ITALY AND THE DEBT CRISIS

What implications for the partnership with Africa

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ECCO

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EXECUTIVE SUMMARY

In recent years, Italy has demonstrated a growing interest in the African continent, culminating with the Italy-Africa Summit in January 2024 and the launch of the Mattei Plan, on paper a partnership to engage with the continent on equal and non-predatory terms. Until now, however, Italy's relations with Africa have been largely driven by its interest in securing access to gas supplies. In the three-year period 2021-2023 alone, Italy has signed 14 new agreements for gas supplies with Middle Eastern and African countries, despite the fact that the energy security scenario for Italy in this context does not foresee the need for new investments. Despite this, Italian public development finance institutions (Cassa Depositi e Prestiti and SACE, the export credit agency) are strongly oriented towards supporting these investments, including in Africa.

In order to develop a mutually beneficial partnership with Africa, through the Mattei Plan and the leadership earned through the 2024 G7 presidency, Italy must listen and respond to the needs expressed by its African partners. These include a series of reform proposals of the international financial architecture that would help resolve the debt crisis and improve access to low-cost finance for economic diversification and the energy transition. For Italy, this also implies overcoming traditional approaches linked to concepts of energy security and the role of hydrocarbons that currently characterise Italy's presence in Africa.

The debt crisis in Africa

The growing burden of external debt is a formidable obstacle for the African continent to undertake the necessary investments to combat poverty, inequality and embark on the energy transition. Over the last decade, African external debt has grown faster than GDP and due to rising interest rates, Sub-Saharan African countries in 2023 spent on average 12% of their fiscal revenues on debt servicing, more than what they spend on health and education. At the same time, international aid actually received by African countries decreased by 3.5% in 2022. As a result, many countries are transferring to their creditors more than what they receive in investments, loans or aid.

Solving the debt crisis is made more difficult by the composition of the creditors landscape, which has become more complex and fragmented over the past fifteen years. In Africa, 44% of the debt is owed to private creditors, 34% to multilateral creditors and only 23% to other governments. The Italian government hold about USD 1.3 billion of African debt, while private Italian creditors hold about USD 2 billion. The *Common Framework*, which was established by the G20 in 2020 in an attempt to facilitate the debt restructuring process of the poorest countries in the context of the pandemic, has so far been used by only four countries, with dubious results.

The relationship between debt, climate crisis and fossil investments

An important aspect of the African debt crisis is the vicious circle it has established with the climate crisis and with dependence on fossil fuel production. On the one hand, high debt levels constitute a significant obstacle in addressing climate change and promoting the energy transition, as they reduce public spending in mitigation and adaptation; on the other hand, the costs of loss and damage associated with climate change undermine the debt sustainability of affected countries.

Furthermore, countries whose economies are heavily dependent on the export of fossil fuels have little incentive to abandon their production because they need foreign currency to repay debts

incurred in dollars or euros. At the same time, in many countries, investments in hydrocarbon extraction often have a negative impact on public finances and exacerbate indebtedness. This is often the case because energy companies stipulate contracts with governments containing clauses that prioritise private profits overbalancing public finances. These include *Resource Backed Loans (RBL)* (a contract whereby repayment is made directly in natural resources) and 'take-or-pay' clauses, which commit the buyer to purchase a predetermined volume of a certain resource at a price fixed ex-ante.

This vicious circle is of great relevance for the Italian presence in Africa, whose main concrete manifestation are Eni's investments. After TotalEnergies, Eni is the second largest oil & gas company present in Africa and the third largest company in the development of new fields. All countries where Eni is present are in debt distress if not in crisis. In Ghana, a 'take-or-pay' clause stipulated by Eni with the government has contributed to exacerbating the country's debt crisis. In Mozambique, Eni, CDP and SACE together with other oil companies have invested in gas extraction projects that have contributed to the deterioration of the country's public finances and increased its debt distress, as well as poverty and conflict. To date, Eni's expansion plans on the African continent appear in contradiction with Italy's international climate commitments, with the priorities expressed by the African continent, and with the logic of the Mattei Plan itself.

Ways out of the debt crisis: what options for Africa and implications for Italy

Italy, together with the G7 and G20 countries, should champion the demands for reform of the international debt architecture. In order to support the following measures in order to alleviate the debt distress of African and developing countries, ensure a flow of resources adequate to the continent's needs and adapt the international debt management and restructuring system to the risks and needs posed by the climate crisis, they should:

- Commit to an ambitious refinancing of IDA21 (the World Bank fund offering subsidised loans or grants to the poorest countries), corresponding to a collective G7 increase of 25% in real terms, as recently demanded by African countries;
- accept demands for improvement of the *Common Framework;* support the need for an urgent review of the International Monetary Fund's (IMF) use of surcharges on overdue debts; support the review of the formula to allocate IMF quota, with a view to redistribution in favour of developing countries;
- push the IMF to include climate in the ongoing review of its debt sustainability framework, making these analyses more transparent and accessible, and to introduce more flexible conditions for access to *Resilience and Sustainability Trust*;
- consider a more systematic use of measures such as debt swaps, climate resilient debt clauses (CRDCs) and parametric insurance, as instruments that can create additional liquidity and limit the vulnerability of debt to climate risks;
- harness the potential of Special Drawing Rights (SDRs) as a tool to increase global liquidity for development and climate, in particular by supporting the mechanism created by the African Development Bank for rechanneling SDRs;
- In addition, Italy, drawing from the the key role it played in the creation and implementation of the HIPC initiative, should lead the discussion at the G7, G20 and other multilateral forums on a new concerted and ambitious initiative for debt relief for the poorest countries including debt service payment suspensions, new concessional bridge financing and restructuring when needed;

To ensure that the Italian presence in Africa, including through the Mattei Plan, supports just, sustainable and inclusive growth, the Italian government should also:

- commit not to support new gas exploration and new gas production, as well as new gas transportation infrastructure, both at the political level and through its development finance institutions, such as CDP and SACE, in line with Parliament's COP28 motion of November 2023;
- ensure greater transparency from both CDP and SACE to allow public scrutiny and redirect them to exclusively support alternative economic sectors to fossil fuels;
- and support African partners to integrate decarbonisation and climate resilience within their economic and industrial development and financial plans, consistently with the need to restore debt sustainability.

1 ITALY-AFRICA: PROSPECTS AND OBSTACLES FOR A RENEWS PARTNERSHIP

In recent years, Italy has shown a growing interest in the African continent, culminating with the Italy-Africa Summit in January 2024 and the launch of the Mattei Plan, on paper a strategic plan with diplomatic, industrial, economic, energy, climate, security and development implications that aims to engage with the continent on equal and non-predatory terms.

At the same time, Africa has progressively acquired a more prominent role and a unified voice at the global level in articulating proposals for substantial reforms of the international financial architecture and global economic and climate governance, such as the final declaration of the 2023 Africa Climate Summit. These demands are set against the backdrop of the growing difficulties in addressing the crises that have erupted in recent years, including the economic and social impact of the Covid-19 pandemic, subsequent increases in inflation and interest rates, the debt crisis and the climate crisis. At the core of these demands is the call for the multilateral community and developed countries to commit to ensuring a flow of cheap financial resources to the continent, to restore fiscal space and public investment capacity to the most distressed countries, and the rebalancing of power relations in global governance.

Until now, Italy's relations with Africa have been underpinned by the interest in promoting the continent's growth as an antidote to the root causes of migration, and in securing access to gas supplies that could replace Russian ones following the Russian invasion of Ukraine. This trend is clearly visible in Italy's trade balance: while Italian exports to Africa increased by about 5 per cent between 2013 and 2022, reaching €21.4 billion, Italian imports from the continent almost doubled from €27 billion in 2013 to €48 billion in 2022. This increase was mainly driven by the growing imports of fossil fuels, and is in fact concentrated, with the exception of Morocco (with a 148% increase) in hydrocarbon-producing and exporting countries such as Algeria (190% increase), Angola (180%), Congo (168%) and Mozambique (143%).[1] In the three-year period 2021-2023 alone, Italy signed 14 new agreements for the supply of gas with Middle Eastern and African countries, including Angola, Algeria, Egypt, Libya, Mozambique e Congo. These new contracts stand in strong contrast to the effective gas needs of Italy and Europe. In fact, Italian gas demand is at its lowest level in the last 10 years, thanks to the replacement of gas consumption with renewables, savings and energy efficiency measures, and is estimated to fall by 37% by 2030 and 82% by 2040, if the country's European and G7 decarbonisation targets are met. In essence, the energy security scenario for Italy in this context does not foresee the need for new investments in new gas infrastructure and new gas production.

Moreover, contrary to the narrative that claims that investments in new deposits in Africa have positive effects on the local economy, evidence shows that these often increase its vulnerability to the fluctuation of energy prices. This undermines public finances and prevents economic diversification, thus deepening dependence on fossil fuel exports.

In order to develop a mutually beneficial partnership with Africa, one that meets the continent's needs for sustainable, inclusive long-term economic growth and is in line with Italian own public interest, of shared prosperity and security, the Italian government must develop independent analyses of the country's energy needs and those of African countries, and listen to and commit to

[1] Data based on analysis of the Statistical Yearbook of Foreign Trade 2023 ISTAT-ICE

supporting the requests articulated by African partners in multilateral forums, starting with the G7 and G20. It must also strategically set up the Mattei Plan to respond to partner countries' needs to resolve their debt distress and access low-cost capital to diversify their economies and invest in energy transition.

2 THE DEBT CRISIS IN AFRICA: AN OBSTACLE TO DEVELOPMENT AND THE JUST ENERGY TRANSITION

The global investments needed to address climate change and the energy transition in an equitable and inclusive manner are estimated at about 1000 billion per year in 2025 and 2400 billion by 2030, as well as a $4 trillion spending gap to be bridged to achieve the Sustainable Development Goals (SDGs). It is estimated that Africa alone needs USD 500 billion to ensure energy access for the entire population and USD 438 billion for investment in climate adaptation by 2030.

In this context, **rising levels of external debt are one of the main obstacles faced by many developing countries in undertaking the investments needed to combat poverty, inequality and the climate crisis**. This is particularly true for the African continent, where the debt crisis is most profound, in the face of greater and growing spending needs. According to World Bank estimates, in 2023 out of 35 countries in Sub-Saharan Africa, 19 were at risk of or in debt distress. Moreover, as of 2020, four countries (Chad, Ethiopia, Ghana and Zambia) have declared default and are negotiating their debt restructuring under the G20 *Common Framework*.

According to the World Bank, over the past decade, external debt has grown faster than GDP by 99 per cent in North Africa and the Middle East, and by 72 per cent in Sub-Saharan Africa, reaching USD 433 billion and USD 833 billion respectively by 2022 (Table 1). In addition, eight African countries (Burundi, The Gambia, Guinea-Bissau, Mozambique, Niger, Rwanda, Sudan, and Uganda) reached a ratio of external debt to exports of over 300%, while in Lebanon and Senegal the ratio reached 515% and 467%, respectively. In addition to the level of debt, the cost of servicing debt has also risen substantially in recent years, both in absolute terms and as a proportion of GDP, as a result of rising interest rates in the global economy.

	External debt indicators (in billion $)					
	2010	2018	2019	2020	2021	2022
	NORTH AFRICA AND THE MIDDLE EAST					
Total external debt stock	**210**	350	369	398	421	431
Actual disbursements	23	52	39	36	38	26
Debt Service Payment	24	34	38	38	40	37
	SUB-SAHARAN AFRICA					
Total external debt stock	340	689	738	776	816	833
Actual disbursements	45	92	90	71	81	77
Debt Service Payment	17	72	76	68	78	78

Table 1 *– Evolution of external debt indicators (in billion $). Source: World Bank International Debt Statistics 2023*

On average, Sub-Saharan African countries in 2023 devoted 12% of their fiscal revenues to debt service payments (domestic and foreign), more than twice as much as the last decade and more than what they spend on health and education. Most African countries of interest for Italy are in debt distress or in debt crisis, and allocate a substantial share of public spending to debt service payments, at the expense of investments in education, infrastructure and health (Figure 1 and Table 2).

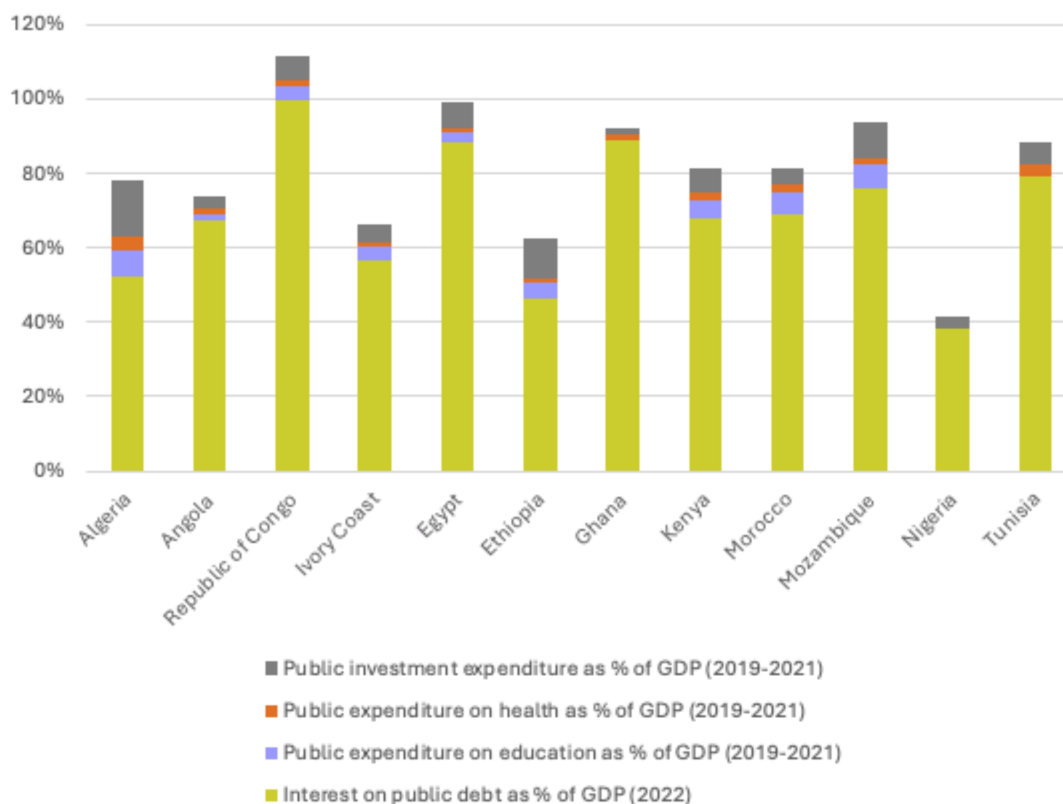

***Figure 1** – Public expenditure on debt interest, education, health and investment. Source: UNCTAD, A World of Debt 2023*

At the same time, both direct investments and development aid to the poorest countries have decreased. In 2022, official development aid (ODA) levels reached a record high of $287 billion, but the increase is mainly due to rising spending on refugee management in donor countries. These funds are critical to ensure that the human rights of migrants are respected in the countries of arrival, but these resources do not reach the beneficiaries of development cooperation. **The aid actually received by developing countries decreased by 2% in 2022, and by 3.5% for African countries.**

Due to the combined effect of these trends, global net financial transfers to developing countries fell to their lowest level since the 2008 global financial crisis, reaching USD 51 billion in 2022. It is also estimated that they will continue to decline over the next two years and turn negative in 2024. Already, one in five emerging economies transfers more to their foreign creditors than they receive in investments, loans or development aid.

The African macroeconomic situation is aggravated by inflation, the recent drop in demand for exports from Africa by China and Europe, and the restrictive monetary policies adopted by the G7 countries, which induce the devaluation of African currencies and reduce foreign currency stocks. In

2023, the growth of external debt slowed down and some African countries were able to access international markets again: in early 2024, Côte d'Ivoire, Benin and Kenya issued Eurobonds (i.e. borrowed from international markets). However, new vulnerabilities are on the way, due to the fact that in 2024 and 2025, international bonds will come due in many countries, without these countries having the liquidity to repay them, thus increasing the risk of default.

Way out of the debt crisis: what options for Africa

Since the Covid-19 pandemic, concerns over the outbreak of a new debt crisis have revived the discussion on reforming the international debt architecture. This agenda has three main pillars: (i) reforming the global system for resolving debt crises; (ii) ensuring that developing countries (DCs) have the fiscal space and liquidity to make the public investments necessary to achieve sustainable development goals, implement the energy transition and tackle climate change; (iii) improving the quality and sustainability of future debt, in view of the growing financing needs of the global economy and in particular of emerging economies and countries with high climate vulnerability.

Although small progress has been achieved, many obstacles remain to the implementation of a comprehensive reform of the international debt architecture. **One of the key problems is the composition of the creditor system involved, which has become more complex and fragmented over the past fifteen years.** In particular, the amount of debt incurred with multilateral development banks and private creditors has increased since 2010, including commercial banks and private investment funds that invested heavily in emerging economies and in many developing countries after the 2008 financial crisis, lending at low interest rates. **In Africa, 44% of the debt is owed to private creditors, 34% to multilateral creditors and only 23% to other governments.** According to ONE Campaign analysis based on World Bank data, the main African bilateral creditors (i.e. governments) are China ($63 billion), France ($15 billion), Saudi Arabia ($12 billion) and Germany ($9.5 billion). The Italian government has a credit with the continent of about USD 1.3 billion, while private Italian creditors hold about USD 2 billion of African debt.[2]

This context makes debt restructuring more complicated because different types of creditors have different interests and abide to different legal frameworks. As recently seen in the Zambian case, negotiations between creditors are difficult and can take years to reach a resolution.

In 2020, the G20 established the *Common Framework* in an attempt to facilitate the debt restructuring process of the poorest countries, but so far few countries (all of them African) have used it, demonstrating its dubious effectiveness. The main problems include the fact that only the poorest countries are eligible to participate, the persistence of friction between categories of creditors, the reluctance of private creditors to participate, the slowness of the process and its lack of transparency. Also problematic is the absence of automatic debt suspension clauses for countries that participate in it, although progress in this direction has recently been made in the case of Ethiopia.

Besides the improvement of the *Common Framework*, another instrument of great importance to alleviate the debt distress of African countries and support their development process is the World Bank International Association for Development (IDA). **IDA is the largest global source of development finance, offering interest-free or low-interest loans and grants with repayment**

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[2] The figure for private debtors is to be considered partial because data are available for a limited number of countries and creditors.

terms spread over 30-40 years for the world's 75 poorest countries. Approximately one third of IDA funding goes to countries at greatest risk of debt distress and more than 70% is directed to Africa. Since its creation in 1960, IDA has been refinanced 20 times through three-year cycles. In 2017, a hybrid financial model was introduced that enabled the leverage of the grant contributions of the 50 donor countries (amounting to $23.5 billion), translating every dollar contributed into almost $4 of financial support for the countries. This led to a record $93 billion during the last refinancing round in 2021 (IDA20). African countries meeting in April 2024 in Nairobi, through the Joint Nairobi IDA Communique made a strong appeal to donor countries for an ambitious 21st IDA refinancing. In parallel, World Bank President Ajay Banga called for a 20-30% increase in contributions to reach a target of $28-30 billion in total contributions.

Another measure on which the African continent has focused heavily is the **creation of mechanisms to rechannel Special Drawing Rights (SDRs) held by rich countries as reserves in their central banks and not used**. To this end, the African Development Bank (AfDB), in collaboration with the Inter-American Development Bank (IDB), has created a mechanism that would allow them to receive the SDRs and reinvest them in the form of hybrid capital in development, infrastructure and energy transition projects. The development of this mechanism has received renewed impetus following the IMF's recent approval of the use of SDRs as hybrid capital. Its success will depend on how many donor countries effectively hold their commitments to recycle SDRs through different means.

3 THE ITALIAN PRESENCE IN AFRICA: DEVELOPMENT COOPERATION AND PUBLIC LENDING

How development aid works in Italy

International cooperation for development is an integral part of Italy's foreign policy and is managed by the Ministry of Foreign Affairs and International Cooperation (MAECI), in coordination with the Ministry of Economy and Finance (MEF). Its implementation is the responsibility of the Italian Agency for Development Cooperation (AICS), in addition to Cassa Depositi e Prestiti (CDP) and regional and local public administrations.

Italy's largest contributor of public development aid (ODA) is the MEF, whose disbursements include Italy's share of the contribution to the EU budget earmarked for development cooperation interventions and contributions to development banks and funds such as the World Bank and the International Monetary Fund (IMF). In 2019 the MEF contributed 48.8% of Italy's total ODA with €1.9 billion, compared to €1.3 billion, or 34% disbursed by MAECI for development cooperation managed together with AICS. The remainder was disbursed by the Ministry of the Interior for 402.6 million euro (10%) and by central and local administrations (approximately 7%).

In 2019, multilateral aid accounted for 68% of total ODA, amounting to approximately EUR 26 billion, and bilateral aid for 32%, amounting to approximately EUR 12 billion (of which approximately EUR 700 million for cooperation and the remainder for refugee management). Africa has been the priority region for Italian cooperation for decades. Africa is home to 11 of the 22 priority countries for Italian cooperation (Burkina Faso, Egypt, Ethiopia, Kenya, Mozambique, Niger, Somalia, Senegal, Sudan, Mali, Tunisia) and in 2019, the African continent absorbed around 55% of Italian bilateral aid.

Italian ODA levels remain low at EUR 5.56 billion in 2022, or 0.27% of gross national income (GNI), well below the target set by the UN Sustainable Development Agenda of 0.7% for OECD countries and to be reached in Europe by 2030 at the latest.. This figure is also in stark contrast to the motion adopted by the Italian Parliament in November 2023 ahead of COP28 in Dubai, which commits the government *"to take initiatives to reach the target of a 0.7 per cent share of gross domestic product in development aid, allocating 50 per cent of these resources to the fight against climate change."* This position is also strongly supported by the Italian civil society organisations most involved in cooperation and development in Africa through the Campaign070.

The proportion of Italian ODA to Africa has increased again in recent years, after a period of decline, even after accounting for debt relief (Figure 2).[3]

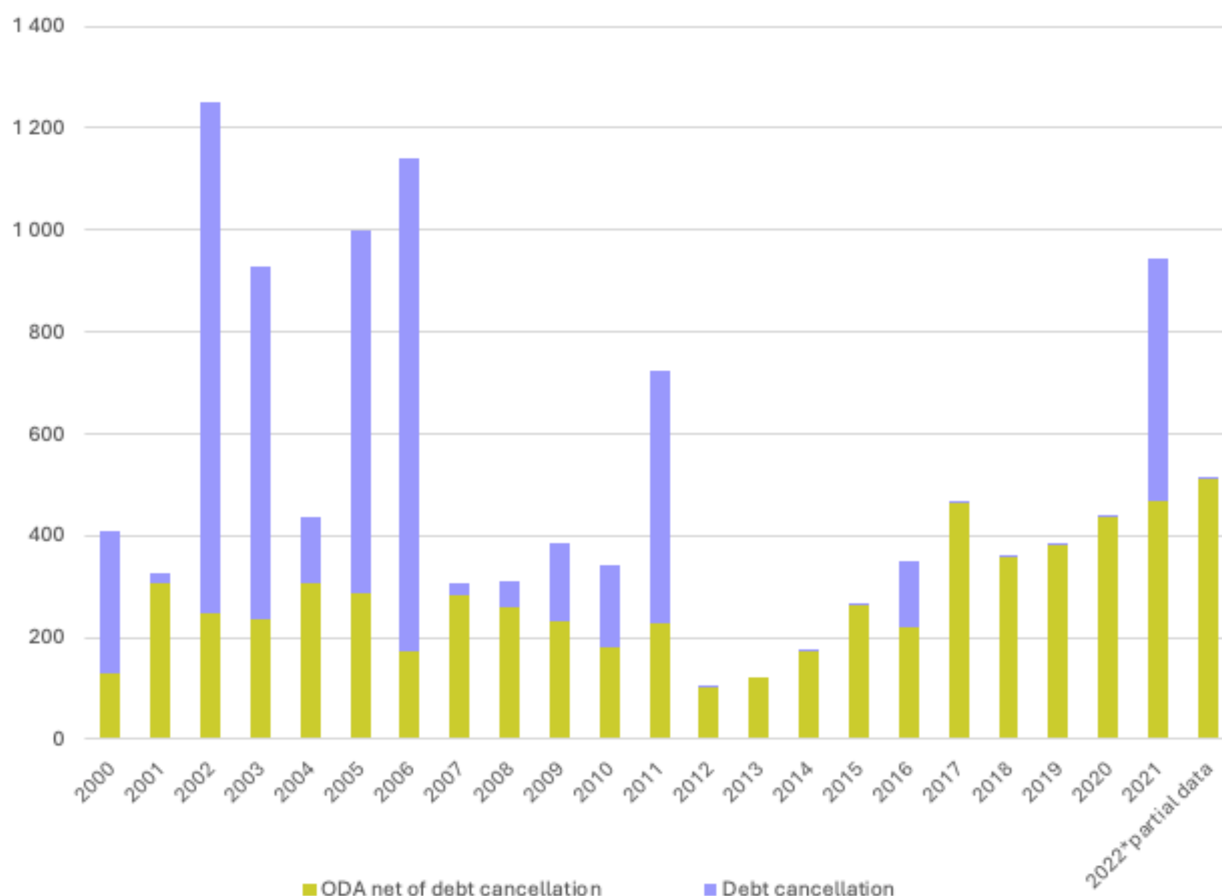

Figure 2 *– Official Development Assistance (ODA) to the African continent (mln €). Source: OECD data, consulted 1 June 2024*

Since 1977, Italy has granted loans on favourable terms to developing countries as an instrument of international cooperation. These loans are financed by the MEF's Revolving Fund for Development Cooperation. From its establishment until 2005, the Fund benefited from ad-hoc budgetary

[3] External debt treatment operations (cancellations, restructurings, conversions), as established by the OECD DAC, qualify as ODA as they correspond to a waiver of future repayments on aid credits. Between 2000 and 2011, they reached high levels in Italy as an effect of the HIPC initiative, which was almost entirely completed at the beginning of the new decade. The 2021 figure in Figure 2 reflects Italy's participation in the DSSI.

allocations. Since that date, it has been fund exclusively through loan repayments from beneficiaries, which guarantee its revolving nature. Since 2016, the management of the fund has been entrusted to Cassa Depositi e Prestiti (CDP), the Italian development finance institution, which is responsible for both concessional bilateral loans and loans to the private sector for development. Loan approval is the responsibility of the Ministry of Foreign Affairs and International Cooperation (MAECI), while project planning and implementation in recipient countries is the responsibility of the Italian Agency for Development Cooperation (AICS).

The Role of Cassa Depositi e Prestiti and SACE in Development Cooperation and Climate Finance

The Cassa Depositi e Prestiti (CDP) group is Italy's national promotional institution. It is established as a joint-stock company under public control, with the MEF holding 83% of the shares. The resources covered by the public guarantee are managed separately, under the control of the MEF and parliamentary supervision. Since 2014, it has also been designated to operate as a development finance institution (DFI) for development cooperation. Its prerogatives include the management of public resources earmarked for development cooperation (including concessional loans) and the financing of companies and other national and regional development banks for cooperation purposes with its own resources.

In its first three years of operation as a development finance institution (2019-2021), CDP mobilised an average of EUR 300 million per year in development finance. This is much less than the EUR 1.6-1.8 billion per year mobilised by the corresponding French, German and British institutions, which however have existed for much longer. According to its 2023 budget, the resources allocated to international cooperation rose to EUR 785 million.

CDP is also the manager of the Italian Climate Fund, which provides financing for climate change mitigation and adaptation projects mainly in Africa and the Middle East, with an endowment of EUR 4.4 billion over a five-year period. In recent years, CDP has adopted international protocols committing to progressively direct all its investments and lending flows in line with the Paris Agreement (zero net CO_2 emissions by 2050). In this sense, CDP has the potential to become Italy's 'climate bank', playing a central role in mobilising private finance to support decarbonisation and energy transition processes, both in Italy and in developing countries.

Another potentially important player for Italy's role in international climate and development finance is SACE, the credit agency aimed at supporting export and internationalisation projects of Italian companies. Since 2020, SACE has been under the shareholding and strategic control of the MEF and its mission has been extended to support green transition projects (Green Guarantees). Together with CDP, it plays an important role for the Italian presence in Africa, where it has two offices (in Cairo and Johannesburg). SACE can play a key role in financing green investments in Italy and abroad, enhancing Italy's contribution by contributing to climate commitments.

However, CDP's and SACE's ambitions stand in contradiction with their operations, especially with regard to financing and support for fossil fuel investments in developing countries, and in Africa in particular. CDP's international energy investment portfolio is in fact still strongly oriented towards hydrocarbons, particularly in support of Eni's operations, of which it is the main shareholder. Similarly, according to an analysis by ReCommon, between 2016 and 2023 SACE issued €20 billion in guarantees for the oil and gas sector, and ranks fifth globally and first in Europe among public lenders to the fossil fuel industry. Both institutions are active in countries where the extractive industry is a

destabilising factor for the economy and increases its debt vulnerability, as in the case of Mozambique (see section 4 and Box 1). Between 2015 and 2022, more than half of SACE's fossil fuel financing (EUR 5.8 billion) went to the African continent alone, constituting 84% of all SACE energy investments on the continent.

A strategic reorientation of CDP and SACE's portfolio towards developing countries is therefore urgently needed (for SACE see the recommendations of the 2024 report by Perspectives Climate Research), putting an end to public financial support of multinational hydrocarbon corporations. These companies enjoy record volumes of liquidity from 2022, and their projects risk exacerbating existing debt and development crises, contrary to their media messages and institutional and political lobbying. There is also a need for greater transparency on the part of both CDP and SACE in making their portfolios public so as to allow for greater public scrutiny.

Italy's participation in multilateral debt relief initiatives

Italy has an established history of participation in debt relief initiatives. As a member of the Paris Club (the platform representing the interests of major creditor countries), it played a key role in the creation and implementation of the *Heavily Indebted Poor Countries Initiative* (HIPC).

The HIPC initiative was launched in 1996 in reaction to the external debt crisis that had reached dramatic levels in many developing countries, especially in Africa, jeopardising their future development prospects. It called for coordinated action by the various creditor groups, including the Paris Club, the International Monetary Fund (IMF), the World Bank (WB) and the commercial banks, to agree on a plan to cancel and restructure the debt of the poorest countries. At the G7 Summit in 1999, the finance ministers agreed to further expand the initiative (*Enhanced HIPC*) by making it faster and extending its terms. Some Paris Club countries, including Italy, also agreed unilaterally to approve the total cancellation of some bilateral concessional and non-concessional loans. In its essence, the initiative provided for the gradual cancellation of debt incurred before a *cut-off date* (20 June 1999), subject to the introduction of reforms to restore macroeconomic stability and sustainability.

Italy was also the first member of the Paris Club to approve a specific legislative instrument (Law No. 209 of 25 July 2000) designed to allow its participation in the *Enhanced HIPC* Initiative at the bilateral level, authorising all cancellations approved at the multilateral level. The Italian legislation also provided for more advantageous terms for HIPC countries, with different procedures and timeframes than those agreed upon at the multilateral level.t also introduced the possibility of debt cancellation in favour of countries affected by natural disasters and humanitarian crises, outside the multilateral framework. Overall, the total amount of debt cancelled by Italy since the entry into force of Law No. 209/2000, both towards HIPC and non-HIPC countries, amounts to approximately 5 billion Euros, of which 4.67 billion Euros for HIPC countries.[4]

While Law 209/2000 is still in force and forms the legal basis for debt cancellation agreements, the HIPC initiative is now largely implemented, with the majority of eligible countries having introduced the necessary reforms and obtained the cancellation of eligible debts.

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[4] *Report of the Minister of Economy and Finance on Measures Taken to Reduce the External Debt of Low-Income and Heavily Indebted Countries, 30 September 2023*

The Italian government's active engagement in the HIPC initiative was in large part made possible by pressure from national and international public opinion, expressed by the *Jubilee2000* campaign and its Italian arm *Sdebitarsi*. *Jubilee2000*, which explicitly called for the cancellation of the unsustainable debt of poor countries, was galvanised by the Jubilee invoked by Pope John Paul II for the year 2000, and by the involvement of popular figures such as Bob Geldoff, Bono Vox and Jovanotti. Since the Covid-19 pandemic, Pope Francis has also spoken out about the severity of the debt crisis and the moral duty of rich countries to end it, including through the creation of a global mechanism based on solidarity. in view of the next Jubilee to be celebrated in 2025.

Italy's contribution to the DSSI and the Common Framework

In 2020, in response to the debt crisis generated by the Covid-19 pandemic, the G20, IMF and World Bank adopted the *Debt Service Suspension Initiative (DSSI)*, which introduced a temporary suspension of debt service payments for the poorest countries until June 2021. Subsequently, under the Italian G20 presidency, the suspension was extended until December 2021. Of the 48 countries that applied to participate in the initiative, six (Angola, Ethiopia, Djibouti, Kenya, Pakistan and Yemen) were indebted to Italy, which suspended payments worth EUR 50 million between May 2020 and June 2021.

In parallel, the G20 established the aforementioned *Common Framework*, in which only four countries asked to participate: Chad, Zambia, Ethiopia and Ghana. As a creditor of Zambia, Ghana and Ethiopia, Italy takes part in the discussions of the creditor committee for the debt restructuring of these three countries. In the post-Covid-19 crisis, Italy also participated in the debt restructuring of Argentina (EUR 135m) and Suriname (EUR 20.3m), both of which are ineligible to participate in the Common Framework because they are middle-income countries.

Given the poor performance of the *Common Framework,* the rising cost of debt servicing and the decreasing net financial inflows to Africa and other developing countries, demands are increasing for a new multilateral initiative to relieve the debt burden. Various models have been proposed, for example by the University of Boston and by the Finance for Development Lab, as well as by the United States itself. **All emphasise the need to overcome the impasse between the US, China, and private creditors in agreeing to a comprehensive plan to suspend the payment of existing debt service**. In addition, the suspensions should be accompanied by new bridge financing from multilateral banks that support investment programmes in inclusive growth, adaptation and mitigation, and possible debt restructuring or cancellation. **The 2025 Jubilee could be an opportunity to recover and replicate the spirit and ambition of the HIPC initiative and see Italy play a leadership role in implementing such a multilateral initiative for the benefit of Africa.**

4 THE RELATIONSHIP BETWEEN DEBT, THE CLIMATE CRISIS AND FOSSIL FUEL INVESTMENTS

The vicious circle between debt and climate

One of the most dramatic aspects of the current debt crisis is the vicious circle it has established with the climate crisis. On the one hand, high debt levels are a significant obstacle in tackling climate change, as they reduce public spending available for investment in mitigation and adaptation. According to recent research by Boston University, at least 47 developing countries would face unsustainable debt burdens if they were to increase their investments in line with the levels needed to meet the Sustainable Development Goals (SDGs) and the Paris Agreement.

On the other hand, environmental disasters associated with climate change undermine the debt sustainability of affected countries, which often have no option but to borrow to cover emergency and reconstruction costs in the face of reduced fiscal revenues following the disaster. Research by the University of Cambridge estimated that in the absence of a decisive reduction in carbon emissions, 59 countries could face downgrades in their sovereign debt ratings by 2030. The NGO Debt Justice calculated that in 80% of the cases of climate disasters occurred in the 21st century, debt sustainability indicators had deteriorated two years after the event. According to UNCTAD, 29 of the 69 poor countries eligible for concessional financing from the IMF's *Poverty Reduction and Growth Trust* (PRGT) are at risk of both high debt and vulnerability to climate change.

In Africa, the vicious cycle is particularly pervasive. In 2014, UNECA (the United Nations Commission for Africa) estimated that climate change costs the region 5% of GDP each year. The African Development Bank more recently estimated that loss and damage due to climate change would require between $289.2 billion and $440.5 billion. Debt Justice still estimates that in the absence of adequate flows of finance for adaptation and *loss and damage*, Sub-Saharan Africa will need to take on $996 billion in debt over the next decade. This trend is aggravated by the fact that most (69%) of public climate finance is in the form of loans and only 28% in the form of grants, according to OECD data for 2022.

Policies to mitigate vulnerability to debt and climate change

Recognising the important relationship between debt and climate is crucial to reforming the international financial architecture so that countries in need of foreign financing can borrow without compromising their solvency in the face of climate and environmental disasters. Five policy instruments are particularly useful for this purpose if used as part of an integrated package including investment, development and climate aid:

1. the use of climate resilient debt clauses (climate resilient debt clauses, CRDC)
2. the use of forms of *parametric insurance instruments* to cover debt payments during a climate disaster
3. the reform of the IMF's *debt sustainability framework (*DSF)
4. the implementation of debt conversions (or *debt swaps*)
5. the IMF's *Resilience and Sustainability Trust.*

Climate Resilient Debt Clauses (CRDC)

CRDCs are clauses built into contracts that allow debt payments to be suspended in the event of certain events, such as environmental or climatic disasters (e.g. hurricanes). In recent years, they have been strongly requested by countries vulnerable to climate change, including by the V20 finance ministers and the Bridgetown agenda promoted by Barbados Prime Minister Mia Mottley. During 2023 and especially at COP28 in Dubai, many countries, including the United Kingdom, France, Canada, Japan and the United States, as well as Multilateral Banks such as the World Bank, the Inter-American Development Bank (IDB), the European Investment Bank (EIB), the European Bank for Reconstruction and Development (EBRD) and the African Development Bank (AfDB) made new commitments to expand their lending. The G7 under the Japanese presidency also committed to scale up their use, but Italy has not yet made a specific commitment in this regard.

In order to have a significant positive impact, CRDC clauses must be included in both new and existing loans, be adopted by private creditors, and designed to cover a wide range of environmental and climate disasters. In addition, it is necessary that they establish a post-disaster repayment that is compatible with the other spending needs of the affected countries, and that does not increase their debt burden.

Parametric insurance

Parametric sovereign debt insurance can offer a sustainable option to move from a vicious to a virtuous circle and solve the risks of debt relapse for less developed countries. As illustrated by the IIED think tank, "this type of insurance would cover the cost of a country's debt payment during a climate crisis, allowing it to recover economically without repaying the debt at that time. Although parametric insurance may not be suitable for all types of risks, it is considered effective for several loss and damage climate risks. Parametric insurance for sovereign debt can help the most vulnerable countries to better manage the dual challenge of debt and climate crisis. It can act as a safeguard, provide immediate liquidity, reduce transaction costs, stabilise credit markets and attract private investment. It has four essential elements: a mechanism to provide upfront support once the 'trigger' is reached, regardless of losses; a risk-pooling approach to ensure that premiums are affordable and that the coverage and duration of debt relief meet country requirements; a local context-specific and comprehensive understanding of climate risk to define triggers and thresholds for insurance claims for a wide range of events; and a commitment from donors and other funding sources to cover insurance premiums."

The IMF Debt Sustainability Framework

The IMF's *Debt Sustainability Framework* (DSF) establishes the conditions under which a country's external debt can be considered sustainable, and thus which economic reforms are necessary for a country to receive a loan from the IMF. The adequacy of this instrument has been widely criticised for its poor performance in assessing a country's debt sustainability against its actual economic growth, often due to an underestimation of the regressive effect of austerity measures included in IMF loan conditionalities, or conversely an underestimation of the multiplier effect of investments in infrastructure, public services and climate action. The IMF has started a two-year (2024-2025) review of the methodology underlying the DSF. This revision offers an opportunity to introduce adjustments that would improve the instrument's ability to assess debt sustainability and public finance needs by taking into account both climate risk and the actual levels of investment needed to address the climate crisis and sustainable development goals.

Debt swaps

Debt swaps (or conversions) are a mechanism whereby the (total or partial) debt of a developing country is cancelled against the provision by the debtor country itself (and/or a possible third party) of equivalent resources for local investments in development, health, environment or climate action. Several debt swap models have appeared in recent decades, with variations depending on the origin of the debt (bilateral or multilateral), the terms of the credit (concessional or commercial), the number of parties involved and the objective of the conversion.

The simplest and most widely used form until recently has been bilateral conversions between a creditor and a sovereign debtor. For example, many Paris Club member countries have complemented the HIPC initiative with bilateral conversions. Italy has signed conversions for a total amount of EUR 1 billion with various countries such as Morocco, Jordan, Egypt, Peru, Tunisia, Algeria, Ecuador, Yemen, Djibouti, Kenya, Pakistan, Macedonia, Vietnam, Albania, the Philippines and Cuba. In recent years, more complex forms of conversions have appeared, including debt swaps involving private debtors and the intermediation of multilateral development banks and other financial institutions, implemented not through cancellation but through debt repurchase at a discounted price. Recent examples of this model are the debt-for-nature swaps implemented in Barbados, Belize, Ecuador and Gabon with the aim of using the resources 'saved' through the swap for environmental or marine conservation projects.

Many expectations have been placed on debt *swaps* - and in particular on *debt-for-nature swaps* as an instrument that can help countries in debt crisis and at the same time generate resources for climate adaptation, environmental protection and biodiversity. However, analyses by civil society, experts in the field and even the IMF Global Sovereign Debt Roundtable,[5] have warned about the limitations of this instrument. While it is recognised that debt swaps can be useful for managing liabilities and creating fiscal space in countries with temporarily low liquidity, they are unlikely to be able to mobilise resources on the scale needed to achieve the Sustainable Development Goals and the Paris Agreement. They are also considered inappropriate for countries with unsustainable debt levels in need of a comprehensive restructuring programme. The main obstacles are the complexity of these instruments, the time and resources needed to implement them, and the possibility that the conversion benefits private creditors more than the debtor country. The impact therefore depends on the amount of resources actually saved, the actors involved in deciding how to use these resources, the currency and disbursement plan of the saved resources, and the transparency of the agreement vis-à-vis the public.

The Resilience and Sustainability Trust (RST)

The Resilience and Sustainability Trust was created by the IMF to receive unused Special Drawing Rights (SDRs) from rich countries and channel them into concessional loans aimed at supporting economic and structural reforms for climate action and pandemic prevention. Although it has severe limitations, including strict eligibility criteria that limit its use to countries that already have another loan with the IMF, it can be an important source of cheap liquidity for countries vulnerable to climate change. In fact, it is the only IMF trust that provides concessional loans to middle-income countries.

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[5] The roundtable convened by the IMF brings together the main creditors and representatives of debtor countries to resolve technical issues of the debt restructuring system, in particular with regard to the functioning of the *Common Framework*.

Cassa Depositi e Prestiti in partnership with the IMF, the World Bank, the European Investment Bank (EIB), the Agence Française de Développement (AFD) and the International Finance Corporation (IFC) helped to mobilise EUR 300 million to catalyse private investment and promote climate resilience projects in Rwanda in support of the loan obtained by the Rwandan government through the Resilience and Sustainability Fund.

The vicious circle between debt and fossil fuel investments

In many developing countries, the debt crisis is in a vicious circle not only with climate, but also with fossil fuels. On the one hand, countries whose economies are heavily dependent on the export of fossil fuels have few resources and few incentives to abandon their production, especially in a context of high indebtedness: because there are few resources to invest in renewables, and because the export of fossil fuels makes it possible to satisfy the urgent need for foreign currency (to repay debt incurred in dollars or euros). A study by the Overseas Development Institute shows that **the cost of servicing debt as a proportion of foreign exchange earnings from hydrocarbon exports for 21 low-income countries (including eight African countries: Algeria, Angola, Chad, Republic of Congo, Egypt, Gabon, Mozambique, Nigeria) increased between 2010 and 2020**. In Mozambique, the share of export revenue used to service the debt increased from 3% to 13%. Moreover, for these countries, the difference between hydrocarbon revenues and the cost of debt servicing increased.

On the other hand, in many countries, investments in hydrocarbon extraction have a negative impact on public finances and exacerbate indebtedness. There are three main reasons why this happens. First, **the expected revenues from the exploitation of fossil fuels, including gas, are often overestimated**, both by the companies that propose public-private partnership contracts to governments and by the World Bank and IMF that support these operations. Research by the Natural Resource Governance Institute has found that growth following the discovery of fossil fuel deposits has historically and systematically been lower than IMF forecasts. This can lead to additional public expenses to achieve expected returns and encourage levels of debt that the economy cannot bear. This trend is likely to worsen over time with the process of global decarbonisation: meeting climate targets will lead to a collapse in demand for hydrocarbons, including gas, and with it a collapse in prices in all markets, which would make it impossible to repay investments and with them the debts incurred.

Mozambique, a country of great relevance to the Italian public finance system (CDP-SACE) that enables ENI's operations, is a case in point of how investments in fossil fuels can exacerbate the debt crisis, as well as entail economic and social risks (Box 1).

BOX 1 – THE VICIOUS CIRCLE BETWEEN HYDROCARBON INVESTMENTS AND DEBT IN MOZAMBIQUE[6]

Following the discovery of large gas fields between 2010 and 2014, Mozambique attracted investments from several international oil companies, including Eni, the Italian oil company. On the basis of exceptionally optimistic projections of the fields' production capacity, and consequent returns for the government, three extraction projects were launched in the Cabo Delgado region. One of the three, the *Coral Sul FLNG,* a floating liquefied natural gas plant, is mainly operated by Eni together with other international partners such as Exxon Mobil. Export credit agencies, including Italy's SACE, have issued guarantees for USD 60 billion of investment required to bring Mozambique gas to fruition. For the *Mozambique LNG* project, in 2019, CDP contributed hundreds of millions of euros, guaranteed by the public insurer SACE, to the project finance in favour of Saipem's contract, among the three companies building the project.

To date, the expected benefits of the projects have not materialised, economic growth and industrialisation linked to the discovery of gas have not occurred, poverty and inequality rates have increased, and the Cabo Delgado region has plunged into violent conflict that has led to the displacement of a third of the population and claimed over 4500 lives. Almost all the gas produced is exported and only one third of the population has access to electricity. Rather, the investments in the three fields have contributed to weakening the country's public finances and its debt situation. According to data from the World Bank, debt had reached 374% of gross national income and 667% of exports by 2022.

In order to allow the Mozambique *LNG project* (one of three projects under development) to participate in the Mozambique national oil company, ENH, the government issued a USD 2.2 billion sovereign guarantee in 2019. However, the project has been temporarily halted due to the conflict, so it has not yet generated any revenue to cover the cost of the guarantee, which is therefore at a loss.

Moreover, the returns for the government have so far been well below expectations and are likely to remain so, both because of the variability of the gas price, which could fall sharply in a scenario of rapid decarbonisation, and because of the structure of the contracts signed by the government. These stipulate that extractive companies recover the initial investment before all other stakeholders, leaving the revenue for the government to accrue only later - thus exposing them more to the risk of falling gas prices as a result of decarbonisation. According to recent estimates, most of the revenue for Mozambique would not arrive until 15 years after the start of project construction and 10 years after the first gas flow begins.

Finally, following the discovery of the gas fields, the Mozambican government obtained a USD 2 billion loan from Credit Suisse and VTB in 2013, officially for the purchase of fishing vessels. In reality, it seems that the loan was mainly used for naval forces to protect the offshore gas fields. The loans were not disclosed to parliament as required by law; when they were made public in 2016, they were placed under criminal investigation in Switzerland and the United

[6] For an in-depth discussion see ECCO's policy briefing 'Energy in Africa: what relationship between Italy and Mozambique?

States, while the donor countries, the IMF and the World Bank withdrew all aid from the country. The country's debt exploded, as did poverty rates. Despite being declared illegal because it was associated with corruption, the government is repaying part of these loans.

The second channel is the use of *Resource Backed Loans* (RBL) by a growing number of countries, especially in Africa. An RBL is a loan contract whereby repayment is made directly in kind in natural resources – such as gas or minerals – or against a future income stream linked to a country's predicted resource extraction. The advantage of these contracts is that they allow countries with poor liquidity and access to credit to finance infrastructure and development projects. For this reason, they are common in commodity dependent countries. The World Bank estimates that they made up 10% of the debt contracted by Sub-Saharan Africa between 2004 and 2018, totalling $46.5 billion. However, the World Bank itself warns that these are **opaque contracts, the terms of which are hidden from public view and not found in international debt statistics, complicating debt restructuring processes.** They also pose high risks to public finance from unforeseen fluctuations in the price of the collateralised resource. A study by the Natural Resource Government Institute shows that RBL contracts contributed to worsening the debt situation of 10 countries following the commodity price collapse of 2014. On the basis of an RBL contract, mining company Glencore managed to avoid restructuring Chad's debt, of which it holds about one-third, despite the fact that the country had applied for debt treatment through the *Common Framework* in 2020. Glencore argues that the oil rents securing its loan are sufficient to enable the country to repay it in full - effectively keeping it trapped in dependence on oil and its price fluctuations.

Finally, contracts that governments enter into with companies investing in the extraction of hydrocarbons may contain terms and clauses that entail high risks for public finances. This is the case with **'take-or-pay' clauses, often used in energy supply contracts, which commit the buyer to purchase a predetermined volume of a certain resource at a price set ex-ante, regardless of its actual need or capacity for actual purchase and use.** Ghana's debt crisis, which declared default in 2023, was exacerbated by just such a clause entered into with ENI. The contract in question, partially guaranteed by the World Bank, committed the Ghanaian government to purchase gas produced from the deepwater *Sankofa* field owned by ENI off the Ghanaian coast, on highly favourable terms for ENI. The lack of infrastructure in the country, however, led to a chronic inability to take advantage of the gas thus purchased, to the point that in 2019 the bill for unused gas amounted to USD 250 million. In the same year, the IMF had flagged the contract as a potential fiscal risk factor in its debt sustainability analysis for Ghana. In 2023, the IMF estimated that the take-or-pay contracts entered into by the government had cost the government the equivalent of 2% per annum since 2019.

The Italian presence in Africa through Eni and the implications for the debt crisis

The vicious circle between the climate crisis, the debt crisis and investments in fossil fuels is of great relevance for the Italian presence in Africa. In fact, the concrete manifestation of this presence are Eni's investments on the continent, where it is present in 12 countries (Table 2).[7] Dopo TotalEnergies, Eni è la seconda più grande azienda produttrice di oil&gas presente in Africa, e la terza azienda nello sviluppo di nuove giacimenti. Secondo Urgewald, il capitale investito dalla compagnia per After TotalEnergies, Eni is the second largest oil & gas company in Africa, and the third largest company in

[7] The Italian state is Eni's main shareholder, through the Ministry of Finance and Cassa Depositi e Prestiti, which together hold around 30% of the company's share capital.

the development of new fields. According to Urgewald, the company's capital invested in oil & gas exploration increased from USD 3.4 billion in 2020 to USD 5.1 billion in 2022. Furthermore, in 2021, 59% of the company's total hydrocarbon production came from Africa.

BOX 2 – ENI, THE ITALIAN OIL COMPANY

Eni is Italy's largest hydrocarbon company and one of the seven largest oil companies in the world. Since 2020, Eni vertically controls all production and export phases of the oil and gas sector: from upstream exploration and extraction, to midstream transport and trading, to the downstream phase of fuel and chemical production.

The Italian State is Eni's main shareholder, through the Ministry of Finance, which holds 4.41% of shares, and Cassa Depositi e Prestiti, which holds 26.21%. Overall, about 30% of the company's share capital is in public hands. The CEO is chosen by the Minister of Finance every three years.

Eni is present in 12 African countries. Most hydrocarbon production comes from Algeria, Angola, Republic of the Congo, Egypt, Libya and Nigeria. Exploration activities are ongoing in Côte d'Ivoire, Kenya, Morocco and Mozambique. Until 2023, Eni was also present in Gabon.

Eni's strategic plan for the three-year period 2024-2027 reaffirms the company's intention to continue exploiting African hydrocarbons in the near future. Moreover, all the countries where Eni is present are in debt distress if not crisis, as in the case of Ghana, Egypt and Kenya (Table 2). In these countries, a significant proportion (up to 30% in Angola and 63% in Mozambique) is used to repay the cost of debt, diverting resources from investments in public goods and infrastructure. As discussed in the previous section, **dependence on fossil fuels makes it more difficult to re-establish debt sustainability**, not least because of the type of contracts that energy companies agree with governments, with clauses that prioritise private profits overbalancing public finance.

African countries where ENI is present	ENI's interests in the country*	Debt risk assessment		Debt service to exports ratio****
		Debt Justice risk assessment (2022)**	**IMF risk assessment*****	
Algeria	E&P (exploration and production)	No risk identified	Moderate risk	N/A
Angola	E&P - Enilive, refining and chemicals	In debt crisis	High risk	30%
Republic of Congo	E&P - Enilive, refining and chemicals	In debt crisis	In debt distress	7%
Ivory Coast	E&P - Enilive, refining and chemicals	In debt crisis	Moderate risk	12%
Egypt	E&P - Enilive, refining and chemicals - Global Gas & LNG portfolio	In debt crisis	Rischio alto	23%
Ghana	E&P - Enilive, refining and chemicals	In debt crisis	In debt distress	12%
Kenya	E&P	In debt crisis	High risk	24%
Libya	E&P - Global Gas & LNG portfolio	N/A	N/A	N/A
Mozambique	E&P - Enilive, refining and chemicals	In debt crisis	High risk	63%
Morocco	E&P	At risk of debt distress	Moderate risk	10%
Nigeria	E&P	No risk identified	Moderate risk	11%
Tunisia	E&P - Enilive, refining and chemicals - Global Gas & LNG portfolio	In debt crisis	N/A	18%

*Eni Annual Report 2023
**Database of Debt Justice, available at: https://data.debtjustice.org.uk/
***IMF Article IV for each country
****World Bank International Debt Statistics Report 2023

Table 2 – *Debt vulnerability of Eni's priority countries.*

The rush for African hydrocarbon risks deepening the problems faced by the continent, further entrenching dependence on fossil fuel production and its vicious circle with debt while doing little or nothing to improve the African population's access to energy. **To date, Eni's expansion plans on the African continent appear to contradict Italy's international climate commitments, the priorities expressed by the African continent, and the logic of the Mattei Plan itself.**

The Italian government, following Parliament's indications expressed in the COP28 motion of November 2023, should end public support for fossil investments and redirect SACE and CDP resources exclusively to other uses that can be of mutual benefit to Italy and the African continent, such as renewable energy projects, energy-efficient cooling and heating systems, power grids, high-quality batteries, critical minerals, sustainable agriculture, soil, forest and biodiversity conservation, climate adaptation and resilience, sustainable fisheries and eco-tourism. This approach would help diversify the economies of African partners and break the vicious circle between fossil fuel dependency and debt.

CONCLUSIONS AND RECOMMENDATIONS

Italy's renewed interest in the African continent offers opportunities for both sides in addressing climate and energy transition challenges. However, **overcoming the debt crisis** that affects many countries on the continent is a prerequisite for Africa to be able to enter into an effective and equal partnership. This crisis diverts critical resources from investments in sustainable development to the rising cost of debt servicing, as well as hindering the progressive phase-out of fossil fuel production as collectively committed to at COP28.

It is also crucial to ensure that the continent remains a net recipient of financial flows, including donations and concessional loans for development aid and climate finance. **An ambitious refinancing of IDA 21 is a prerequisite** to ensure that African countries have a solid base to stand on in the crucial years leading up to 2030 and the deadline of the Paris Agreement and the Sustainable Development Goals.

In recent years, the African continent, through its regional institutions and the initiative of individual governments, has made a number of proposals for **reforms of the international financial architecture** that would rebalance the power relations between rich and developing countries and adapt the existing international financial institutions and their instruments to the challenges of the new millennium, including climate change and energy transition. Listening to and supporting these demands in multilateral fora, including the G7 and G20, should be the basis of the Italy-Africa partnership.

Finally, it **is necessary to overcome the current diplomatic and financial paradigm underpinning Italy's approach to African countries and designed to favour Italy's access to fossil fuels.** For the Mattei Plan to truly launch a new phase in the Italian-African relationship and represent an initiative guided by a sustainable and long-term vision, it is necessary to overcome anachronistic narratives linked to traditional concepts of energy security and the role of hydrocarbons. Overcoming such logics would favour not only the diversification of energy production and the economy of African countries, with potential benefits for Italian companies interested in investing in the continent, but also the sustainability of these countries' debt. To this end, the Italian government, politicians and institutions should equip themselves with analyses that are independent of vested interests and political visions that are free from them and that steer the country system towards the energy transition, using public finance instruments in the public interest. Public financial institutions, such as CDP and SACE, in conjunction with the Mattei Plan, can and must support a real investment plan in strategic sectors for the rich fabric of Italian companies and for the diversification of the Italian economy. In view of the G7 Leaders' Summit in Borgo Engazia, the following actions are therefore recommended:

To tackle the debt crisis and support the recovery of Africa's debt sustainability, the G7 and G20 countries should:

- Accept requests for improvements to the *Common Framework*, including the introduction of temporary suspensions of debt service payments for countries that request participation, as agreed for Ethiopia, of more transparent, rapid and predictable procedures and of more flexible eligibility criteria.
- Support the need for an urgent review of the IMF's use of surcharges on overdue debts, which would help alleviate the cost of debt servicing for some of the countries in greatest debt distress.

- Support the process initiated by the IMF to revise the formula for calculating the quotas (and thus the voting power) allocated to each member, with a view to a redistribution in favour of developing countries, including African countries.
- In addition, Italy, drawing from the key role it played in the creation and implementation of the HIPC initiative, should lead the discussion at the G7, G20 and other multilateral fora on the need for a new concerted and ambitious initiative for debt relief for the poorest countries including debt service payment suspensions, new concessional bridge financing and restructuring when needed.

To adapt the global system of external debt management and restructuring to the risks and needs posed by the climate crisis, the G7 and G20 countries should:

- Push the IMF to include climate in the ongoing review of the debt sustainability framework, to make these analyses more transparent and accessible, and accepting calls for reform to make them more useful for debtor countries.
- Invite the IMF to review the eligibility criteria for the Resilience *and Sustainability Trust* and introduce more flexible conditions for its participation.
- Consider a more systematic use of debt swaps as a tool to create additional liquidity for investments in climate adaptation and sustainable development, taking into account the limitations of this instrument.
- Italy should commit to offering climate resilient debt clauses (CRDCs) to low-income countries and those most vulnerable to climate change, applying them to environmental disasters as well as famines and other disasters.

To ensure that the African continent is a net receiver of financial resources for development, and that an adequate flow of grant resources and concessional loans for development, climate adaptation and loss and damage reaches countries with limited fiscal space:

- Italy should champion an ambitious refinancing of IDA21, corresponding to a collective G7 increase of 25% in real terms to be announced as a key outcome of the joint communiqué. Such a pledge would demonstrate commitment to African countries, giving a concrete response to their priorities, and would set the example for other donors to follow suit. This commitment is supported by a strong appeal to policy makers by representatives of hundreds of Italian Third Sector entities and millions of members, supporters and volunteers in our country.
- G7 countries, as major shareholders in the World Bank, should support reforms that ensure that the current level of IDA subsidies and concessionality is maintained.
- Following the IMF's recent approval of the use of Special Drawing Rights (SDRs) as hybrid capital, and their reallocation through Multilateral Development Banks (MDBs), the G7 and G20 should commit to harnessing the potential of SDRs as a tool to increase global liquidity for development and climate, in particular by supporting the mechanism created by the African Development Bank for this purpose.

To ensure that Italy's presence in Africa, including through the Mattei Plan, supports just, sustainable and inclusive growth and promotes access to clean energy for the African population, the Italian government should:

- Pledge not to support new gas exploration and production, both politically and through public development finance instruments such as CDP and SACE, in line with Parliament's COP28 motion in November 2023, and ensure greater transparency from both institutions in making their portfolios public to allow for greater public scrutiny.

- Support African partners to integrate decarbonisation and climate resilience into their economic and industrial development and financial plans, consistently with the need to restore debt sustainability.
- Redirecting public development finance instruments, such as SACE guarantees and the Italian Climate Fund, to exclusively support alternative economic sectors to fossil fuels, such as renewable energy, energy-efficient cooling and heating systems, power grids, high-quality batteries, and critical minerals, sustainable agriculture, soil, forest and biodiversity conservation, climate adaptation and resilience, sustainable fisheries and eco-tourism, which can foster sustainable and inclusive economic growth for African countries and their populations.

THE ITALIAN CLIMATE CHANGE THINK TANK

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