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Reimagining Development Finance for a 21st Century Africa

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Why has traditional development finance not worked for Africa over the past six decades? This gnawing question remains as we examine the trajectory of growth in Africa.

The roots of contemporary development practice reside in the immediate post-World War II era, when extraordinary efforts to provide temporary financial and technical assistance for European countries from the ravaging effects of the war helped to get back on track toward shared national and since then, the foundations of this approach became the cornerstone of development thinking. Bilateral and multilateral development institutions have devoted themselves to replicating Europe's experience with post-war reconstruction across the world. The approach is relatively simple. If countries received financial support during lean times, governments would invest in human capital and critical services in order to boost productivity in the medium term. To the extent that loans could be repaid, countries will enhance their development prospects. Since 1990, African countries received over $1.3 trillion in development assistance; however, the continent's financial, societal, and political fabric remains fragile.

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It is clear that business as usual will not deliver meaningful economic development in Africa. Development partners, like the United States, must continue to rethink their approach to development

These three lessons still resonate across Africa today. Restrictive macroeconomic targets bode well

Third, Africa's financial, economic, social, and political institutions are very fragile. This makes it harder to prevent fiscal diversion, financial leakages, and waste. In post-war Europe, it was relatively easier to reconstitute financial and economic institutions. In immediate post-independence Africa, these institutions were only just being built. Since the 1990s, when two-thirds of Sub-Saharan African countries were classified as "low income" by the World Bank, today half of the continent is classified either middle- or high-income, as shown in Chart A. While this calls for a more nuanced, country-specific approach to development assistance, it must be noted that some of the continent's higher-income countries are still very susceptible to economic shocks, as shown in Chart B. Fourth, many African countries have

initiative is to succeed. Also necessary in this regard is the allocation of adequate financial and human resources to provide requisite support. Second, there still needs to be a shift in the narrative from what the United States can provide to what Africa needs—consistent with attaining sustainable development goals. This shift will not only help concentrate U.S. development assistance targeted impacts, as opposed to discrete outcomes, but it will also identify how the United States can leverage other development assistance resources to maximize development impacts. Third, there is a need to avoid becoming overly focused on humanitarian assistance at the expense of development. This is particularly important for Africa's middle-income countries, which may have higher income per capita, but are still very vulnerable to global trade and environmental shocks. Fourth, the Summit did not go far enough in its support for raising/catalyzing additional development financing for Africa, particularly the speedy rechanneling of IMF Special Drawing Rights and affordable/innovative resources to expedite Africa's green transitions.

A Roadmap for Enhanced U.S.-Africa Development Assistance

Despite multiple challenges, development assistance has been transformative across Africa.[25] Development partners, like the United States, have contributed greatly to the continent's development strides—particularly over the last couple of decades. However, much more needs to be done. Studies have shown that there is a continuing appetite in the elopment

Conclusion

Rethinking economic development pathways and development financing in Africa must not mean trying to scale up what is already being done. African countries and their development partners must adopt a new development framework. One that is not entirely predicated upon development assistance. The new framework must also incorporate the realities and urgency of Africa's imminent green transitions, as well as the need to close the yawning infrastructure and technology gaps. This new framework must have trade at the center. As was the case during the Marshall Plan for Europe, success and sustainability must be measured by Africa's ability to generate income and create trade by repositioning its exports in global value chains. Regional trade should be energized to help ensure food and fuel security, as well as boost industrialization. Furthermore, meaningful development progress requires sustained strategic investments in infrastructure, technology and human capital. Development assistance is not designed to provide this. Aid is insufficient, often tardy and usually tied. African countries will have to seek external investment and financing to fill these gaps. These financing flows must be construed as development financing, which requires an element of concessionality. This is why innovative mechanisms to de-risk such investments and reduce the costs of borrowing must be part of Africa's development conversation. The current gradual increase in domestic resource mobilization in a number of African countries could be supercharged using fintech, and proceeds should be directed towards health, education and skills acquisition.

Viewing economic development in Africa as an investment proposition is bold and risky. However, this is the only way to make a meaningful dent in poverty, ensure viable green transitions, and enhance institutional resilience for prudent and accountable economic governance. Africa's development partners, like the United States, have an important role to play, and that must go beyond their traditional role as purveyors of development assistance.

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