both tailored financial products and hands-on technical support can dramatically improve the likelihood of projects' success and create a roadmap for similar projects across the continent.

- Increase capital allocations to pre-bankability projects, with an increased focus on the development of tailored investment instruments and grants/technical assistance for high-impact, pre-bankable projects. This is critical to increase the number of infrastructure projects that reach financial close.

- Develop specialized technical-support teams to provide hands-on support to sponsors of high-impact, pre-bankability projects through key steps of business-plan development, compliance, contract negotiations, and recruitment to help close a skills gap typically addressed by early-stage capital and specialized consulting firms in mature markets.

3. Strengthen requirements for crowding in institutional capital into individual transactions.

While Bretton Woods institutions have had some success crowding in institutional capital to Africa, more can be done to do so in a manner that serves as a primer for follow-on investments by institutional investors, including building their capacity to do so directly.

- Strengthen requirements as part of the transaction-management and approvals processes to open transactions for co-investment by institutional investors. Specifically, implement memoranda of understanding with institutional investors, giving them access to transaction data rooms and supporting documents early in the transaction evaluation process, and providing optionality to co-invest alongside the DFIs can help not only crowd in capital but also build capacity of institutional investors for direct investments in African projects. This is in contrast to efforts by DFIs to recycle or securitize African investment portfolios, which may increase the distribution of African-market investments across a broader base of institutional investors, but achieves very little in terms of building capacity or the likelihood of follow-on direct investments into African projects by these same institutional investors.

- Subordination, or at the very least parity in the capital stack, of DFI investments can serve as a strong incentivize to mobilize institutional investors. Institutional investors are more likely to trust the diligence and project-management systems of DFIs for direct investments in African projects and sponsors. To further incentivize direct investments by institutional investors, and to manage weighted costs of capital for project sponsors, DFIs should subordinate—or, at the very minimum, offer parity with—institutional investors. Investors understand that DFIs have the unique capacity to engage with project sponsors, and even governments, on challenging investment portfolio-management issues, in a way private capital cannot. Thus, subordinating their position, while still having this level of influence, can increase institutional-investor confidence in deals, and help drive down risk-adjusted return expectations when benchmarked against the pricing of the subordinated DFIs investments.

- Regular and frequent publication of disaggregated transaction performance data can help drive transparency and close risk-pricing penalties not supported by market data.

4. Lend in local currency.

Hard-currency lending is fundamentally unsustainable for most businesses in Africa that do not operate in US dollars or euros. The practice of lending in US dollars effectively seeks to push the burden of currency management on local businesses that lack the capacity to do so, and constrains the universe of investible projects. Bretton Woods institutions and leading DFIs should curtail this practice and explore several concurrent paths to do so, including the following.

- Reach agreement across DFIs on a minimum transaction size threshold for hard-currency lending. Subject to this agreement, investments and projects below an agreed threshold cannot be done in hard currency unless that business specifically uses said hard currency as its core operating currency.

- Mobilize Bretton Woods institutions, including the IMF, and leading central banks in OECD countries to develop solutions for currency hedging in partnership with local-country central banks, prioritizing hedging solutions for investments in high-priority, high-impact sectors.

- Leverage the balance sheet of Bretton Woods institutions to establish local and regional development funds, operating consistent with key DFI policies, but raising local capital to deploy in local currency in high-impact infrastructure projects.

5. Provide technical-assistance grants to defray sponsors' transaction costs.

African project sponsors often lack the liquidity to cover direct transaction costs, including advisory services, feasibility and impact studies, investor engagement, legal, and other costs. In particular, for midsize and smaller transactions, these direct costs can become a meaningful percentage of the total capital raise target, and a major hurdle to infrastructure transactions reaching financial close. Establishing a donor-funded grant facility to defray transaction costs can increase the volume of transactions that reach financial close and may be most impactful if done through a third-party or co-managed mechanism to ensure independence from any single DFI or Bretton Woods institution.

6. Incubate local transaction-advisory firms.

Bretton Woods institutions' staffs typically source and manage transactions internally. While there are significant efficiencies for the institutions themselves in doing so, it unfortunately does not build local capacity in transaction incubation and advisory. By working with and incubating local transaction-advisory and financial-structuring firms, DFIs can help build local capacity to increase the pipeline of investable projects over time. This is especially valuable for smaller transactions, and in smaller countries with less dynamic capital markets.

7. Establish a clearinghouse for grants and subsidies focused on decarbonized energy solutions and publishing transaction data.

Transitioning to decarbonized and renewable energy requires targeted subsidies to achieve scale and commercial viability, particularly where projects require novel application of solutions or new technology. In support of these initiatives, a host of grant mechanisms—including both multilateral and bilateral initiatives, as well as privately funded programs—have emerged in recent years. The multiplication of climate-finance grant programs, and each one's unique requirements and funding properties, represents a potentially unhelpful fragmentation of initiatives with strong potential outcomes. Leading donor countries, which cumulatively account for most of the available grants and technical-assistance funding in climate finance, should work collectively on establishing a clearinghouse for climate-finance grants and subsidies. Prioritizing transparency and ease of access to information on the universe of programs, as well as offering technical-assistance funding for project sponsors seeking access to commercial capital, can drive and accelerate the energy transition. Centralized publication of transaction data and climate outcomes can also help accelerate the adoption of best practices in climate finance and transaction structuring.

Case Study: Bringing It All Together

In March 2023, with the support of MiDA Advisors serving as lead transaction adviser, Caisse Régionale de Refinancement Hypothécaire (CRRH) raised $274 million in long-term capital-market financing to support affordable mortgages in West African Economic and Monetary Union (WAEMU) countries. The seventeen-year financing is expected to allow an estimated six thousand households to access homeownership thanks to affordable mortgages.

CRRH launched by leading West African regional-development agencies. In 2010, the West African Development Bank (BOAD), the WAEMU Commission, the Central Bank of West African States (BCEAO), and the West African Monetary Union Financial Markets Authority came together to launch the West African Economic and Monetary Union Regional Mortgage Refinancing Company (CRRH-

UEMOA, or CRRH for short).[80] CRRH, which provides liquidity to mortgage banks across the WAEMU zone, was launched as a solution to the failure of local markets to develop long-term mortgage markets of any meaningful scale, making housing unaffordable for low- and middle-income households. Seeding CRRH as a local institution with regional reach and the ability to crowd in capital markets serves as a useful example of how development banks and DFIs can leverage their balance sheets to seed local currency funds to solve regional infrastructure-development issues.

USAID launches the MiDA initiative to mobilize institutional capital.

In 2017, following an announcement at the second US-Africa Business Forum, the United States Agency for International Development (USAID) launched the Mobilizing Institutional Investors to Develop Africa's Infrastructure (MiDA) initiative, in partnership with the National Association of Securities Professionals (NASP), a leading association of black, minority, and women asset managers. The MiDA initiative sought to educate offer technical assistance to institutional investors seeking investment opportunities in Africa, as well as providing advisory services and technical assistance to African project sponsors. Operating today as MiDA Advisors, this was a useful case study of development agencies incubating a transaction advisory firm, specializing in blended finance for African infrastructure projects.

The CRRH Blended Finance Transaction

Grant financing to defray transaction costs: Facilitated by Prosper Africa, a US presidential-level initiative to mobilize the collective resources of the US government to catalyze two-way trade and investment between the United States and Africa, USAID provided technical-assistance grant financing to defray direct costs incurred by CRRH related to the transaction.

Technical assistance and transaction advisory: MiDA Advisors, with funding from USAID, originated the transaction and served as lead adviser on this blended-finance solution.

Credit enhancement from the US Development Finance Company (DFC): The DFC provided a credit guarantee, allowing CRRH to issue a long-tenor bond, at seventeen years, and secure an investment grade rating on the Eurobond issuance, opening access for the first time to international bond investors.

Raising $274-million equivalent in euros and CFA from institutional investors: Operating in the WAEMU region means that CRRH's operating currency is the West African CFA, pegged to the euro. As such, the transaction was structured as a Eurobond issuance, with a local tranche issued in CFA. Thanks to the combination of technical assistance and credit enhancements, CRRH raised a total of $274-million equivalent in seventeen-year financing, comprising a seventeen-year $217-million equivalent Eurobond and $57million-equivalent CFA bond. Bank of America Securities, Brean Capital, and the Bank of New York Mellon all supported the transaction, further enhancing the crowding in of private-sector and capital-market actors, and building a track record upon which additional future transactions can be built.

80 "Interview with Ms. Yedau Ogoundele, Director General of the WAEMU Regional Mortgage Refinancing Company," World Bank, November 7, 2023, https://www.worldbank.org/en/news/feature/2023/11/07/interview-with-yedau-ogoundele-director-general-of-the-waemu-regional-mortgage-refinancing-company#:~:text=The%20West%20African%20Economic%20and,Niger%2C%20Senegal%2C%20and%20Togo..

Conclusion

Africa's deep and growing infrastructure gap remains a major impediment to the continent's growth and achieving development objectives. Faced with the fastest-growing population, rapid urbanization, and harmful impacts of climate change, it is critical for the world to support African nations in meeting development objectives—not only to sustain global growth and poverty reduction, but also to mitigate risks of social unrest, conflict, and migratory pressures within the continent and from the continent to the rest of the world.

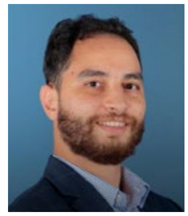
Closing the infrastructure gap will necessitate crowding in institutional capital at scale. Efforts to do so have proliferated across DFIs and aid organizations, with limited success. Solutions developed in silos, driven primarily by policy priorities of donor countries, and with inadequate consideration for the actual needs of institutional investors and project sponsors will continue to underperform against intended outcomes. The shared global focus on solving these issues, and increased focus on leveraging DFI and donor programs to solve market failures that have hampered capital-market mobilization as a central pillar to closing the infrastructure gap, is positive. Many of the required tools and policies are emerging, and development organizations are coalescing around possible solutions. But success will require bold action, a willingness of donors and leaders of development organizations to consider new approaches and organizational changes, and, importantly, breaking silos and the growing fragmentation of programs. In addition to scale, removing unnecessary and burdensome limitations and conditionality on identified solutions, and pooling and coordinating efforts across multilateral development banks, DFIs, aid agencies, and even privately funded initiatives will be crucial to achieve sustainable success at scale and meaningfully close Africa's infrastructure gap.

A teacher conducts a lesson in a classroom at Martyr Rami school, in Cairo, Egypt, October 2, 2022.
Source: REUTERS/Mohamed Abd El Ghany

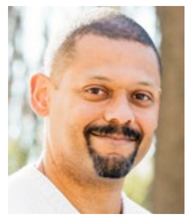
About the Authors

Otaviano Canuto is a senior fellow at the Policy Center for the New South, principal at the Center for Macroeconomics and Development, and nonresident fellow at the Brookings Institute. Canuto is a former vice president and executive director at the World Bank, former executive director at the International Monetary Fund, and former vice president at the Inter-American Development Bank. He was also deputy minister for international affairs at Brazil's Ministry of Finance, as well as professor of economics at University of São Paulo (USP) and University of Campinas (UNICAMP).

Hafez Ghanem holds a PhD in economics from the University of California, Davis and is a senior fellow at the Policy Center for the New South. Ghanem is a development expert with a large number of academic publications, and more than forty years' experience in policy analysis, project formulation and supervision, and management of multinational institutions. Recent published works on reform of the Bretton Woods institutions include "How to Govern the Bretton Woods Institutions Better" and "Reforms for a 21st century global financial architecture." He has worked in more than forty countries in Africa, Europe and Central Asia, the Middle East and North Africa, and South East Asia.



Youssef El Jai works at the Policy Center for the New South as an economist. He joined the center in 2019 after earning a master's degree in Analysis and Policy in Economics from the Paris School of Economics and the Magistère d'Economie from the Sorbonne.



Stéphane Le Bouder is a nonresident senior fellow at the Atlantic Council's Africa Center and the chief operating officer of MiDA Advisors, a global advisory firm specializing in facilitating institutional investments and trade in Africa and other emerging markets.

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Atlantic Council
1030 15th Street, NW, 12th Floor
Washington, DC 20005

(202) 463-7226, www.AtlanticCouncil.org