Chapter 4: Sustainable Finance

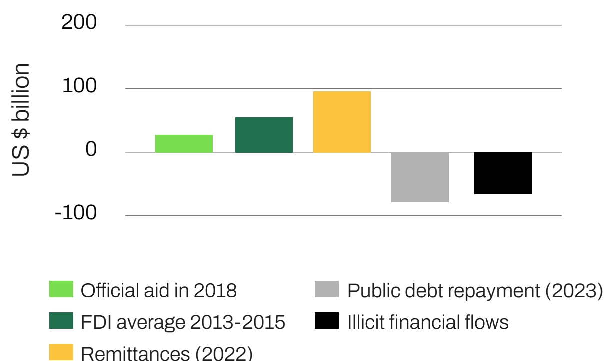
This chapter aggregates the following commitment areas as outlined in the Final Declaration of the 6th Summit: commitment 2 (facilitation of economic recovery through the Common Framework for Debt Treatments, reallocation of SDRs, and increased spending through international programmes), commitment 3 (combating Illicit Financial Flows, addressing domestic tax base erosion and profit sharing, and cooperating on tax transparency), commitment 7 (implementation of the Investment Package through public funds and innovative financing, and boosting regional and continental economic integration).

KEY OBSERVATIONS

Examples of progress to date:

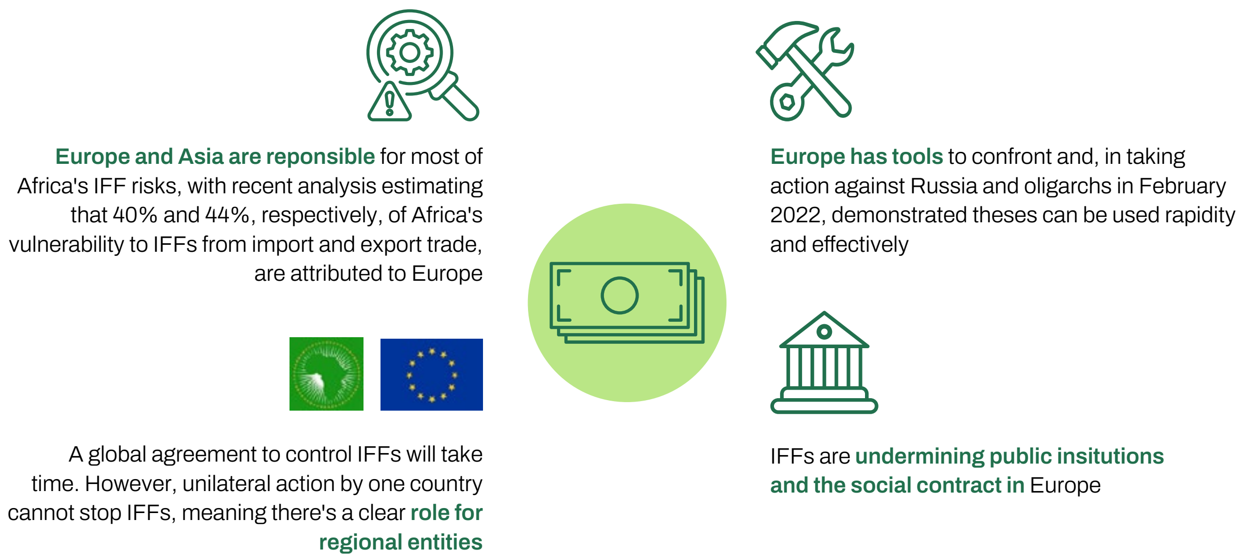
- The new Team Europe Initiative on combatting Illicit Financial Flows is a positive development. While a dedicated initiative on this key commitment shows noteworthy progress in the area, it remains vital to ensure a broad approach that captures different types of illicit flows which require bespoke responses. Focus should also be put on unblocking the funding available to AfDB under the IFFs recovery fund ($55 million initially). Current EU-funded initiatives largely focus on the origin (Africa) of the IFF transaction. Effective combatting of IFFs will not only require the strengthening of public administration and governance systems in Africa. It also requires that full advantage be taken of the financial administration systems in Europe, which have the capacity and resources to move faster and further to ensure transparency and accountability in financial flows, therefore acknowledging the role that the destination of IFF transactions (such as Europe) play in the outflow of African capital.

Graphic 5: Financial flows to/from Africa



- **The recent joint impetus given to carbon markets at the 1st Africa Climate Summit and at COP28 is an important development**, key to leverage climate finance and trigger socio-economic and environmental benefits. On both occasions, European Commission President Von der Leyen delivered speeches inviting African partners to work jointly on deepening a platform for carbon principles, carbon understanding, and to identify the infrastructure needed to broaden the scope of the partnership. There is an Africa-Europe opportunity to build on this momentum to jointly advance on effective and ambitious global carbon pricing and true carbon credits, and accelerate joint efforts in support of the rollout of national carbon market activation plans.
- **Although the EU remains the main development partner for Africa and globally, there are growing misgivings in Africa around Europe's commitment when it comes to financing development on the continent.** Recent ODA rise appears to be mainly due to in-country costs associated with donors hosting refugees from the war in Ukraine. In 2022, net ODA to sub-Sahara Africa decreased by 7.8% in real terms. This followed unprecedented investment in 2021, representing an increase of 4.3% on the previous year in the context of the COVID-19 pandemic. While Africa still receives the largest share from European Development Finance Institutions (EUR 3.6 billion in new commitments in 2022), this represents a 5% decrease from 2021, as the EDFIs focus on climate finance (+45%). Whatever the political statements, there is a nagging feeling that there is indeed a trade-off between climate and development.

Graphic 6: Interest in a joint Africa-Europe approach to combatting IFFs



Potential areas of action:

- **Effective combatting of Illicit Financial Flows (IFFs) requires increased political will on both sides**. While this critical topic was included as a central commitment in the Summit's Final Declaration, joint action on this agenda remains limited. Both Africa and Europe are suffering damaging social and political impacts of IFFs. While Europe is responsible for a significant source of risk, and acts as a destination of IFFs from Africa, it also has the tools and systems available to meaningfully address IFFs quickly. Focus should be put on practical steps to implement recommendations of the 2015 *Mbeki High-Level Panel on IFFs*.
- **Carbon pricing and markets are part of a set of solutions to unlock climate finance and ramp-up climate action, complementary to other policies to achieve the objectives of the Paris Agreement.** As Africa builds the quality and integrity of its market, there are opportunities for Africa-Europe collaboration at each stage of development. This includes time-sensitive strategic alignment to ensure Africa's contribution to the development of metrics and processes for the operationalisation of the EU's Carbon Border Adjustment Mechanism, as well as technical and capacity building to lay the foundation for fair market access as the EU gets closer to its net-zero objectives, including through investments in infrastructure, local value chains, skills and governance structures.
- **Increased efforts by EU countries to reallocate special drawing rights (SDRs) are welcomed but more actions are needed to deliver this finance**, such as joint pressure to address the blockage in the US Congress to unlock the flow of funds. However, the current average of EU Member States' SDR reallocations (25%) – skewed upwards thanks to strong pledges made by Spain and France at 50% and 40% respectively - puts the bloc below more ambitious commitments from high-income countries, such as Japan, Australia, China and Saudi Arabia (pledging 40%, 39%, 34% and 29% of their respective SDR allocations). Africa and Europe should in the meantime put joint emphasis behind the African Development Bank's (AfDB) proposal to recycle SDRs using a hybrid capital instrument. This will allow them to be leveraged at a 1:4 ratio on capital markets to issue bonds and mobilise additional concessional lending funds. COP28 saw France commit to support a similar instrument through a form of

a guarantee, as European regulations do not allow direct financing of MDBs through SDRs, with Spain indicating its willingness to further explore such modality. Continued effort should be placed on recycling at least 30% of national SDR allocations and channelling them to the AfDB in priority – which, for the EU, needs identifying a working solution with the ECB to preserve the monetary financing prohibition regulations, for example through SDR-denominated bonds – with increased focus on the use of reallocated SDRs. .

- **Focus and speed to provide debt relief for debt stressed countries remains a critical issue and requires enhanced attention**. The financial condition of African states is significantly worsening, impacting on its ability to delivery on national and continental priorities across key sectors of development including climate adaptation, health and education. Africa is borrowing at a cost up to 8 times higher than the richer nations and is paying a 500% premium on capital market borrowing compared to those available through the World Bank. From January 2022 to March 2023, African currencies lost 8% of their value, increasing their debt by 10% of GDP. By 2024 it is estimated that Africa will pay a total of $74 billion to service its external borrowing (medium and long-term requirements due). There has been progress on debt, including commitments made at COP28 by the World Bank, European Investment Bank and African Development Bank and other institutions to expand climate-resilient debt clauses in their lending; but these remain band-aid solutions if the cost of capital is not addressed.
- **African risk assessment is more and more challenged by African countries, as unrealistic and unfair.** There could be an opportunity to join forces to organise a conversation with the 3 Big rating agencies, to better understand their criteria and process, and potentially challenge it. At COP28, Fitch Ratings indicated their intention to consider revisions to credit rating criteria for loans to ensure use of climate-resilient debt clauses does not impose a burden for borrower countries. Simultaneously, knowledge sharing and technical capacity building within the international community can support borrower countries to improve data reporting in national statistics offices and central banks, so as to minimise issues of transparency an reliability in risk assessment.
- **There is scope to strengthen involvement of additional actors in delivery on commitments, including business and philanthropy.** Privileging blended finance options, leveraging pension funds and focusing on domestic capital mobilisation all remain critical for accelerated implementation of the 'Joint Vision'. A shift from a focus on Official Development Assistance towards long-term co-investment in Africa's growth, by public-private investment in Africa's infrastructure and industrialisation is key.
- **The AU is still heavily reliant on external contributors.** As of 2022, the AU relied on external contributions for 66% of its total annual budget (in particular the EU which contributes over 50% of the AU's budget), with 31% coming from Member State contributions and the remaining 3% from administrative and reserve funds. While the EU's 2022 budget was $180 billion, the AU's budget for the same year was $650 million. With 27 member states in the EU vs 55 member states in the AU (currently reduced to 49 with the suspension of Gabon, Niger, Guinea, Sudan, Burkina Faso, and Mali following recent coups) and a population less than three times that of Africa, the EU has a budget 276 times bigger than the AU. Leveraging domestic African funding remains a key priority.
- **The COP28 Declaration on the Global Climate Finance Framework, and related expert taskforces, should be monitored and see immediate follow-up, for example at the 2024 IMF and World Bank Spring Meetings.** This Declaration lays out the key principles for a financial architecture to deliver on climate and achieve the Paris agreement

goals. Unlike other Declarations launched at COP28, such as on Health and Agriculture which were endorsed by over 100 countries, it was only endorsed by 13 countries, including France, Germany, Ghana, Ireland, Kenya, and Senegal. The recommended actions outlined include:

- delivering on past commitments with continuity (e.g. annual $100 billion, doubling adaptation finance, replenishment of the Green Climate Fund, financing the Loss and Damage Fund);
- freeing up fiscal space (e.g. through wider use of climate-resilient debt clauses, debt-for-climate swaps, additional SDR rechannelling, and an ambitious 2025 replenishment of the International Development Association - IDA);
- widening sources of concessional financing (e.g. through global philanthropies, taxation mechanisms, emissions pricing, and the implementation of MDB capital adequacy framework recommendations and their mobilisation of private capital via risk-sharing instruments).

- **Focus on quality data to ensure transparency and accountability in climate finance and build trust between actors.** This means working with the OECD and UNFCCC to set clear definitions for what climate finance encompasses, and address reporting issues and standardise practices, including through the timely publication of data, reporting both committed and disbursed resources, and undergoing independent audits. A new study by the ONE Campaign found that nearly two-thirds of climate finance commitments aren't recorded as disbursed (e.g. Nigeria received 76%, or $4.5 billion, less and Senegal 66%, or $2.8 billion, less than they was promised between 2013 and 2021) or have little to do with climate (e.g. being diverted to other initiatives). Between 2013 and 2021, this amounted to $343 billion in misrepresented finance. In addition, the study showed 58% of all climate finance disbursed to the most indebted countries between 2019 and 2021 was in the form of loans.

DEBT TREATMENT AND ECONOMIC RECOVERY

The Ten Commitments Framework	Main Commitments
COMMITMENT 2: Facilitation of economic recovery through the Common Framework for Debt Treatments (CFDT), reallocation of SDRs, and increased spending through international programmes	I. Supporting the Common Framework for Debt Treatments beyond the Debt Service Suspension Initiative and new allocation of SDRs

I. Supporting the Common Framework for Debt Treatments beyond the Debt Service Suspension Initiative and new allocation of SDRs

Context:

- The macroeconomic conditions, including currency devaluations, adverse risk rating assessments and a need for greater access to additional international finance is precipitating a worrying debt crisis in Africa. As of August 2023, the IMF listed 39 PRGT-eligible African countries, rating their risk of debt distress. For 17 countries this risk was 'moderate' and for 13 countries it was 'high' (Burundi, Cameroon, Central African Republic, Chad, Comoros, Djibouti, Ethiopia, The Gambia, Guinea-Bissau, Kenya, Mozambique, Sierra Leone, South Sudan). Of the 10 countries listed as in debt distress, 8 are in Africa (Republic of the Congo, Ghana, Malawi, Sao Tome and Principe, Somalia, Sudan, Zambia, Zimbabwe). Compared to November 2022 data, Mauritania downgraded from 'high' to 'moderate risk', Chad and Mozambique downgraded from 'in distress' to 'high risk', while Ghana joined the list of countries in debt distress as of May 2023.
- Dynamic increase in interest rates, and the fact that most of African debts are detained in foreign currency, have significant impact on Africa's ability to service its foreign debts. From January 2022 to March 2023, African currencies lost 8% of their value, increasing their debt by 10% of GDP. By 2024 it is estimated that Africa will pay a total of $74 billion to service its external borrowing (medium and long-term requirements due).
- In 2022, public debt of Africa reached USD 1.8 trillion. That is close to Spain's current level of public debt estimated at USD 1.66 trillion. In contrast, the EU's overall public debt reached USD 13.2 trillion, with the latest data from March 2023 showing further increase to USD 14.6 trillion. Even as 23 countries in the region now face unsustainable debt burdens, very few have defaulted. Only two states – Ghana and Zambia – stopped servicing their external debts, while three others have sought to restructure their obligations – Chad, Ethiopia, and Malawi. To avoid debt default, African finance ministers opt instead to cut spending on public services. This undermines long-term development strategies and puts in jeopardy any impact of global investments in Africa that rely on strengthened public sector role.

Examples of progress to date:

- The September 2023 G20 *New Delhi Leaders' Declaration* re-emphasised "the importance of addressing debt vulnerabilities in low- and middle-income countries in an effective, comprehensive and systematic manner." Leaders called for "continued discussion

on policy-related issues linked to the implementation of the Common Framework" to ensure it is further operationalised in a "predictable, timely, orderly and coordinated manner." They welcomed progress in the formation of an official creditor committee for Ghana and called for swift debt treatment in Ethiopia, while stressing the need to "continue working towards enhancing debt transparency" through creditor data sharing with multilateral institutions.

- The June 2023 *Summit for a New Global Financing Pact* saw progress on the *Common Framework*, with Zambia reaching a $ 6.3 billion debt restructuring deal with official creditors after waiting for over two years. "These delays reflect the problems that motivated the creation of the *Common Framework* in the first place", including complex coordination among creditors and country institutions. The *Common Framework* has yet to give economies enough breathing room at the scale and speed required. The Paris Summit saw the IMF acknowledge the need to accelerate debt restructuring, making it predictable and timely, agreeing to greater clarity on processes and timelines, as well as the need for debt service payment suspensions during negotiation periods. The European Commission voiced similar recommendations in support of improving the Common Framework, including granting standstill of debt service payments during negotiations and setting predicable timelines for the formation of creditor committees and provision of financing assurances by creditors.
- Continued progress was seen on Zambian debt at the World Bank and IMF Annual Meetings in October 2023, with the agreement of a MoU between Zambia and its bilateral creditors, including China and France. Terms of the restructuring include an "average extension of debt maturities of more than 12 years, with interest rates set at 1% during the next 14 years and up to 2.5% after that." As a result, over the next decade, Zambia will pay approximately $750 million to official creditors, compared to $6.3 billion before the restructuring agreement was reached. Official creditors and bondholders agreed to the restructuring on the condition that the IMF would review the health of Zambia's economy in a few years; and should it have recovered sufficiently, increase repayments. However, in November 2023, the country faced yet another setback when official creditors rejected a preliminary deal to rework $3 billion in bonds over the view that it may not offer comparable debt relief.
- In January 2024 Ethiopia joined Zambia and Ghana in the list of countries that have defaulted on their debt, after the country failed to pay a $33 million bond coupon on a Eurobond. With a pattern of unrelenting debt stress, leaders from Kenya, Colombia and France announced the launch of *a Global Expert Review on Debt, Nature and Climate* at COP28. This coalition is tasked to independently review the impacts of sovereign debt on climate action. Furthermore MDBs and international institutions announced a new global taskforce to scale-up debt-for-nature swaps, while a number of actors made new commitments to expand Climate-Resilient Debt Clauses in their lending. For example, the UK announced the first ever climate-resilient debt clause to Senegal, the first in Africa. The World Bank announced it will start offering these clauses in existing loans, which will pause debt as well as interest for two years in the event of a natural disaster; and the AfDB, EBRD and AFD announced plans to integrate these clauses in sovereign loan agreements. Seventy-three countries called on donors to expand the use of these clauses by 2025 – a tangible tool when close to 1 in 2 debt-distressed countries paid more in debt than they received in climate financing.
- Good progress has been made on the 2021 commitment to re-channel $ 100 billion worth in *Special Drawing Rights (SDRs)* to lower-income countries. As of October 2023, EU Member States have together pledged $ 35.4 billion, equivalent on average to 25% of their allocation (140.4 $ billion) – 50% for Spain,

and 40% for France. This stands below more ambitious commitments from high-income countries, such as Japan, Australia, China and Saudi Arabia (pledging 40%, 39%, 34% and 29% of their respective SDR allocations). The total rechannelling currently amounts to approximately $ 86 billion, not including the $ 21 billion pledge from the United States still blocked by Congress.

- Countries primarily channel their SDRs through two IMF trust funds: the *Poverty Reduction and Growth Trust (PRGT)* and the *Resilience and Sustainability Trust (RST)*. The PRGT operates through both loan and subsidy resources, requiring a sizeable amount of the latter - around SDR 3.5 billion to keep up with the rising interest rates and facilitate the zero-interest loans. 17 EU Member States have provided grants to the PRGT subsidy account, for a total amount of about $ 490 million. The EU itself, which holds no SDRs, has complemented the overall effort by granting EUR 100 million to the PRGT subsidy account and contributed EUR 50 million to support the ECOWAS Bank for Investment and Development (EBID) and the development of EBID's trade finance activities.

EU Country	Total SDR allocation (in $ billions)	Percent of total allocation pledged	Pledged SDRs (in $ billions)
Belgium	8.69	15%	1.27
Denmark	4.67	5%	0.21
Estonia	0.33	11%	0.04
Finland	3.27	13%	0.42
France	27.35	40%	10.94
Germany	36.13	20%	7.30
Greece	3.30	8%	0.25
Italy	20.44	20%	4.09
Lithuania	0.59	20%	0.12
Luxembourg	1.80	20%	0.36
Malta	0.23	14%	0.03
Netherlands	11.85	20%	2.41
Portugal	2.79	13%	0.37
Spain	12.94	50%	6.47
Sweden	6.02	19%	1.12
Total	$ 140.40bn	25%	$ 35.4bn

Note: This table is based on a SDR-USD exchange rate from Oct. 29, 2021. Based on public data as of October 2023.
Source: ONE Data Dive, https://data.one.org/data-dives/sdr/

Box 11: IMF's Resilience and Sustainability Trust programmes in Africa

The Resilience and Sustainability Trust (RST) is tasked with providing long-term affordable financing to support countries in building resilience to longer-term challenges, including climate change and pandemic preparedness.

At the *Summit for a New Global Financing Pact* in June 2023, IMF Managing Director Kristalina Georgieva announced a commitment to increase the capacity of the fund by 50%, from approximately $ 40 billion to $ 60 billion, citing the increased demand with "40 countries expressing interest."

As of January 2024, 16 countries have formally requested support from the Trust, and all have been approved. Only eight have received disbursements, of which three in Africa – Rwanda, Senegal, and Seychelles.

The 2023 World Bank and IMF Annual Meetings, held in Marrakesh in October 2023, saw PRGT financing targets successfully met: $ 17 billion (SDR 12.6 billion) for PRGT loan resources and $ 3 billion (SDR 2.3 billion) for PRGT subsidy resources. Overall, 40 countries have contributed to the subsidy account, with a new substantial contribution from Japan, making it the single largest donor, accounting for 20% of the account that covers interest payments on PRGT loans. Since the beginning of the COVID-19 pandemic, the PRGT has supported more than 50 low-income countries with approximately $ 30 billion in interest-free loans.

Potential areas of action:

- Multilateral development banks (MDBs) have emerged as an attractive option to channel SDRs given their capacity to leverage these reserve assets on capital markets to issue bonds and mobilise additional concessional loans. It is currently estimated that Africa will require $ 1.3 trillion annually to meet the Sustainable Development Goals (SDGs) by 2030. The African Development Bank (AfDB) and the Inter-American Development Bank have put forward a proposal to use SDRs as part of a hybrid capital instrument, generating a multiplier effect that would raise three to four times the value of the loaned SDRs. The AfDB is seeking an initial contribution of SDR 2.5 billion (equally split between five contributing countries at SDR 500 million each) to operationalise the project; but while a few countries have expressed interest, limited progress has been made due to legal constraints, thus meaning the EU considers, in accordance with its Treaties, only countries outside of the EU can contribute. However, COP28 may have marked a turning point, with IMF staff confirming the reserve asset status of SDRs being rechannelled through MDBs, and signalling their readiness to bring the SDR hybrid capital proposal to the IMF's Executive Board in the near future. Additionally, the Governments of France, Japan, and Spain expressed support for the hybrid instrument, with France voicing its readiness to provide a guarantee through the Liquidity Support Agreement, which underpins the instrument and ensures contributing countries can still account for SDRs as reserves.Given the scale of challenges faced, efforts must be ramped up to find solutions that support the African Development Bank's proposal to leverage SDRs through a hybrid capital instrument and increase highly concessional loans. The Government of Brazil has already confirmed these efforts would form part of their G20 presidency agenda in 2024, providing a platform to further their operationalisation.
- December 2023 also marked the mid-term review of the World Bank's International Development Association (IDA), its

concessional financing arm exclusively for the lowest-income countries. Its last replenishment raised a record $93 billion; and World Bank President Ajay Banga has called on countries to make the upcoming 21st replenishment, which will be launched in early 2024, even larger given growing demands. Looking ahead, the Vulnerable Twenty (V20) Group of Finance Ministers has backed calls for IDA contributions to be tripled by 2030.

RESOURCE MOBILISATION

The Ten Commitments Framework	Main Commitments
COMMITMENT 3: Combating Illicit Financial Flows, addressing domestic tax base erosion and profit sharing, and cooperating on tax transparency	I. **Combating Illicit Financial Flows** II. **Addressing domestic tax base erosion and profit sharing, and cooperating on tax transparency**
COMMITMENT 7: Implementation of the Investment Package through public funds and innovative financing, and boosting regional and continental economic integration	III. **Leveraging public funds to stimulate private investment by mobilising innovative financing instruments** IV. **Promote accountable, transparent, inclusive and responsive governance, in conformity with the relevant international instruments** V. **Use all means of implementation, including ODA and financial tools such as infrastructure trusts and capital market instruments, to ensure support to African entrepreneurship in engaging in strong and vibrant economies.** International and national financing development institutions, including the European Investment Bank, and the African Development Bank, and public/private partnerships will be mobilised to this effect VI. **Continue our work to leverage and facilitate transparent remittances, including the reduction of transaction costs, for the development of national and local economies**
COMMITMENT 2: Facilitation of economic recovery through the Common Framework for Debt Treatments (CFDT), reallocation of SDRs, and increased spending through international programmes	(cont. V.) **Ensuring increased spending through international programmes to facilitate economic recovery** (health, climate, biodiversity, education and security) and examine lending instruments for sustainable investment projects in priority sectors

I. Combatting Illicit Financial Flows

Context:

- The AU has actively highlighted the risks of IFFs for over a decade, while combatting IFFs has been at the core of the EU action to support Domestic Resource Mobilisation and notably the EU *Collect More, Spend Better Strategy*. The 2015 Mbeki Report of the AU/

ECA High-Level Panel on IFFs from Africa has provided detailed recommendations and identified actions needed to address the commercial component (trade mispricing, transfer pricing, and profit shifting), the criminal component and the corrupt component of the IFFs. It has also highlighted the role of the AU and regional cooperation as well as the need for international collaboration, noticeably with the EU. However, to date, few of the report's recommendations have been implemented.

Examples of progress to date:

- A EUR 450 million Team Europe Initiative on *Combatting IFFs and Transnational Organised Crime(TOC)* is expected to be launched in 2024, as an essential complement to other global efforts to ensure accountable, transparent, inclusive, and responsive governance.

  This TEI will directly contribute to the UN 2030 Agenda (target 16.4) aiming to "significantly reduce illicit financial flows and arms flows, strengthen the recovery and return of stolen assets and combat all forms of organised crime" by 2030. Moreover, it is a contribution to the Addis Ababa Action Agenda which aims to substantially curb illicit financial flows from tax evasion, tax avoidance and other harmful tax practices, as well as money laundering and corruption.

  o Key initiatives include:

  » Launched in January 2023, the *Anti Money Laundering and Counter Financing of Terrorism in Eastern, Southern, Central Africa and Yemen* project of EUR 5 million over two years.

  » The ongoing regional programme *Organised Crime: West African Response to MoneyLaundering and the Financing of Terrorism (OCWAR-M)*, a EUR 7.5 million five-year action.

  » EUR 20.15 million for the *EU Global Facility on CFT AML* (National anti-money laundering and countering terrorist financing).

  » A EUR 10.3 million *Multi Donor Action* with the African Union, the European Commission, Finland and Germany at the continental level, including a regional project Fighting Illicit Financial Flows in Africa on tax motivated IFFs.

- In complement, EU and African countries are also part of the *Addis Tax Initiative (ATI)* joining efforts to combat tax motivated illicit financial flows under the *Declaration 2025*. It also takes place under the *EU Collect More, Spend Better Agenda* which is a comprehensive agenda to support African countries build capacity in international taxation, domestic revenue mobilisation, public finance management and debt.

Potential areas of action:

- The current EU-funded initiatives largely focus on the origin (Africa) of the IFF transaction. Without concerted efforts to address at the same time the destination (often Europe) for those transactions, achieving intended, and large scale, results remain a significant challenge. Ensuring EU external action initiatives are complemented through EU domestic policies will be critical to make significant progress.
- Combatting large-scale and sophisticated criminality requires robust governance systems and processes in place. Thus, it will require strengthening public administration and governance systems in Africa. At the same time, it should take full advantage of the financial administrations in Europe that have the capacity and resources to move faster and further. Enhanced cooperation and coordination between the administrations in Africa and Europe will be necessary to see significant progress. Fundamentally, designing new initiatives should ensure the IFFs are treated as a joint problem across both continents.

In Focus: Update from the AEF Working Group on IFFs

A shared problem between developed and developing countries, curbing the estimated annual illicit capital flight of $88.6 billion from Africa matches half of the continent's Sustainable Development Goal (SDG) financing gap. Essential to addressing IFFs are good governance, greater political will, and the successful recovery and return of stolen assets.

The UNECA High-Level Panel (HLP) on IFFs's 2015 seminal report provided the blueprint for global actors to effectively tackle IFFs and unlock domestic resources to finance African development needs during periods of fiscal tightening and debt crises. However, it had not received proper attention until the 6th Summit, where joint actions were presented to reaffirm a commitment to jointly combat IFFs.

With four broad categories of IFFs (tax and commercial practices, illegal markets, theft and terrorism financing, and corruption), as well as disjointed definitions and methods used to define IFFs, a multilateral approach can help address this problem more effectively. At the centre of the conversation are tax policies and actions to implement such as: voluntary disclosures, exchange of information (EOI) mechanisms, and stringent offshore inquiries. The 2023 Tax Transparency in Africa report provides a comprehensive overview of how such measures implemented between 2009 and 2022 resulted in African countries effectively boosting their tax revenues, interest, and penalties. This positive trend conveys how stepping up efforts within the continent has changed the tax transparency landscape in such a way that successful domestic resource mobilisation is on the horizon.

Still, Africa cannot lead this fight alone. Destination countries for these illegal outflows play a role in curbing IFFs by ensuring that their national and local jurisdictions do not facilitate the flow of IFFs. Not only the European Union or the United States of America, but also entities such as the United Nations (and its Tax Committee), the Financial Action Task Force (FATF), the World Customs Organization, the G20, and other relevant organisations must contribute to ensure a cohesive, global approach. This aspect of the IFFs debate has since entered a new era, with the status quo now being challenged.

Since 2022, a long-running campaign for a UN body to replace the OECD as the "global rule-maker on tax" has continued to build steam as African countries call for a more inclusive and comprehensive negotiation process for a global UN Convention on Tax. With concerns among the OECD and its members (including some EU Member States) that the creation of a UN Tax Convention would be "a needless duplication of the OECD's work on tax transparency", the Africa Group, China, and the Group of 77, remain firm that the needs and priorities of developing countries are not yet addressed in the OECD's Inclusive Framework guidance. The EU and Member States have engaged in negotiating the options presented in the UN Secretary-General's report on the global tax, advocating for Option 3 seen as less duplicating OECD work.

IFFs as a global issue will require open dialogues, which can only be realised with a balanced Africa-Europe partnership. With aims to foster an inclusive platform, the Africa-Europe Foundation's new working group on IFFs launched in September 2023 seeks pragmatic, solutions-oriented approaches to build on the aspirations of the HLP Report.

II. Addressing domestic tax base erosion and profit sharing, and cooperating on tax transparency

Examples of progress to date:

- *Africa Initiative* was launched in 2014 by the African members of the OECD's Global Forum on Transparency and Exchange of Information for Tax. African membership of the Initiative has grown to 33 countries in 2021. This initiative has resulted in nearly 2,000 African officials being trained which has resulted in a 26% increase in information requests. Since its launch in 2014, nine African countries have "identified or recovered EUR 233 million in additional revenue" via Exchange of Information Requests (EOIRs).

- EU provided a EUR 5M contribution to the implementation of the *G20/OECD Base erosion and profit shifting action plan (BEPS)/ Inclusive Framework*, in line with the *Addis Tax Initiative* principles.
- In late 2023, the EU extended its global contribution to the OECD Global Forum, aiming to provide relevant technical assistance and capacity building in partner countries. Examples of such programmes include a EUR 2 million contribution by the EC to the *Africa Initiative*, for a BEPS and transparency standards programme in West Africa, implemented jointly with ECOWAS, its 15 member countries and Mauritania.

Potential areas of action:

- Domestic resources are the largest and most important source of financing for development but are often limited by governments' ability to raise tax revenues due to capacity constraints of tax administration. Tackling complex international tax arrangements, which divert profits that are otherwise liable for corporate tax, requires skilled tax auditors. Through the avenues of international cooperation, such as the Oslo Dialogue and OECD's Task Force on Tax Crimes and Other Crimes (TFTC), improved co-operation between tax and law enforcement agencies, including anti-corruption and anti-money laundering authorities, can contribute to counter financial crimes more effectively addressing some of the domestic capacity constraints. Governments should also take full benefit of available international schemes that promote upskilling of tax auditors through exchange of practices, such as the OECD/UNDP *Tax Inspectors Without Borders* programme. It facilitates expert audit assistance in areas such as transfer pricing; thin capitalisation; advance pricing agreements; anti-avoidance rules; consumption taxes (e.g. VAT, GST); high net-worth individuals; pre-audit risk assessment and case selection; audit investigatory techniques; and industry-specific or sector-specific issues. Since 2022, it has expanded its services to provide practical hands-on assistance on criminal tax investigation. The programme delivered a total of $ 1.7 billion in additional tax collected and $ 3.9 billion in additional tax assessed across Africa, Asia and the Pacific, Eastern Europe, and Latin America and the Caribbean.
- 2021 OECD report "*Developing Countries and the OECD/G20 Inclusive Framework on BEPS: OECD Report for G20 Finance Ministers and Central Bank Governors*" considers the priorities and capacities of developing countries and examines ways for increased domestic resource mobilisation, among others, outlining how developing countries could better benefit from the international tax reform. The subsequent *Roadmap*, published in 2022 and updated in 2023, provides a reference for tangible actions to address constraints in resource mobilisation.

III. Leveraging public funds to stimulate private investment by mobilising innovative financing instruments

Context:

- Several components of the current *EU multi-annual financial framework* (the MFF, the EU's long-term budget for 2021-2027) mobilise the necessary resources to deliver on the Global Gateway Investment Package commitments valued at EUR 300 billion, of which EUR 150 billion is earmarked for Africa. The main components include:
  - Heading 6, the Neighbourhood, Development Cooperation and International Cooperation Instrument (NDCCI) - Global Europe, specifically, its financial arm, the European Fund for Sustainable Development Plus (EFSD+), which will make available up to EUR 135 billion for guaranteed investments in infrastructure projects between 2021 and 2027 globally.
  - Up to EUR 18 billion will be made available as grants from the EU budget.
  - European financial and development finance institutions have planned investment volumes of up to EUR 145 billion.
- Due to increased inflation, funding for key thematic programmes took a hit during COVID-19, and overall funds reduced due to the frontloading of resources in the MFF in 2021 and 2022, meaning funding amounts would gradually decrease in the following years despite growing challenges. In response, the European Parliament requested a comprehensive revision of the *multiannual financial framework* to take place in 2023 to ensure the continued resilience and flexibility of the EU budget.

Examples of progress to date:

- Given the original MFF was agreed before the global economy was impacted by multiple crises (COVID-19 pandemic, war in Ukraine, sovereign debt distress), civil society organisations have been advocating for increased funding for external action and more robust flexibility instruments in order to better respond to the domino effects of an inflation, energy and climate crisis. In June 2023, the European Commission released its proposal for the MFF revision: a total increase of EUR 66 billion, including an additional EUR 10.5 billion to be allocated to Heading 6 - Neighbourhood and the World, of which 75% would go to migration and EUR 3 billion to the Neighbourhood, Development and International Cooperation Instrument (NDICI). Likewise, proposals to top-up special instruments that ensure the flexibility of the EU budget, included EUR 2.5 billion for the Solidarity and Emergency Aid Reserve (SEAR) and EUR 3 billion for the Flexibility Instrument. In September 2023, the Budget Committee of the European Parliament also set out its position, proposing a EUR 1 billion top-up of Heading 6, a EUR 1 billion top-up of the NDICI, a EUR 2 billion top-up of the SEAR instrument and a EUR 3 billion top-up of the Flexibility Instrument - all of which are in addition to the original proposal of the European Commission.
- The MFF revision was supposed to be agreed to at the European Council meetings of 14-15 December 2023, but was blocked by Hungary. Member State negotiations continue in January 2024. As it stands, the deal would slash the new funding for external action proposed by the European Commission, and supported by the Parliament, with migration management being prioritised instead.
- In October 2023 at the Global Gateway Forum, the European Commission and KfW signed an agreement for the EUR 100 million *African Local Currency Bond* guarantee programme, which aims to enhance access to long-term financing in local currency for African businesses and mobilise further EUR 820 million in private investment by 2027.

The programme's main aim is to drive down financing costs, support market transparency and foster the development of capital markets in partner countries. It is part of the European Fund for Sustainable Development plus (EFSD+).

Potential areas of action:

- Once the current MFF revision is agreed, negotiations for the next EU long-term budget will commence in 2025, covering the years 2028 to 2034. At a time of political change, following the 2024 European Elections which will bring in a new Parliament and College of Commissioners as well as the new African Union Commission leadership, the Africa-Europe partnership stakeholders should already mobilise to help secure a long-term budget that supports the realisation of joint programmes and priorities by providing strategic foresight for the post-2030 agenda.

In Focus: Update from the AEF Working Group on Carbon Markets

Carbon pricing and markets are part of the set of solutions to unlock large resources for attracting climate finance and ramping-up climate action, with high potential for the Africa-Europe partnership. Africa is endowed with unique natural assets, including premier carbon sinks, which have the potential to absorb millions of tons of carbon dioxide annually. This translates into potentially significant climate finance with important co-benefits for communities and the environment.

Carbon pricing and markets are complex, often volatile, and can be subject to manipulation. Key conditions must be put in place for high integrity carbon markets to proliferate – particularly in those markets that rely on the unregulated Voluntary Carbon Markets (VCM). Yet, carbon pricing mechanisms and carbon markets have the greatest potential for global climate and socio-economic impact if they pair high requirements for integrity and quality with fair and equitable market access and revenue distribution.

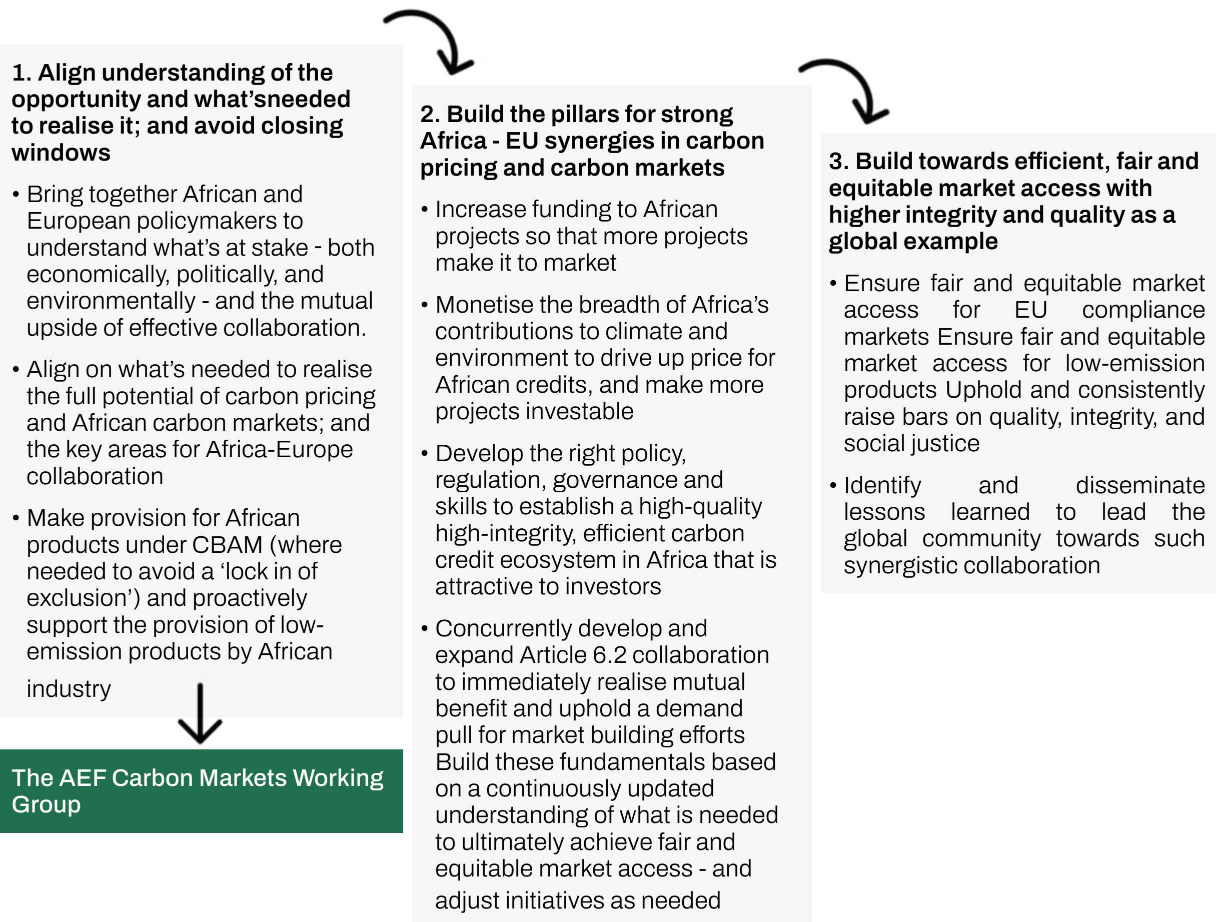
In April 2023 in Nairobi, AEF launched an Africa-Europe Working Group on Carbon Markets bringing together experts and leaders from diverse organisation settings to catalyse cooperation on Carbon Markets as part of a strengthened Africa-Europe Partnership.

The work of the Group focuses on two aspects: (i) Transformative and inclusive dialogue. Providing a safe space for tackling the various dimensions of cooperation, from pricing carbon credits and carbon activation plans to facilitating cross-continental platforms for the exchange of innovative practices across Europe and Africa; and (ii) Impact on policymaking. Opening space for fresh policy thinking in the context of key multilateral convenings in 2023 including the 1st Africa Climate Summit in Kenya (September) and COP28 in the UAE (December), as well as towards 2024, a key year for EU-AU cooperation ahead of the 7th Summit planned for 2025.

Collaboration is needed to ensure convergent – not divergent – paths towards market-building in Europe and Africa. True partnership approaches can drive a symbiotic relationship, in which (1) African carbon credits and low-embedded emission products efficiently serve EU demand, (2) EU investment spurs both further economic growth and stability in African countries, and (3) African deployment of European and joint innovation helps accelerate industrial development, brings innovation down the cost curve to drive scale, and supports both European and African industrial actors in a quest for global competitiveness.

With true partnership and collaboration, Africa and Europe can be pioneers in carbon pricing and markets, and inspire, accelerate, and improve global climate positive growth and action.

Figure 2: Realising the potential of carbon pricing and markets through Africa–Europe collaboration



Since then, the role of carbon markets in financing climate action has gained momentum at the 1st Africa Climate Summit and at COP28, with several African countries (e.g. Kenya and Rwanda) launching their carbon market frameworks and activation plans, and a group of European countries (e.g. the Netherlands, Germany, France, Spain, Finland, Belgium and Austria) launching a set of recommendations to restore trust by averting greenwashing in companies. The World Bank likewise announced a new road map for high-integrity carbon markets. This new initiative aims to work with 15 countries to produce up to 126 million forestry credits by 2028. The Bank will certify their environmental and social integrity, and the credits could generate up to $2.5 billion. The 15 countries include Cote d'Ivoire, Democratic Republic of Congo, Ghana, Madagascar, Mozambique, and Republic of Congo — all part of the World Bank's Forest Carbon Partnership Facility. 2024 will see the programme kick off with five countries.

Yet, the carbon credits talks at COP28 collapsed over integrity concerns, and limited progress was achieved on Article 6 of the Paris Agreement. Nevertheless, global demand for carbon credits will increase as advanced economies get closer to achieving climate neutrality. Article 6 of the Paris Agreement will pave the way for carbon credits to be traded on the international market, and these credits may be needed for countries to achieve their next round of NDCs. As such, Article 6 cooperation between Africa and Europe is essential, and the two should work on Article 6 preparedness, notably from the perspective of capacity building.

IV. Promote accountable, transparent, inclusive and responsive governance, in conformity with the relevant international instruments

Examples of progress to date:

- In addition to the EU *Collect More, Spend Better* Agenda, the EU, through the IMF, has allocated EUR 50 million to capacity building and training programmes for the betterment of economic governance, taking a climate and gender lens to management. Additionally, a programme of EUR 8 million has been approved to support public finance and budget management in Portuguese-speaking African countries.
- The Paris 2023 *Summit for a New Global Financing Pact* increased support for innovative finance models, announcing the creation of a taskforce to examine the mobilisation of resources through taxation. Particular attention was brought to a global financial transaction tax, which estimates state could raise between EUR 162-270 billion each year, and which currently exists in over 30 countries. Within the EU, an EU-wide financial transaction tax could raise between EUR 17 billion and EUR 26 billion. Likewise, a global shipping tax on related greenhouse gas emissions was discussed, with estimates that it could raise $5 billion per year. These discussions were furthered during the 1st *Africa Climate Summit*, whose Nairobi Declaration urged "*world leaders to consider the proposal for a [global] carbon taxation regime including a carbon tax on fossil fuel trade, maritime transport and aviation, that may also be augmented by a global financial transaction tax to provide dedicated affordable and accessible finance for climate positive investments at scale*." Following these key discussions, France and Kenya formally launched a taskforce on international taxation at COP28. The group will examine new sources of revenue to unlock financing for development, nature and climate action, initially targeting the specific industries outlined above. Additional taskforce members include Barbados, Antigua and Barbuda, and Spain, with the European Commission as an observer. The European Climate Foundation will support in the operationalisation of the group, which will meet for the first time in early 2024 to appoint experts and define a workplan. The taskforce is set to put forward concrete proposals at COP30.
- Other initiatives include the continued support to strengthen the capacity of the *African Governance Architecture* with an AU mandate to promote good governance (EUR 25 million from 2020 to 2024). Bilateral programmes include a EUR 303 million *Support Programme for Economic Governance (PAGE)* in Tunisia to improve private sector ecosystems and monitor economic policies; in Morocco, EUR 62 million to the *HAKAMA II public governance programme* and EUR 50 million for the *Appui Européen à Réforme de l'Administration Publique* programme; and in Libya technical assistance to public economic and finance institutions (e.g. ministries and central bank) to improve the business environment in the country.
- The AU Agenda 2063 Flagship *African Continental Financial Institutions* aims to accelerate regional integration and socio-economic development through the establishment of institutions to mobilise resources and manage the African financial sector. Key initiatives include setting up the following pan-African institutions:
  - The *African Central Bank (ACB)* build a common monetary policy and single African currency to accelerate economic integration. A statute and structure of the *African Monetary Institute* (which is a precursor to the African Central Bank) have been submitted for input to the Association of African Central Banks.

- o The *African Investment Bank (AIB)* to foster economic growth and accelerate economic integration.
- o The *African Monetary Fund (AMF)* to facilitate economic integration by eliminating trade restrictions and providing greater monetary integration, as envisaged under articles 6 and 44 of the *Abuja Treaty*;
- o The *Pan-African Stock Exchange (PASE)* to create a virtual continental market. Negotiations on the MoU between the AU and *African Securities Exchanges Association (ASEA)* have been finalised.

Box 12: Reform of the global governance architecture: amplifying Africa's voice

September 2023 saw the fulfilment of a long-requested step in this direction, with the G20 granting permanent membership to the African Union at the Leaders' Summit in India. This move, which now gives the AU the same status as the EU within the Group, will be formalised next year. It not only strengthens the continent's position on the global stage but allows it to participate in critical discussions of direct impact, including the G20 Common Framework for Debt Treatment.

African representation in the UN Security Council and voting shares within the Bretton Woods institutions are still hot topics. At the IMF, the entire African continent – with a population of over 1.4 billion – has a comparable quota share, and thereby voting power, to Germany, which has a population of 83 million. To address these imbalances, quota formulas should be frankly discussed. In the meantime, with the eurozone holding 21% of vote shares at the IMF and European countries holding 33.2% of shares at the World Bank's IBRD (compared to Africa's 7.3%), they have the opportunity to put their voice behind sensible institutional reforms backed by the African partners to accelerate and make lending more affordable.

V. Use all means of implementation, including ODA and financial tools such as infrastructure trusts and capital market instruments,to ensure support to African entrepreneurship in engaging in strong and vibrant economies. International and national financing development institutions, including the European Investment Bank, and the African Development Bank, and public/ private partnerships will be mobilised to this effect; (and) Ensuring increased spending through international programmes to facilitate economic recovery (health, climate, biodiversity, education and security) and examine lending instruments for sustainable investment projects in priority sectors.

Examples of progress to date:

- Based on the latest available figures, official development assistance (ODA) from members of the OECD's Development Assistance Committee (DAC) in 2022 "rose to an all-time high of USD 204 billion, up from USD 186 billion in 2021". This represents a 13.6% increase in real terms, largely due to increased spending on in-country refugee costs stemming from the war in Ukraine. From 2021 to 2022, these costs went from 4.6% of ODA to 14.4% - the highest volume ever reported by DAC members, even exceeding the peak in 2015-2016. If these costs are excluded, "2022 ODA still rose by 4.6% over 2021 in real terms."

- Data for 2022 show that net bilateral ODA flows to Africa amounted to $ 34 billion, representing a drop of 7.4% in real terms compared to 2021. Within this total, net ODA to sub-Saharan Africa was $ 29 billion, a fall of 7.8% in real terms. During this time, only France and Portugal increased their aid to Africa.
- European Development Finance Institutions (under the EDFI Association) have sustained their level of investment with EUR 8.6 billion of new commitments in 2022. Africa received the largest share, with EUR 3.6 billion allocated. However, this represents a 5% decrease from the 2021 investment level, as EUR 3.3 billion focused on climate finance (45% increase from 2021 level). EIB has invested EUR 10.8 billion in 2022 outside the EU.

VI. Continue our work to leverage and facilitate transparent remittances, including the reduction of transaction costs, for the development of national and local economies

Examples of progress to date:

- Remittance inflows to Sub-Saharan Africa rose by 6.1% in 2022, with remittances to Nigeria accounting for around 38% of the total. The World Bank projects further growth of remittances in 2023.

Potential areas of action:

- Given the role remittances have in local community development, there is an opportunity to advance development agenda through policies that can facilitate remittances from EU.