POLICY BRIEF

T20 SOUTH AFRICA 2025

G20 SOUTH AFRICA 2025

The Future of African Development: Strengthening African Financial Institutions for Sustainable Growth and Development

2025

Trevor Lwere, Economist, Development Reimagined (Uganda)
Etsehiwot Negash Kebret, Development Finance Advisor, Development Reimagined (Ethiopia)
Leah Lynch, Chief Operations Officer, Development Reimagined (UK)
Jonathan Glennie, Global Cooperation Institute (Colombia)

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Financing for Sustainable Development

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SUBTHEME 1

Abstract

Africa receives a disproportionately small share of global development finance flows, which remains inadequate to address the continent's substantial growth and development needs. Consequently, a significant number of these nations are compelled to reallocate their limited resources away from essential public services – such as healthcare and education – towards debt servicing obligations.

In this context, African financial institutions (AFIs), which are closely aligned with the continent's development objectives and priorities, are well positioned to provide targeted financing and support. Their deep understanding of local contexts and strong relationships with African governments and stakeholders allow them to operate more effectively than many external actors. Nonetheless, their potential is constrained by limited financial resources and high borrowing costs.

A genuinely inclusive financial system – one in which all stakeholders contribute, participate in decision-making, and benefit equitably – requires a strong and sustained commitment to financing Africa's future through AFIs.

Strengthening these institutions is not only a continental imperative but also aligns with the broader G20 agenda of reinforcing multilateral development banks (MDBs) and expanding access to concessional finance for developing countries. This objective was prominently featured as one of the top five recommendations from Task Force 03 in the final T20 Brazil Communiqué.

The adoption of measures to reverse this situation depends on the political decision of the G20 members to provide more financing to AFIs, increasing their capital contributions, concessional funds and SDRs. G20 countries can play a pivotal role in this effort by supporting institutional capacity-building and targeted initiatives to strengthen AFIs. Such support should focus on facilitating their access to capital markets, encouraging reforms in corporate governance to align with global best practices, and promoting the integration of financial technologies into their operations. Furthermore, backing the Alliance of African Multilateral Financial Institutions (AAMFI) – a newly formed coalition aimed at fostering collaboration among AFIs and elevating African interests within the global financial system – would be instrumental in advancing these goals.

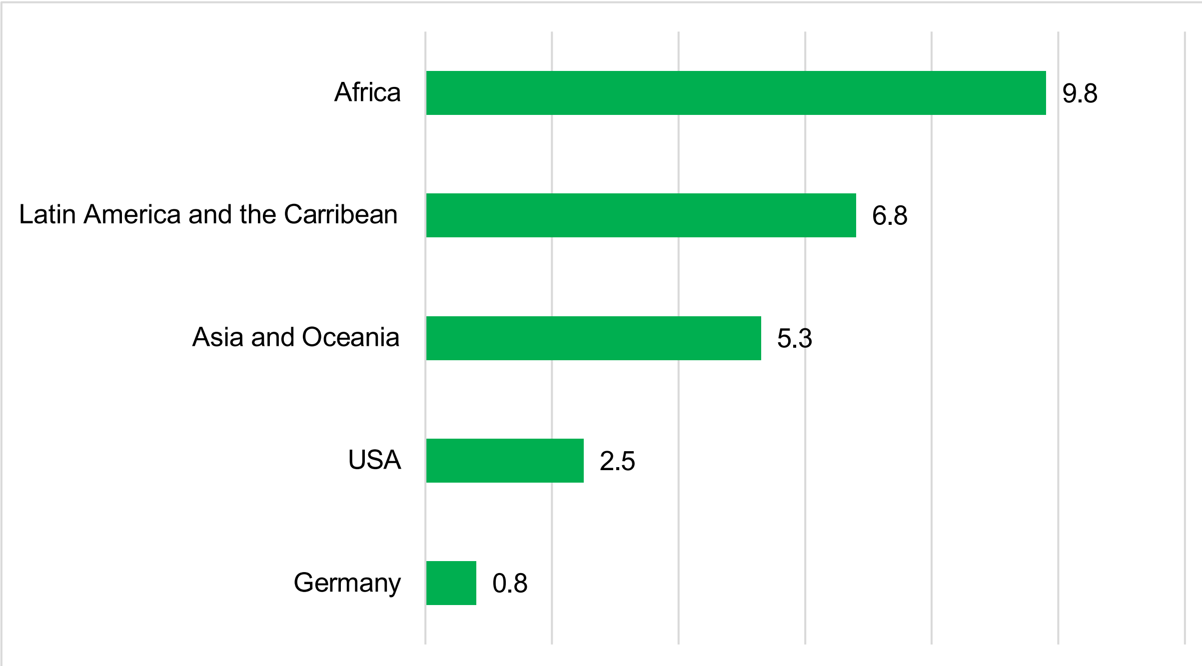
Diagnosis

African countries struggle to mobilise adequate affordable external financing. According to the African Development Bank (AfDB), between 2024 and 2030 the continent will need approximately $402 billion to fast-track its structural transformation. Yet, Africa accounts for a very small share of global development finance flows. According to UNCTAD, as of 2023, Africa accounted for just 2% of global public debt and approximately 7% of all developing country debt.[1] These limited flows are insufficient to meet Africa's significant growth needs.

In addition to the limited financial flows, external financing for African countries, particularly financing from the private sector, is very expensive, with commercial interest rates reaching well above 8%, with financing from the IMF and World Bank insufficient and often non-concessional. UNCTAD estimates that Africa borrows at rates that are four times higher than those of the US and 12 times higher than those of Germany.[2] Consequently, many African countries divert scarce resources from the provision of social services to debt servicing. In 2023, for instance, 25 African countries spent more on debt servicing than on healthcare provision, while seven countries spent more on debt servicing than on education.

[1] United Nations Conference on Trade and Development (UNCTAD), *A World of Debt: Regional Stories*, 2023, https://unctad.org/publication/world-of-debt/regional-stories#section1.
[2] United Nations Conference on Trade and Development (UNCTAD), *A World of Debt*, 2023, https://unctad.org/publication/world-of-debt.

Figure 1. Bond yields (2020-2024)

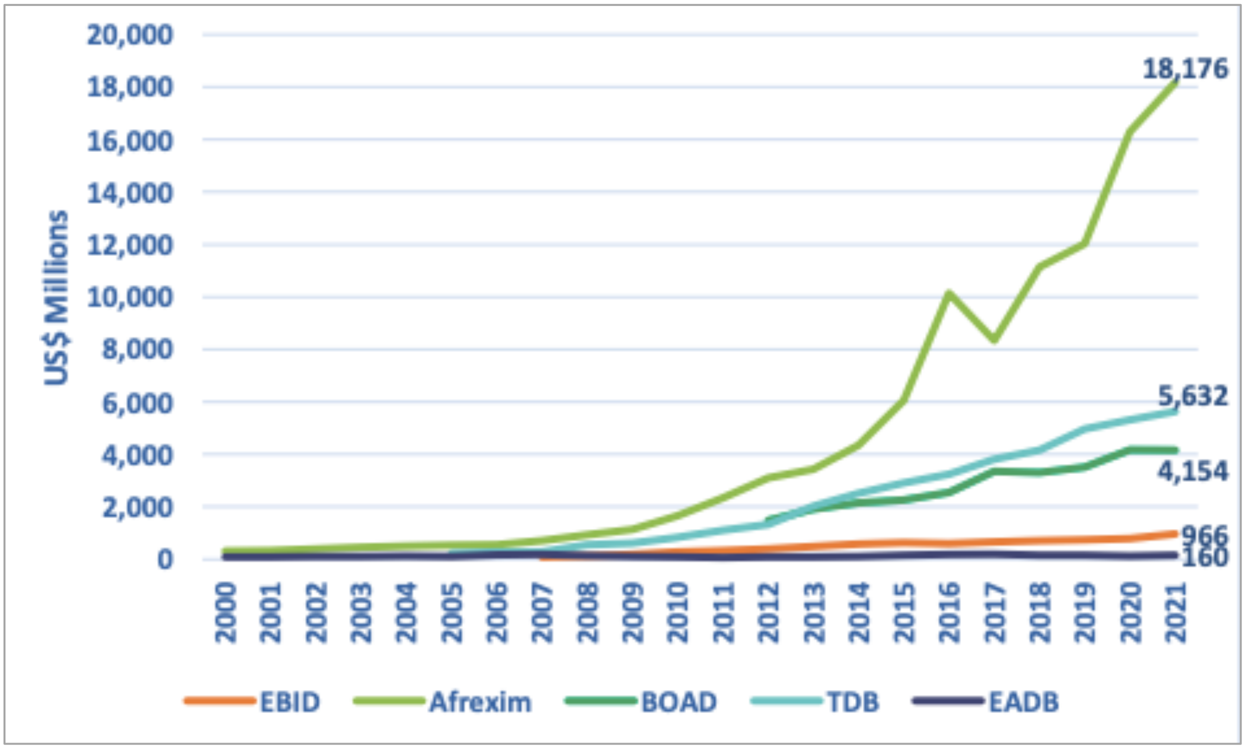


Source: UNCTAD[3]

In this context, African financial institutions (AFIs), aligned with the continent's developmental goals and priorities, are uniquely positioned to deliver financing and support due to their in-depth understanding of local contexts and their strong connections to African governments and stakeholders. AFIs are also less risk-averse and thus more likely to fund projects that other MDBs are unlikely to support. For instance, research by Development Reimagined indicates that AFIs are the second largest financiers of infrastructure in Africa behind African governments, contributing 12%. Moreover, AFIs provide such funding with minimal bureaucratic hassle and without the policy conditionalities that characterise funding from other MDBs.

[3] United Nations Conference on Trade and Development (UNCTAD), *A World of Debt: Regional Stories*, 2023, https://unctad.org/publication/world-of-debt/regional-stories#section1.

Figure 2. Growth of AFI loan portfolios (2000–2021)[4]



Source: ODI[5]

However, AFIs face significant challenges, chief among which is a small resource pool. AFIs have a small capital base because they receive contributions primarily from low-income African countries (their majority shareholders) that have limited financial resources. Yet, AFIs also face relatively high borrowing costs when they go to international capital markets due to their lower credit ratings, which in turn are linked to the widespread perception of the low creditworthiness of their shareholders, ie, low-income African countries.[6]

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[4] EBID = European Bank for Investment and Development; Afrexim = Africa Export and Import Bank; BOAD = West African Bank for Development; TDB = Trade and Development Bank; EADB = East African Development Bank.
5 Chris Humphrey, *Tapping the Potential of Borrower-Led Multilateral Development Banks*, ODI Working Paper, March 2023, https://media.odi.org/documents/DPF_WP_Tapping_the_potential_of_borrower-led_multilateral_development_banks.pdf.
[6] Africa Catalyst, *Chasing Capital: The Role of African Sovereign Investors in Mobilising Capital for Structural Transformation*, February 2025, https://africatalyst.com/wp-content/uploads/2025/02/Chasing-Capital-report2.pdf.

Furthermore, as smaller and newer institutions, AFIs have limited institutional capacity to execute their mandate effectively. For instance, AFIs are the subject of criticism for generally being lax in making lending decisions because they do not follow the lengthy and cumbersome bureaucratic processes of other MDBs. Furthermore, AFIs have a reputation for limited oversight and ineffective risk management mechanisms, which raises the perception of their riskiness.

Relevance to G20 work

Strengthening AFIs aligns closely with G20 efforts to reform MDBs. Under Brazil's G20 presidency, a comprehensive roadmap to make MDBs bigger, better, and more effective was adopted.[7] This followed a G20-commissioned expert panel that reviewed the capital adequacy frameworks of MDBs with a view to optimising their resources so as to increase their credit headroom.[8] These efforts called for exploring innovative financing instruments, enhancing collaboration among MDBs, and providing guarantees for regional, national, and sub-national DFIs, all of which would contribute to strengthening AFIs.

Strengthening AFIs also aligns with the priorities of the G20 South African presidency on ensuring debt sustainability for low-income countries, and reducing the cost of capital for low and middle-income countries. Mobilising finance for development is one of the three priorities of the Development Working Group under the South African G20 presidency, in recognition that "the G20 is well placed to contribute to financing for development initiatives since it … has previously embarked on various interventions that contributed to resource

[7] https://www.worldbank.org/en/news/statement/2024/11/19/multilateral-development-banks-welcome-g20-roadmap-for-mdb-reform

[8] https://www.dt.mef.gov.it/export/sites/sitodt/modules/documenti_it/news/news/CAF-Review-Report.pdf

mobilisation", including the adoption of the G20 Financing for Sustainable Development Framework and the G20 Principles to scale up blended finance.

Furthermore, strengthening AFIs also aligns with the G20 agenda on facilitating access to concessional resources for developing countries, which was one of the top five recommendations from Task Force 03 in the final T20 Brazil Communiqué. In the G20 Rio de Janeiro Leaders' Declaration, G20 leaders committed to "mobilise more headroom and concessional finance to boost World Bank capacity to help low- and middle-income countries that need help in addressing global challenges, with a clear framework for the allocation of scarce concessional resources".[9] A truly inclusive financial system, where all contribute, all decide, and all benefit, requires a strong commitment to financing Africa's future through AFIs.

Recommendations

This policy brief explores how G20 countries can strengthen their support to AFIs through two key avenues. First, **G20 countries should facilitate increased financial flows to AFIs**. There are a variety of options for G20 member states to do this.

- G20 countries should support the designation of AFIs as prescribed holders of SDRs, and channel SDRs through AFIs. In October 2021, the G20 pledged to reallocate $100 billion of its SDRs to vulnerable countries. As of June 2023, 60%[10] of the pledges were made to IMF instruments[11] that have limited SDR

[9] https://g20.org/wp-content/uploads/2024/11/G20-Rio-de-Janeiro-Leaders-Declaration-EN.pdf
[10] Kristalina Georgieva, "Remarks by the IMF Managing Director Kristalina Georgieva at the Paris Summit Closing Press Conference," *International Monetary Fund*, June 23, 2023, https://www.imf.org/en/News/Articles/2023/06/23/sp062323-mdremarks-paris-summit-closing-presser.
[11] The IMF's Poverty Reduction and Growth Trust (PRGT) and Resilience and Sustainability Trust (RST)

absorption capacity, strict conditionalities, and cannot be earmarked for African countries. Moreover, of the $100 billion, a very small portion has been disbursed, with African countries receiving just $10.9 billion through the IMF's Poverty Reduction and Growth instrument in 2021–2022. Meanwhile, the AfDB has proposed a hybrid capital instrument (HCI) that would allow IMF member states, particularly G20 countries, to reallocate their unused SDRs to the bank while maintaining the SDR's reserve asset status. The AfDB would be able to leverage these SDRs three to four times. However, for the HCI to be operational, there needs to be at least five SDR contributor countries, each lending SDR 500 million for initial financing of SDR 2.5 billion. Unfortunately, as of today, no country has pledged to reallocate their SDRs to the HCI.

- G20 countries should establish co-financing funds with AFIs. The AfDB has managed several successful co-financing arrangements, such as the Accelerated Co-Financing Facility for Africa, co-managed with Japan International Cooperation Agency (JICA); the EU-Africa Investment Programme; and the Africa Growing Together Fund (AGTF), co-managed with the People's Bank of China (PBOC). For instance, in 2014–2024 the Africa Growing Together Fund (AGTF) provided $2 billion for 55 large-sized projects across the continent, on the same terms and conditions as loans administered by the AfDB itself. The success of these trust funds demonstrates the transformative impact of co-financing arrangements, which can be replicated by other G20 countries with other AFIs.

- Encourage legacy MDBs to establish risk-sharing mechanisms with AFIs: In line with the G20 roadmap for MDB reform, which called for enhanced cooperation among MDBs, G20 countries should encourage larger MDBs to provide credit guarantees to AFIs to enable them to access capital markets at lower costs.

- Increase concessional finance flows to Africa through AFIs, in line with recommendations of the G20 Independent Experts Group, which recommended tripling concessional financing for developing countries.[12] Through the G20 Compact with Africa, G20 countries can mobilise concessional resources using blended finance and other innovative financing mechanisms to support infrastructure projects in Africa through AFIs. Moreover, in line with the G20 Financing for Sustainable Development Framework, individual G20 countries should consider contributing to existing mechanisms such as the AfDB's African Development Fund (ADF), which caters to 37 African countries and is due for replenishment in 2025, with the objective of mobilising $25 billion.

- G20 countries should increase their capital contributions to AFIs: The G20 Independent Experts Group recommended a significant increase in new equity of $100 billion across all MDBs, which includes AFIs.[13] Thus, G20 countries that are non-regional members of AFIs should increase their capital contributions to AFIs to increase their capital base, which in turn will enable them to leverage and on-lend to African countries at low rates. At the same time, G20 countries that are not non-regional members of AFIs should strongly consider subscribing to AFIs by contributing share capital.

Second, **G20 countries should support institutional capacity-building initiatives focused on strengthening AFIs.**

- G20 countries should support AFIs to undertake reforms in their corporate governance structures to align with industry best practices. As mostly small,

[12] https://icrier.org/g20-ieg/pdf/The_Triple_Agenda_G20-IEG_Report_Volume1_2023.pdf
[13] https://icrier.org/g20-ieg/pdf/The_Triple_Agenda_G20-IEG_Report_Volume1_2023.pdf

regional entities, AFIs may not have as much exposure to industry best practices relative to legacy MDBs. Through knowledge-sharing platforms, G20 countries can support AFIs to implement reforms in their corporate governance structures as well as their risk management and regulatory compliance mechanisms. G20 countries could also provide technical training for AFIs on engagement with international capital markets.

- G20 countries should support AFIs to integrate financial technology into their operations, including enhancing data management and analytics in line with the G20 Financing for Sustainable Development Framework that urges G20 countries to "assist in capacity building, share experiences and knowledge [and] promote on mutually agreed terms both the voluntary transfer of technology and digitalisation".[14]

- G20 countries should support the Alliance of African Multilateral Financial Institutions (AAMFI), a new coalition established to strengthen collaboration among AFIs and advance African interests in the global financial system.

[14] https://g7g20-documents.org/fileadmin/G7G20_documents/2020/G20/Saudi%20Arabia/Leaders/2%20Leaders%27%20Annex/Financing%20for%20Sustainable%20Development%20Framework_22112020.pdf

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For publication enquiries, please contact t20@t20southafrica.org

Website: www.t20southafrica.org