



THE SUSTAINABLE DEVELOPMENT GOALS CENTER FOR AFRICA

SDG Financing for Africa: Key Propositions and Areas of Engagement

Discussion Paper for Development Finance Workshop

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I. Introduction and Objective

The achievement of the Sustainable Development Goals (SDGs) in African nations requires a bold approach to development finance – one that significantly increases long-term, public and private investments on the continent. Without a bold approach to this endeavor, the SDGs will simply not be achieved. Unlike the period of the Millennium Development Goals (MDGs), during which there was a major focus in Overseas Development Assistance (ODA), the SDGs will require all types of financing – public, private, international and domestic – to be achieved.

As a result of this need, new frameworks for development finance are required for national governments and financial institutions.

The purpose of this document is to highlight key propositions regarding the financing of the SDGs in African nations and to articulate how the SDGC/A will help contribute to these challenges.

II. The Global Backdrop

The SDGs were constructed and passed during a period of global economic and financial transition.

From a long-term perspective, the global economy continues to expand significantly due to broad improvements of physical and human capital and unprecedented technological progress. As of 2016, the size of the global economy is approximately \$115 trillion (in PPP, USD) and growing, despite the recent slowdown, at 3-4% per annum.¹

In addition, the transition of the center of global economic activity continues to occur, from West to East and North to South. Emerging economies now constitute close to sixty percent of global economic activity and global economic growth.² China is the world's largest economy, on a PPP basis, and India is beginning to play a much larger role in global economic and financial affairs. A large-scale, multi-decadal economic transition has significant impacts on financial flows and system-design, and this will serve as the backdrop during the period of the SDGs.

From a medium-term perspective, the impacts of the 2008 Global Financial Crisis (GFC) are still being felt around the world, with global growth remaining underwhelming and below long-term trends. In addition, the GFC led to financial policy-makers undertaking significant and unprecedented action, such as simultaneous lowering of interest rates by Central Banks in the US, Europe and Japan, which positively impacted financial flows to Africa and other developing economies. As these policies begin to be reversed, many emerging economies – including key economies in Africa – are beginning to feel the impact of capital reversal in terms of currency and interest rates.

From a short-term perspective, there remains significant geo-political economic and financial uncertainty due to political transitions in major political capitals around the world. During 2016, the world experienced two major global political events: 1) the referendum in the United Kingdom leading to the decision of leaving the European Union (so called “Brexit”) and 2) the election of President Donald Trump. Government leaders, business executives and financial markets are working through what these changes mean for investment decisions over the next few months and years.

The transitions and uncertainty in the global economy and financial system articulated above has direct impact on the global development finance architecture and capital flows for the SDGs.

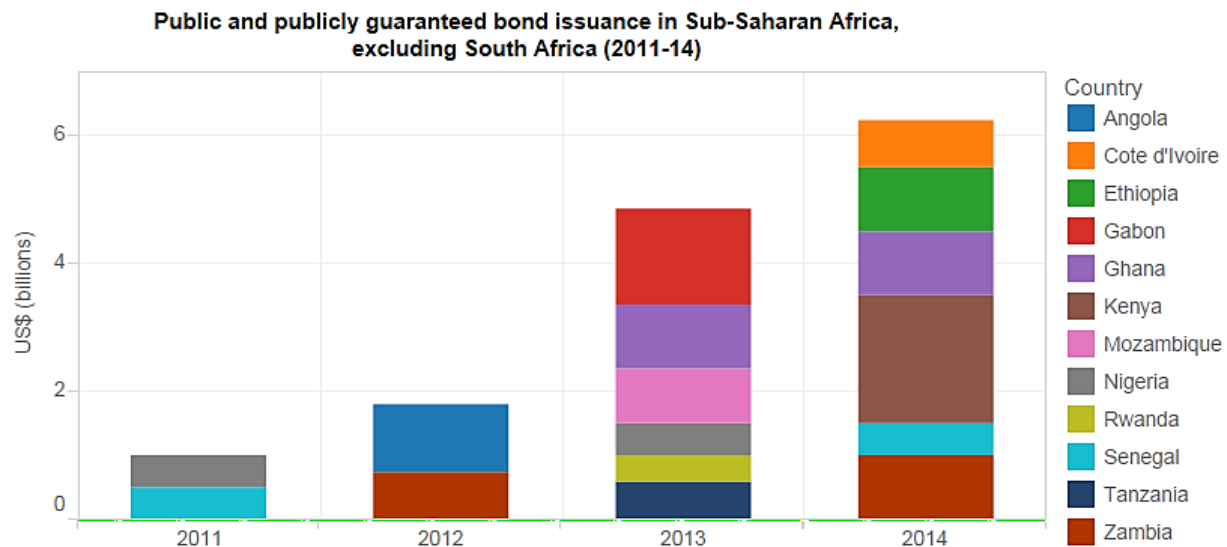
III. The Africa Backdrop

The African continent is going through its own complex economic and financial transformation, both in the context of the global economy as well as in its own terms.

From a long-term perspective, the prospects for continued economic growth and human development in Africa remains very strong. The continent benefits from a strong natural resource base, abundant human capital and strong entrepreneurial activity amongst its citizens. In recent times, the world has witnessed African economies translating their potential to achievements. From 2000-2015, growth rates in sub-Saharan Africa outpaced global economic growth rates by 2.5% per annum, of 5.3% versus 2.8%³.

From a medium-term perspective, Africa is continuing to deepen its financial markets and build its financial institutions for long-term economic growth. The deepening of Africa's financial markets is significant. At the end of 2011, total bond issuance from African economies totaled approximately \$1bn. This figure had risen to \$6.2 billion by the end of 2014, with a total of 11 countries accessing bond markets to financing domestic expenditures.⁴ Between 2011 and 2015, stock exchanges on the continent had undertaken 105 Initial Public Offerings (IPOs) and 335 Follow On (FO) capital raises.⁵ These, among others, are signs that the financial system across the continent is deepening and being further integrated into the global system. There is however a long ways to go.

Figure 1: Public and Publicly Guaranteed Bond Issuance in Sub-Saharan Africa, excluding South Africa (2011-2014)



Source: World Bank

From a short-term perspective, there are significant financial and economic challenges that are facing key economies on the continent. The reversal, of the commodity super-cycle as well as the potential of interest rate increases in the United States, have both severely hurt large African economies, including Nigeria, South Africa and Egypt. In addition, concerns are mounting in the rise of the debt stock in African economies, which grew by 10.2% per year from 2011-2013, compared to 7.8% per year in 2006-2009.⁶ Debt-levels are still relatively low compared to advanced economies.

IV. Ten Key Propositions for SDG Financing in Africa

The following section highlights ten key propositions regarding the financing of the SDGs in Africa.

- i.) *The SDGs must constitute an investment plan for countries and regions in the African continent.*

The SDGs currently reside in the realm of global politics. They form part of a non-binding international agreement that was passed by the member states of the United Nations in September 2015. As solely a political document, the SDGs will not be transformational to achieve global sustainable development.

The way to make the SDGs transformational is to use them as the basis of national and regional investment plans for Africa. To do so, the following must occur:

First, the SDGs must inform national economic plans and priorities. All governments in Africa have, to some level of sophistication, a five, ten or fifteen year economic plans. It is vital that these plans embody the broad-based, holistic economic development of sustainable development. Second, the SDG Economic Plans must be costed and investment gaps must be identified. Third, strategies must be created, and institutions be identified, to fill investment gaps through international, domestic, public and private sources. More detail about SDG Planning can be found in the SDGC/A Report: “Africa 2030: How Africa Can Achieve the SDGs.”⁷

ii.) *The African continent requires between an incremental \$200bn and \$1.2trillion per annum for the SDGs to be achieved*

The investment gap for Africa to achieve the SDGs is between an incremental outlay of \$200 billion and \$1.2 trillion per annum.⁸ There are two important observations to make here:

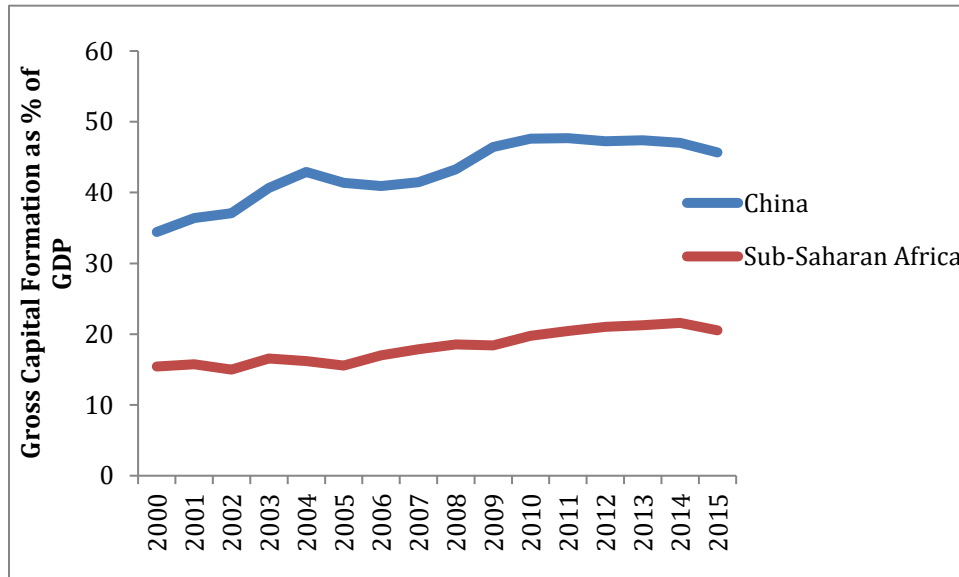
Figure 2: Estimates of Annual Incremental Investment Needs for Africa to Achieve the SDGs

Source	Estimated amount per year	Scope of estimate
International Energy Agency (2012)	\$25 billion	Amount needed to achieve universal access to modern energy services by 2030
World Bank (2012)	\$18 billion	Cost of climate change adaptation
UNCTAD (2014)	\$210 billion	Amount needed for basic infrastructure, food security, health, education and climate change mitigation
Chinzana et al. (2015)	\$1.2 trillion	Additional investment required to meet Goal 1
Schmidt-Traub (2015)	\$614 billion–\$638 billion	Incremental financing needs related to the Sustainable Development Goals
World Bank (2015a)	\$93 billion	Amount needed for infrastructure

Source: UNCTAD

First, the Gross Capital Formation (GCF) as a percentage of GDP for Sub-Saharan Africa has averaged 18% from 2000-2015. As a point of comparison, the GCF as a % of GDP for China has averaged 43% during that period.⁹ One way to think about the investment gap for African nations is to ask, how Africa can finance a 20% increase in investment as percentage of GDP per annum.

Figure 3: Gross Capital Formation as a Percentage of GDP: Sub Saharan Africa vs China



Source: World Bank data

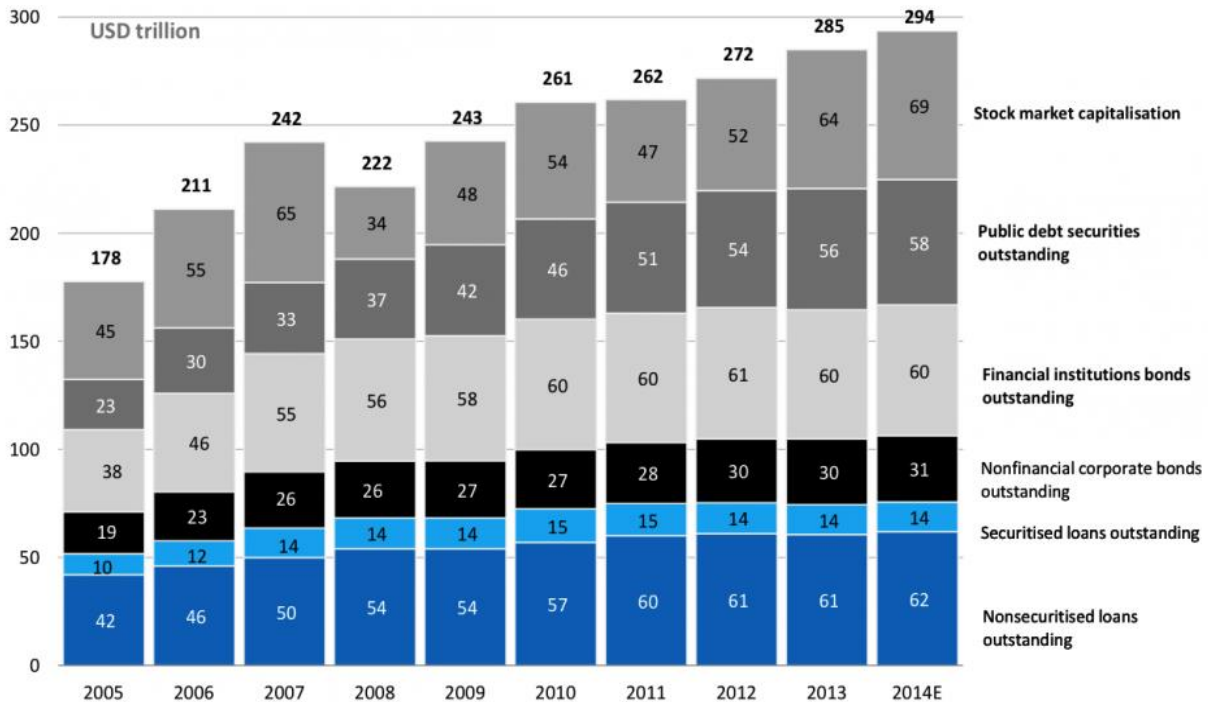
Second, although it is valuable to have an order-of-magnitude investment gap, it is not sufficient. What is needed is country-level planning and investment gap identification. Only with this level of nuance and detail can certain financial-system level design changes – i.e. IMF’s Debt Sustainability Analysis – be revised to support a major increase in investment in African nations

iii.) *There is ample global capital, public and private, to finance the SDGs in Africa*

Despite the significant financial and economic uncertainty articulated in the preceding section, it is important to acknowledge that the binding constraint for SDG financing in Africa is not the available capital for investment. This is both true in the total size of global saving as well as the current financial conditions in major economies around the world.

With regards to the size of available, there is approximately \$300 trillion in global financial assets, a figure that is growing at 5% per annum, or an additional \$15 trillion per annum.¹⁰ This global saving is being created in all geographies – however, the contribution of emerging Asia to global saving is increasing.¹¹

Figure 4: Stock of Global Financial Assets



Source: McKinsey Global Institute, Haver, BIS, Deutsche Bank Estimates

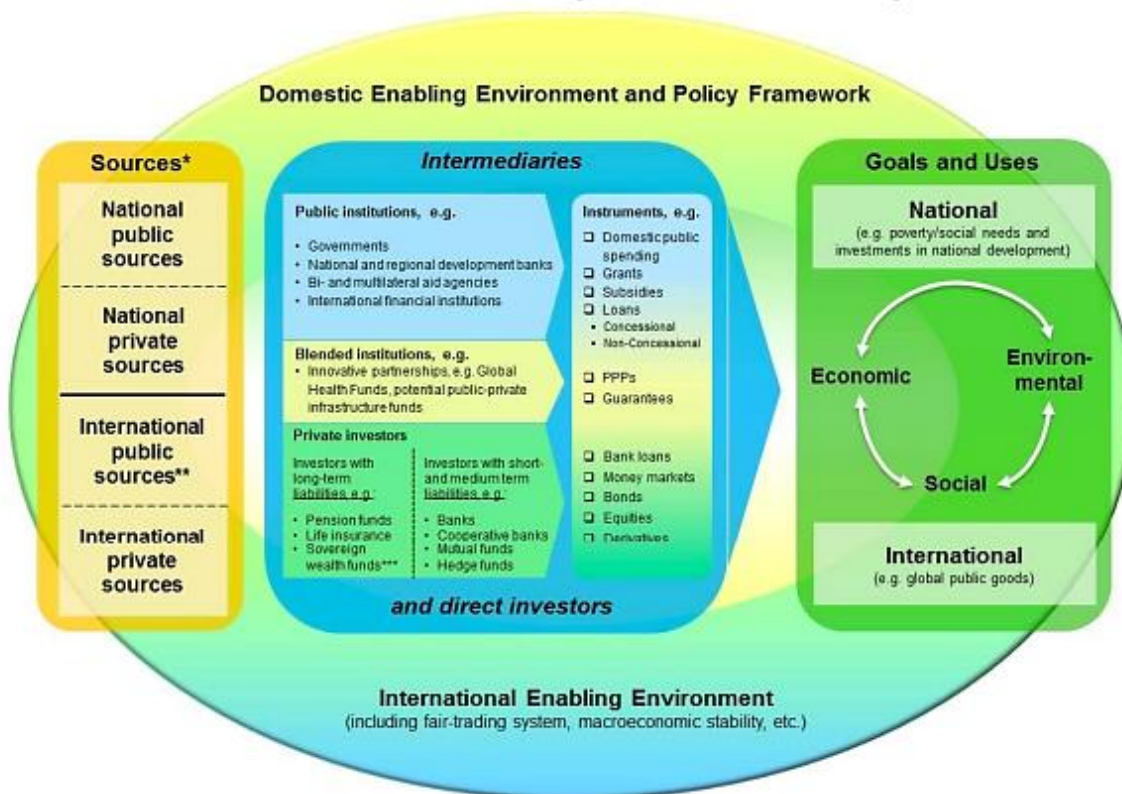
With regards to the current financial conditions, as of December 2016, there is over \$10 trillion in investments in negative-yielding sovereign bonds around the world.¹² This is a

result of both extraordinary measures undertaken by Central Banks in the developed world as well as banking regulation that requires banks to investment in certain types of securities.

iv.) *There is no magic bullet for SDG financing. All types of financing will be required for African nations to achieve the SDGs*

Given the considerable increase in required investment for the SDGs in Africa, policy-makers must develop strategies to tap into all potential sources of financing – public, private, international and domestic.

Figure 5: Flow of Funds from International and National Financing Sources to Sustainable Development



Source: United Nations General Assembly¹³

In terms of international capital, there has been an approximately six-fold increase of external flows to Africa since 1990 from \$20 billion to over \$120 billion.¹⁴ The largest contributor to the growth of financial flows has been private investment and remittances.

In terms of domestic capita, domestic resource mobilization, for example, remains the largest source of development finance for African economies. Despite the potential, General Government Revenue as a percentage of GDP has remained effectively stagnant at 25% of GDP since 2000.¹⁵ Despite significant attempts to improve tax collection and limit illicit financial flows, Africa remains a net exporter of capital today, which is fundamentally at odds with the direction of capital flow needed for SDG financing.

v.) Domestic and regional financial institutions will play a crucial role in the achievement of SDGs in Africa

Domestic financial institutions – particularly those with a development and financial stability purpose (Central Banks, Development Banks and Sovereign Wealth Funds) – are essential in closing the investment gap for the SDGs in Africa. These institutions must be strengthened, and in some instances, reconstituted for the purposes of achieving the SDGs.

Specifically, the national and regional development banks in Africa have significant potential to play the major role in SDG financing. There are over seventy such institutions, many of which have existed for over three decades and have significant institutional knowledge about national investment strategies and instruments. By empowering these institutions to tap into domestic and global capital markets, de-risk investments and direct capital to under-served sectors and industries, the SDGs can be better financed.

- vi.) *The Programme for Infrastructure Development in Africa (PIDA) has significant potential and should be supported with financial, political and human resources*

The Programme for Infrastructure Development in Africa (PIDA), a joint-initiative of the African Union Commission (AUC), the New Partnership for Africa's Development Planning (NEPAD), and the African Development Bank (ADB), is one of the highest potential initiatives, in both form and function, currently in motion on the African continent. It is a pan-Africa initiative to develop high priority regional and continental infrastructure projects in transport, energy, water and ICT. African leaders have identified a series of high-potential, high priority projects in each of these sectors under the project.¹⁶

PIDA is important for the SDGs in a few critical ways. First, regional integration and infrastructure development is core to the achievement of the SDGs in Africa. Second, the process of identifying difficult, trans-country projects to be streamlined and undertaken is a model that needs to be emulated at a country level. Third, the creation of dedicated funding institutions – like Africa 50 – and business associations – such as the Continental Business Network (CBN) – is noteworthy.

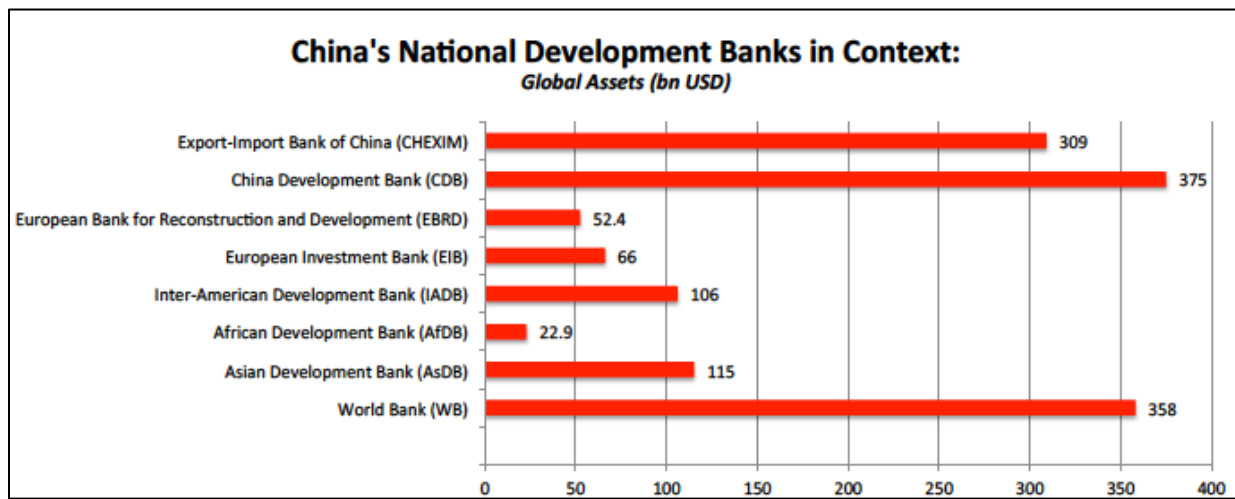
- vii.) *“Emerging” donors and investors will play a critical role in financing the SDGs in Africa. Specifically, the China-Africa nexus will be even more critical during the SDG period than the MD period because of the external orientation of China and the Belt and Road Initiative in particular.*

The continued economic transition from West to East provides a significant opportunity for African nations to tap into public and private investment from emerging economies in Asia, Eastern Europe and Latin America to finance the SDGs domestically. Emerging economies

currently play a fairly small role in Overseas Development Assistance (ODA), disbursing between \$11 billion and \$41.7 billion per year. This large variation is because of conflicting data.¹⁷

China’s continued investment in Africa provides a significant opportunity for SDG financing, particularly in infrastructure. Specifically, all African governments should examine the Belt and Road Initiative (BRI) and strategies should be made to tap into this growing Chinese external investment for the achievement of SDGs at the national level.

Figure 6: China’s National Development Banks in Context (Global Assets)



Source: Gallagher et al¹⁸

viii.) Global Funds, such as the Global Fund for AIDS, TB and Malaria, can play a breakthrough role during the SDGs. One particular area of focus should be a Global Fund for Education

One of the most important financial institutional innovations during the period of the MDGs was the creation of the Global Fund for AIDS, TB and Malaria. This institution was founded in 2002 and is a partnership between governments, civil society and the private sector for the global population affected by disease. By combining meaningful resources (the Global Fund disburses approximately \$4 billion a year), global and local technical expertise and finally cutting edge technologies; the Global Fund is a very strong model for other SDG sectors.¹⁹

A sector that would benefit significantly from an increase in targeted and technically backed global funding is education. The creation of a Global Fund for Education can be transformational for African governments looking to close the significant financing gap in the education sector at a national level.²⁰

ix.) City level financing is required throughout Africa, yet very few cities have access to large scale financial markets and flows

The urbanization process in African nations will create significant opportunities and challenges. As of 2015, Africa's urban population was approximately 40% of the continent's total population, growing up to a projected 56% by 2050. Given the significant projected population growth, this means that Africa's urban population is set to grow from approximately 400 million in 2010 to 1.3 billion in 2050. This makes Africa the second fastest urbanizing continent, second only to Asia.²¹ The financial planning of this urbanization

process is a major challenge for most African governments, and one that has received very little attention thus far.

Only a small fraction, 4%, of the 500 largest cities in the developing world are considered creditworthy by international capital markets ratings agencies.²² In Africa, many of these cities exist in countries that do not have functioning domestic capital markets or banking institutions.

- x.) *Human capital is essential for SDG financing in Africa. Certain skills are needed in various functions of government and the economy. Local universities can play a larger role in this process.*

Underlying the financial capital that is needed in African economies is human capital. In particular, many African nations require a significant scale-up in technical expertise on key areas of SDG financing, including but not limited to: long-term economic planning, project finance, investment and development banking, corporate management and more. African universities can, and must, play a more significant role in training the highly talented local populations in African nations with these skills. As of 2017, only one out of the top 100 universities in the world are in Africa. This must quickly change.

V. Immediate Next Steps for SDG Financing

As of January 2017, there has not been sufficient action at the global, regional or national level to unlock financing for SDG attainment in Africa. To spur the financial system design changes that are needed, we believe that African governments must be first movers in both analyzing and then articulating how the SDGs can be achieved at the national level. Below we

outline first steps for three key institutional groups for the SDG Financing agenda specifically:

For National Planning Commissions, all national and regional plans must be re-examined and re-assessed with the SDG Agenda in mind and changes be made if needed. In some instances, a revision of the National Plan may be in order to ensure the holistic framework of the SDGs is captured by the National Plans.

For Finance Ministries, an assessment must be made of the investment gaps implied by the SDGs from 2017-2030. The Finance Ministry should be in charge of this exercise, although the specific investment gaps will be measured by line-ministries, specifically for Health, Education, Agriculture, Energy, Infrastructure and Environment.

For Central Banks and Development Banks at all scales, while investment gaps are being calculated, these financial institutions must assess what institutional design and regulatory reform is needed to align financial institutions with the needs of the SDGs. This assessment should take into account innovations in central bank and development bank operations globally, ranging from Bangladesh to Brazil, on SDG alignment.

The SDG Center for Africa (SDGC/A) commits to working with all African governments and financial institutions on this agenda.

VI. How the SDGC/A Will Help Contribute to Financing the SDGs in Africa

The SDGC/A was launched in 2017 to help governments, business and civil society across the continent accelerate progress towards the SDGs.

Given the centrality of financing for SDG achievement, the SDG Center has launched its SDG Financing for Africa Programme to work with interested parties in the following six areas:

i.) Developing National-Level SDG and Sector Plans and Costing Exercises:

The SDGC/A will assist national governments and regional organizations throughout the continent to develop SDG and/or Sector Plans for particular SDG Area. This will include SDG Investment Costing and Gap-Identification, based on methodologies created by the SDGC/A.

ii.) Aligning Financial Institutions with SDGs

The SDGC/A will serve as an advisor and provide technical expertise to domestic financial institutions across Africa - particularly Development Banks, Central Banks, Sovereign Wealth Funds, and National Pension Funds - to ensure they are structured and designed for optimal impact for the SDGs achievement

iii.) Advocating to International Institutions on Key Areas of Needed Reform

The SDGC/A will utilize its broad network and affiliations with various international organizations, including the United Nations, to advocate on key areas of needed reform in the global development finance system.

iv.) Assisting with Project Preparation and Evaluation

The SDGC/A will assist with project preparation and evaluation for large-scale infrastructure initiatives across Africa to ensure they are aligned with the SDGs and that they are financially attractive to public and private investors.

v.) Training SDG Financing to Government Staff

The SDGC/A will conduct in-depth training programs with government staff of African nations on key areas of SDG financing and planning

vi.) Supporting Institutional Partnership on Key SDG Financing Initiatives

The SDGC/A will assist governments at all levels in forming international financial partnership with governments and financial institutions to support key SDG Financing Initiatives

vii.) Developing an Idea-Sharing Platform on SDG Financing for Africa

The SDGC/A will develop a standardized reporting system and platform for best-practices and challenges of SDG Financing in Africa. The information from this platform can inform

advocacy at the international level on securing reform and system-design change for the SDGs in Africa.

VII. Contact Information

For more information about how the SDG Financing for Africa Programme can support your work, please contact:

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