



Advancing the implementation of the Agreement Establishing the African Continental Free Trade Area: proposing transformative strategic actions

Fifty-seventh session of the Economic Commission for Africa Conference of African Ministers of Finance, Planning and Economic Development

12 - 18 March, 2025, Addis Ababa

SIDE EVENT

Organized by the Macroeconomic Policy, Finance and Governance Division

Innovative financing instruments for sustainable climate finance and debt management in middle-income countries

Background

Middle-income countries, which currently comprise 31 of the 54 countries in Africa, face shared challenges despite their diversity. While they have made significant progress since the early 2000s, the achievement of the Sustainable Development Goals, especially Goal 1, on ending poverty in all its forms everywhere, remains challenging. In 2022, 40 per cent of the continent's population living in extreme poverty (almost 200 million people) were in middle-income countries, with the figure amounting to 28.1 per cent of extreme poverty worldwide.¹ In addition, rising geopolitical tensions, climate disruptions, financing needs and growing debt burdens are complicating aspirations for economic growth and improved living standards.

The middle-income trap, which is the phenomenon of progress being hampered in middle-income countries, is a pressing issue globally. To overcome the challenge, African middle-income countries must invest in human capital, new technologies and sectors in which climate-resilient growth can be promoted. Adequate and consistent access to affordable financing will be crucial for the transformation, and there is an ongoing debate about the need for concessional financing. Middle-income countries are in a double bind: they require significant

investments to maintain their middle-income status but are constrained by limited access to concessional financing. Investments are especially crucial to mitigate the negative effects of climate change, to which middle-income countries contribute only marginally but from which they suffer heavily. The absence of affordable financing at scale owing to their middle-income classification (the middle-income trap) exacerbates the challenges.

Public debt burdens in African middle-income countries are also rising, which further limits fiscal space for critical investments in human and physical capital. Despite partial recovery from previous shocks, debt repayment costs continue to grow. The added pressures of climate change, including increasing droughts, floods and biodiversity loss, make it even harder for these countries to address development priorities. In the face of a global polycrisis, concessional financing, along with private and innovative financing, is vital for overcoming the middle-income trap and fostering sustainable economic transformation.

African middle-income countries face a unique financing gap that requires new mechanisms to break the cycle of debt and fiscal pressure. Innovative financing tools, such as green bonds, social bonds,

¹ Calculations by the Economic Commission for Africa (ECA) based on World Bank, "Poverty and inequality indicators", Poverty and Inequality Platform. Available at <https://pip.worldbank.org/poverty-calculator> (accessed in January 2025).



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sustainability-linked bonds, blended financing and public-private partnerships, could be part of a solution. Such mechanisms could mobilize private capital and attract global investments, providing middle-income countries with funding that is aligned with the Sustainable Development Goals. However, systemic barriers still hinder the ability of middle-income countries to gain access to these instruments, making urgent reforms necessary to unlock the financial resources needed.

Objective

The main objective of the side event is to provide a platform for policymakers, practitioners and academics to identify actionable solutions for closing the financing gap in African middle-income countries. The emphasis will be on the role of innovative financing mechanisms in addressing public debt challenges, fostering resilience and driving transformative development across the continent.

Expected outcomes

The expected outcomes of the side event include:

- (a) **Knowledge-sharing.** Increased awareness among African policymakers and other stakeholders of the size of the financing gap for middle-income countries to be able to achieve the Sustainable Development Goals and of evolving options for utilizing innovative financing instruments to close the gap;
- (b) **Policy recommendations.** Identification of concrete recommendations for enhancing the access of middle-income countries to development and climate financing, which would feed into the broader outcomes of the Conference of African Ministers of Finance, Planning and Economic Development;
- (c) **Actions.** Greater adoption of debt management strategies, including debt-for-climate swaps and improved sovereign bond frameworks, to alleviate fiscal pressures and promote sustainable investments;
- (d) **Partnership-building.** Formed and reinforced partnerships and commitments to innovative financing approaches that are aligned with the Sustainable Development Goals.

Speakers

The details of the speakers who will feature in the side event will be published in due course.

Target audience

The side event is targeted at policymakers, researchers, practitioners and other stakeholders.

Further information

For further information, please contact the Officer-in-Charge of the Macroeconomic Analysis Section of the Macroeconomic Policy, Finance and Governance Division, ECA, Hopestone Kayiska Chavula (chavula@un.org; +251 11 5443455), and Senior Research Associate in the Macroeconomic Policy, Finance and Governance Division, ECA, Tsedale Demissie Bekele (demissie1@un.org; +251 11 5443297).
