High Impact Initiative - Transforming4Trade

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Conference Room 1

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1. There are alternatives to debt instruments that can provide the necessary capital to finance development priorities. These include the following;
   1.1. Leveraging Equity Financing
      - This should include Local Entrepreneurship, whose objective is to foster a robust entrepreneurial ecosystem that can attract equity financing.

        Implementation: It is critical to develop and promote business incubators and accelerators, offering training and mentorship to local entrepreneurs.

      - Strengthening Financial Markets is necessary to establish a transparent and reliable financial market.
        Implementation: Enhancing regulatory frameworks and building the necessary infrastructure to facilitate equity financing, including establishing or upgrading stock exchanges. In some countries, the policies are well-designed but poorly implemented. These need to be tackled in tandem.
      - SME Growth and Expansion is critical to facilitate the growth and expansion of Small and Medium-sized Enterprises (SMEs) through equity financing.
        Implementation: This will require policies that encourage SMEs to list on local stock exchanges, such as offering tax incentives.
   1.2. Leveraging Foreign Portfolio Investment Tools
      - Developing Bond Markets will enable African countries to attract foreign portfolio investments. This will require scalable interventions that enable the issuance of sovereign bonds and encourage corporate bonds to fund infrastructural and corporate projects, respectively.
         - Additionally, there is an under-investment in financial assets, particularly in Africa's resource-rich countries. Windfalls of natural resources should be effectively managed to enable long-term investments in Financial assets.
      - Use of Real Estate Investment Trusts (REITs), which are specific to investment in the real estate sector which can be facilitated through the strengthening of regulatory frameworks to facilitate the formation of REITs, thereby pooling investment in the real estate sector.
      - Attracting mutual funds from foreign investors, which will require a favorable investment climate supported by macroeconomic stability and fostering transparent financial markets.
   1.3. Remittances which are an additional source of capital that can be directed to infrastructure development, enable household income stabilization, and the stabilization of foreign reserves.
   1.4. Public-private partnerships (PPPs) are arrangements between the public and private sectors to deliver goods or services. They can be used to finance a wide range of projects, including infrastructure, energy, and healthcare.
   1.5. Foreign direct investment (FDI): FDI is when a company from one country invests in another country. It can be a major source of financing for development, as it brings in capital,

technology, and expertise. This is particularly impactful where countries leverage south–south corporations and investments, which tends to result in a more balanced risk profiling and better integration of contextual information. Foreign Direct Investments are attracted by robust and deep domestic capital markets, strong financial institutions, sound banking and regulatory systems, predictable and sustainable fiscal and economic policies.

1.6. International financial institutions (IFIs): IFIs, such as the World Bank and the African Development Bank, provide loans and grants to developing countries, which are extended at largely concessional rates, which are significantly lower than the capital markets. They can also provide technical assistance and advice that is an additional and often unquantified resource that supports countries – particularly those that are constrained in their capacities.

1.7. Domestic resource mobilization (DRM): DRM is the process of raising money from within a country. This can be done through taxes, levies, and other government revenue sources. DRM is generally most effective through; broadening the tax base, applying progressivity to the tax rates, or improving tax administration. All these options should be considered within the respective context of the individual countries. Studies show that even with increased tax collection, 46 developing countries will still experience a funding gap of $222 billion[1] therefore DRM is not necessarily part of the entire solution.

1.8. Financing climate change adaptation and mitigation: Climate change is a major challenge facing Sub-Saharan Africa. Financing is needed to help countries adapt to the impacts of climate change and mitigate its emissions, which has increasingly exposed countries to significant economic shocks. This is more critical where countries lack the fiscal space and buffers to respond with urgency to climate shocks.

The optimal option or combination of options will vary depending on the specific country's circumstances. However, all of the approaches mentioned above can play a role in closing the financing gap and supporting sustainable development.

In addition to the above, there are a number of other things that can be done to mobilize financing for Sub-Saharan Africa, such as:

1. Strengthening financial institutions: Financial institutions need to be strengthened so that they can lend to domestic businesses and individuals. This can be done by providing them with training and technical assistance, and by improving the regulatory environment.
2. Improving the business climate: The business climate needs to be improved so that businesses can thrive. This can be done by reducing red tape, improving infrastructure, and providing access to land and credit.
3. Promoting good governance: Good governance is essential for attracting investment and ensuring that resources are used effectively. This includes measures to fight corruption,

[1] ODI Briefing/Policy paper. Financing the end of extreme poverty: 2019 update

promote transparency and accountability, and uphold the rule of law are essential to inspire both public trust and confidence from the private sector.

4. Proactive Debt Management: Countries can actively manage debt by establishing and implementing strategies that seek to raise funding at the lowest possible cost, over a predictable horizon with the prudent degree of risk. Countries can apply internationally accepted debt resolution frameworks that allow debt to be restructured or refinanced. Low-income countries also lack the capacity to negotiate contracts that allow for debt restructuring in the event of debt vulnerabilities. Both private and public play a key role in providing borrowing options that allow for better debt management. Improving the efficiency of spending
5. Tax Optimization: The international system failings also need to be addressed where offshore financial centers, intra-company operations within multinational corporations, and tax avoidance and evasion fuel illicit financial flows and erode the tax base of many countries. It is also critical to address subsidies and tax holidays granted to encourage investment to ensure that long-term benefits are facilitated through the tax system.
6. Support of Development partners: Development finance institutions have always had a key role on reconstruction and rebuilding economies, as was the case for the World Bank, despite this originally being for Europe and Japan in 1944 after World War II. Today the system consists of more than 200 multilateral entities conducting development-related work and that play a role in financing the Sustainable Development Goals. According to the OECD 2022 Multilateral Development Finance Report, the volume of financing provided or mobilised by multilateral development organisation (USD 193.1 billion on average between 2019 and 2020) is far more than the volume of multilateral contributions provided by Development Assistance Committee (DAC) members (USD 73.5 billion over the same period).
7. Whilst the World Bank started early after its inception to finance non-European countries such as Chile in 1948, the pivot towards directly helping the poor took place in the 1970s. The twin goals then were “to accelerate economic growth and to reduce poverty”. The twin goals later evolved to “eradicating extreme poverty and promoting shared prosperity” we as the Board find ourselves evolving yet again, but this time to deal with global challenges and Global Public Goods that have a cross-border element.
8. The World Bank provides demand-driven development support to both middle-income(IBRD) and low-income countries (IDA), enhances private sector mobilization through private sector participation (IFC) and provides political risk cover (MIGA) to attract foreign direct investment. The Bank is the world’s largest source of funding for developing countries and provides an affordable source of financing for its member countries which is key as a form of managing sovereign debt. When countries could not access capital markets during the pandemic, the WB became a reliable source of financing.
9. Through Country Partnership Frameworks and diagnostic tools, the WB assists countries to not only design a tailor-made country strategy but one that focuses on national priorities whilst providing technical assistance to build institutional capacity.

10. Finally, we pride ourselves on being a knowledge bank that provides integrous data and analytical tools to produce in-depth analysis.
11. Together with the IMF, the WB has provided technical assistance, debt relief instruments and budget support and debt sustainability analysis.

FRAMING OF RESPONSE WITH THE BROADER CONTEXT OF DEBT AS A TOOL FOR ECONOMIC GROWTH

2. Not all debt is bad debt! Sovereign debt is a necessary financial tool for countries to stimulate economic growth, meet their development goals through development programs and projects and attract Foreign Direct Investment. Such an undertaking requires a significant amount of capital which cannot be all raised from tax collections mainly due to different levels of development.
3. Despite Debt being a tool for economic development, it can also significantly hinder development.
   3.1. Debt can be used to finance investments that can boost economic growth, such as infrastructure, education, and healthcare. However, it is important that these investments are productive and generate enough income to repay the debt. If the investments are not productive, the debt burden will become unsustainable and can lead to economic problems.
4. There are a number of factors that can affect the impact of debt on economic development. These include the level of debt, the interest rate on the debt, the maturity of the debt, and the use of the proceeds of the debt.
   4.1. Therefore, the solution is not necessarily "non-debt" but rather sustainable debt. Sustainable Debt is the government's ability to meet all its current and future payment obligations without exceptional financial assistance or going into default. Although this may vary depending on the stage of growth and development, ideally debt should finance assets that produce a return that offsets the cost of servicing debt and results in a positive net effect.
   4.2. In general, lower levels of debt are more sustainable and have a positive impact on economic growth. However, even low levels of debt can be harmful if the interest rate is high, or the debt is used for unproductive purposes.
   4.3. The maturity of the debt is also important. Long-term debt can be more sustainable than short-term debt, as it gives the government more time to repay the debt. However, long-term debt can also be riskier, as the interest rate may change over time.
   4.4. The use of the proceeds of the debt is also important. Debt that is used for productive investments is more likely to have a positive impact on economic growth than debt that is used for consumption or for unproductive purposes.

5. Overall, debt can be a tool for economic development, but it is important to use it wisely. Too much debt can be harmful, but carefully managed debt can help to finance investments that can boost economic growth.

The Current global context

6. Global public debt was relatively high prior to the COVID-19 pandemic. Data indicates that the 2019 global public debt surpassed levels last seen in 2007 by 23 percentage points of GDP[2]. Nevertheless, pre-pandemic expectations were that countries would benefit from the low inflation and low interest rate environment. In response to the high demands as a result of the pandemic, followed by poli crisis, there was a sharp acceleration of debt.
7. Global public debt has declined between 2021-22 by about 92 percent of GDP, which is about half of the increase in 2021, and fiscal deficits fell to 4.7 percent to GPD on average, debt levels still remain elevated. According to UNCTAD Global public debt, which includes domestic and external debt, has increased more than fivefold since 2000 reaching a record USD92 trillion in 2022[3]. According to the IMF's Global Debt Database, borrowing has increased by 28 percentage points to 256 percent of GDP in 2020. Public Debt is the highest in almost six decades and is 40% of the global total.[4]
8. Countries are now grappling to manage high debt levels, exasperated by the pandemic, rising inflation, slow growth resulting in some countries being in debt distress[5]. Despite public debt growing faster in developed countries, developing countries face more debt vulnerabilities to external shocks and therefore higher cost of debt. For instance, on average African countries borrow four times higher than the United States and eight times higher than Germany. During this time access to finance became constrained as a high number of countries, especially in Africa were downgraded by credit rating agencies despite accounting for as low as 4 percent of world cases as of April 2021.
9. As of June 2023, amongst the low-income countries 11 countries are in debt distress and 25 countries in high risk of debt distress. Efforts to provide debt relief, such as the Debt Service Suspension Initiative(DSSI), ended in 2021 but the call for Brettonwoods Institutions to do more to support and provide solutions for countries experiencing fiscal constraints continues to be echoed by many regions.

[2] Global Financial Stability Update, January 2021

[3] UNCTAD publication - world-of-debt

[4] IMF Annual Report 2022 - Debt dynamics

[5] IMF – Debt Sustainability Analysis for Low-Income Countries