

**Launch of the African Economic Outlook Report (AEO) 2024**  
***Driving Africa's Transformation: The Reform of the Global Financial Architecture***  
**African Development Bank Group Annual Meetings, Nairobi Kenya**  
**30 May 2024**

**Prof. Kevin Chika Urama, FAAS**  
**Chief Economist and Vice President, African Development Bank Group**  
**Contact: k.urama@afdb.org**

1. Your Excellencies, Distinguished delegates, Ladies, and Gentlemen. Please allow me to stand on existing protocols.
2. This year, the African Development Bank's AFRICAN ECONOMIC OUTLOOK 2024 focuses on the theme: *Driving Africa's Transformation: The Reform of the Global Financial Architecture*.
3. The report is made of three interrelated chapters:
  - (a) Chapter 1: Macro-Economic Performance and Outlook
  - (b) Chapter 2: Taking Stock of Africa's Economic Transformation
  - (c) Chapter 3: Financing Structural Transformation in Africa: The Need for Reforms of The Global Financial Architecture
4. **On Macro-Economic Performance and Outlook:**
5. African economies remain resilient amid multiple shocks, with their average growth projected to stabilize at 4.0 percent in 2024–25, nearly a one percentage point higher than the 3.1 percent estimated in 2023.
  - a. Average real gross domestic product (GDP) growth slowed from 4.1 percent in 2022 to 3.1 percent in 2023; and is projected to rise to 3.7 percent in 2024 and reaching 4.3 percent in 2025, as most of the effects of the existing headwinds fade.
  - b. Despite the continuing headwinds, fifteen (15) countries recorded growth rate in real GDP of at least 5 percent in 2023 with Ten (10) countries in Africa, projected to be among the world's top 20 fastest growing economies in 2024.
  - c. Although three of the continent's largest economies recorded lower real GDP growth rates, more than half (31) of African countries had higher real GDP growth rates in 2023 than in 2022, with 6 of them—Burkina Faso, Djibouti, eSwatini, Libya, the Republic of Congo, and South Sudan—posting real GDP growth rates of more than 2 percentage points.
  - d. Africa will also remain the second fastest growing region after Asia, in 2024-25 with projected GDP growth exceeding the global average of 3.2 percent in 2024.
6. **On Economic Performance and Outlook by Regions and Economic Groupings:**
7. The growth outlook in 2024–25 is heterogenous across Africa's regions and economic groupings, reflecting differences in the structure and resilience quality of economies, level of commodity dependence, the quality of domestic policy responses to shocks.

- a. East Africa is expected to bounce back as Africa’s fastest growing region, with projected real GDP of 4.9 percent in 2024 and 5.7 percent in 2025.
  - b. Growth in Central Africa is expected to moderate from 4.3 percent in 2023 to 4.1 percent in 2024 before improving strongly to 4.7 percent in 2025, due mainly to stronger-than-expected growth in Chad and the Democratic Republic of Congo.
  - c. Growth in West Africa is projected to rise from an estimated 3.6 percent in 2023 to 4.2 percent in 2024 and consolidating at 4.4 percent the following year, reflecting stronger growth upgrades in the region’s large economies—Côte d’Ivoire, Ghana, Nigeria, and Senegal.
  - d. In North Africa, growth is projected to decline from an estimated 4.1 percent in 2023 to 3.6 percent in 2024 and 4.2 percent in 2025. Except for Libya and Mauritania, growth has been revised downward for all other countries in the region.
  - e. Growth in Southern Africa is projected to pick up slightly from an estimated 1.6 percent in 2023 to 2.2 percent in 2024 and firm up to 2.7 percent in 2025, mainly reflecting a 0.7 percentage point increase in South Africa’s projected growth, which offset the combined effect of downward revisions in Angola, Botswana, Lesotho, Zambia, and Zimbabwe.
8. The growth outlook also varies according to economic groupings, reflecting differences in degree of exposure to underlying economic uncertainties:
- a. For *non-resource-intensive economies*, growth is projected to improve from an estimated 4.8 percent in 2023 to 5.3 percent in 2024 and 5.6 percent in 2025, underpinned by increased public investments in major growth sectors and substantial capital outlays on critical public infrastructure including electricity, transport, and logistics.
  - b. The average growth rate for *tourism-dependent economies* is projected to decelerate from 5.8 percent in 2023 to 4.7 percent in 2024 and further to 3.9 percent in 2025. This deceleration reflects the stabilization of tourism numbers to trend levels, with projected slower economic growth in Mauritius and Seychelles as the key driver for the group.
  - c. Average growth in *oil-exporting countries* is expected to decline from an estimated 3.7 percent in 2023 to 3.5 percent in 2024 but could pick up the pace to 4 percent in 2025. The projected slowdown in 2024 reflects lower oil production targets set by OPEC, lower growth projections in South Sudan following stoppages faced by the main pipeline transporting its crude oil exports through Sudan, and uncertainty over new mechanisms for Angola’s oil exports following its exit from OPEC.
  - d. Growth in other (non-oil) resource-intensive economies on the continent is estimated to improve strongly from 0.3 percent in 2023 to 2.7 percent and consolidate at 3.3 percent projected for 2024 and 2025. The sharp increase in growth will be driven largely by the rebound in China’s demand for metals and minerals linked to expansions in smart grids and construction.

**9. On Quality of Growth: GDP per capita Growth, Job Creation and Poverty Reduction:**

10. While the above record of GDP growth rates and marked show of resilience is impressive, the continent's growth rates have not been enough to create sufficient quality jobs for Africa's youths or drive structural transformation and transitions to higher productivity growth in countries.
  - a. Unlike real GDP growth, the continent's growth rate of real GDP per capita has lagged all other global regions. In 2023, estimated real GDP per capita growth in Africa was 0.7 percent, representing a decline of 1.0 percentage point from 2022.
  - b. Abject poverty, high youth unemployment, debt vulnerabilities, insecurity and other forms of economic fragilities have therefore persisted on the continent.
11. To transform, African countries need 7 – 10 percent average growth rate consistent for 4 – 5 decades.

## **12. On Macro-Economic Fundamentals:**

13. The dynamics of Africa's macroeconomic fundamentals have remained mixed amid considerable challenges:
14. Average consumer price inflation in Africa is estimated to have increased by 3 percentage points to 17 percent in 2023, from 14 percent in 2022, but the dynamics are mixed across regions.
  - a. The increase reflects a combination of higher local food prices induced by drought-related domestic supply shortages, liquidity overhang from pandemic-related fiscal and monetary policy stimulus, and the pass-through effects of currency depreciation against a strong US dollar propelled by high interest rates in the United States. From 2022 to 2023, inflation rose in 32 African countries in 2023. And the highest rate of 26.5 was in East Africa.
  - b. At the end of 2023, 17 African countries had double-digit inflation, and this number is expected to remain high. The 17 countries were: Angola, Burundi, Congo Dem. Rep., Egypt, Ethiopia, Gambia, Ghana, Liberia, Malawi, Nigeria, Rwanda, São Tomé & Príncipe, Sierra Leone, South Sudan, Sudan, Zambia, Zimbabwe.
  - c. In three of the six largest African countries by GDP and population, inflation was above 20 percent in 2023—Egypt (24.0 percent), Nigeria (24.5 percent) and Ethiopia (29.2 percent).
  - d. But excluding these three countries, the average inflation rate is estimated to have fallen from 12.6 percent in 2022 to 11.3 percent in 2023 and is forecast to fall further, reaching single digits of 8.4 percent in 2024 and decelerating further to 6.3 percent in 2025.
15. Under pressure from sustained high global interest rates and continued global uncertainty fueled by geopolitical and trade tensions, most African currencies depreciated further against the stronger US dollar in 2023.
  - a. However, currencies such as the CFA franc, the Moroccan dirham, the Cape Verdean escudo, the São Tomé and Príncipe dobra, and the Comorian franc have regained value due to their full or partial peg to the euro, which regained some strength against the dollar in 2023.

- b.** Conversely, the Zimbabwean dollar (−89.8 percent), Sudanese pound (−77.6 percent), South Sudanese pound (−46.0 percent), Egyptian pound (−37.4 percent), Angolan kwanza (−32.8 percent), and Zambian kwacha (−15.4 percent) recorded the largest depreciations in 2023. These sharp depreciations are the consequences of persistent economic difficulties (Egypt and Zimbabwe) and political instability (Sudan and South Sudan).

16. Fiscal and current account deficits projected to widen:

- a.** The average fiscal deficit on the continent increased slightly from 4.9 percent of GDP in 2022 to 5 percent in 2023, mainly due to marginal widening of the primary balance from 1.6 percent of GDP in 2022 to 2.1 percent of GDP in 2023. This is projected to narrow in 2024 to 4.7 percent of GDP and further to 4.3 percent of GDP in 2025.
- b.** The average current account deficit is projected to widen from an estimated 1.7 percent of GDP in 2023 to 2 percent of GDP in 2024 and 2025, reflecting the rebound in global trade and the boost to China’s commodity imports as its construction sector stabilizes and resilience in domestic economy is aided by recovering investments and firm consumer spending.

17. Public debt is declining but still above pre-pandemic levels, and high cost of debt service is deepening the severity of the debt burden on the continent.

- a.** Africa’s average public debt ratio, which rose from 54.5 percent of GDP in 2019 to 64 percent in 2020, stabilized at around 63.5 percent from 2021–23 and is expected to decline further to around 60 percent from 2024—halting a decade long upward trend.
- b.** Tighter global financial conditions, the ensuing elevated sovereign debt spreads, and exchange rate depreciations have raised borrowing costs and shut most market-access countries from international capital markets.
- c.** The average sovereign spreads in Africa have soared—to three times the emerging market average since the beginning of the tightening cycle.
- d.** As a result, debt service costs have risen, and 20 African countries were in debt distress or at high risk of debt distress in February 2024.

18. Dollar Denomination of Debt and Changing Structure of Debt is exacerbating debt service costs:

- a.** Over 70 percent of publicly guaranteed debt in Africa are US Dollar denominated, exposing the continent to foreign exchange risks as the US dollar strengthens and national currencies depreciate.
- b.** Debt service payments costs have also been exacerbated by the depreciation of African country currencies against the US Dollar reflecting the dominance of US Dollar denominated debt.
- c.** And the changing structure of debt toward private creditors come with opportunities and challenges. At the end of 2023, about 49 percent of Africa’s debt was privately owned, and this is expected to reach about 54 percent in 2024.



- b.** The study showed that Africa is the least defaulter among the main regions, with just a 1.9 percent default rate. This figure stands in stark contrast to Eastern Europe (12.4 percent), Latin America (10.1 percent), North America (6.6 percent), Asia (4.6 percent), and Western Europe (4.6 percent)
  - c.** According to a UNDP estimate, the subjectivity and lack of transparency in ratings, cost African countries over \$24 billion in excess interest and over \$46 billion in foregone lending over the life of multiple bonds in both domestic and foreign currencies.
  - d.** In addition, our estimates also show that Africa will have to pay \$74 billion in debt service in 2024, in part due to high global interest rates and stronger US dollar.
25. But the perceived risks is not entirely to blame for Africa's fiscal challenges. There are well known domestic drivers of cost of capital which countries need to address.
26. In general, there is no alternative to sound macro-economic policy management, transparency, accountability, political stability and rule of law. Without these, investments to transform economies is like pouring water in a basket and expecting it to be sustainably full.
27. While the build-up in public debt in Africa has been associated with a surge in public investment, there is also evidence that low efficiency of public investment has weakened the growth benefits of such debt in Africa.
- a.** Africa has a public investment efficiency gap of 39 percent, higher than Europe (17 percent) and Asia (29 percent). Low efficiency implies that growth benefits of debt-financed public investment are not sufficient to generate revenue streams to liquidate the debt and finance new investments.
  - b.** Estimates in 2021 show that international profit-shifting, one of the most prevalent sources of leakage, costs African countries about 7 percent of their total tax revenues—or 1 percent of Africa's GDP (about \$275 billion), which is the same as total net international transfers to Africa in 2022.
  - c.** According to some estimates, corruption costs Africa \$148 billion every year and about \$90 billion leaves the continent annually in the form of illicit financial flows. Fighting illicit financial flows is therefore critical to addressing the challenge of domestic resource mobilization.
  - d.** As we shall see latter, these create a vicious cycle of high cost of capital, lack of access to long term development finance, low investments in development projects, low productivity growth, poverty, debt vulnerability, etc.
28. Key headwinds to watch:
- a.** Persistent inflationary pressures in many African countries
  - b.** The protracted gridlock in trade and investment and multi-polarization in the global economy.
  - c.** Commodity dependence

- d. Increased regional conflicts and political instability in some countries have imposed untold human suffering and large social and economic costs.
- e. Climate shocks constitute yet another important downside risk to growth recovery in Africa.

**29. Chapter 2: On Structural Transformation:**

30. This chapter demonstrates what I call the Economic Development Paradox: desynchronization between resource potential, economic growth performance and sustainable development outcomes.
- a. Despite the remarkable resilience of African economies amid domestic and external shocks, most African countries are mired in low income and plagued by widespread poverty, unemployment, under-employment in low productivity sectors, inequality, low access to capital, low value addition to products, etc. It is a vicious cycle that locks Africa in abject poverty.
  - b. And Africa's structural transformation has remained slow and uneven, with persistent significant gaps in labour productivity sectors, and most Africans stuck in low-to medium productivity sectors.
  - c. The continent has been slow to move up the global value chains and catch up with other regions of the world, create decent jobs and sustain development for shared prosperity.
  - d. As a result, the continent is off-track in achieving almost all SDG targets by 2030 and is not on track to achieve its own Agenda 2063.
31. If no action is taken for course correction, including to reverse the steepening poverty curve, close to 9 out of 10 (or 87 percent) of the world's extremely poor people will be in Africa by 2030.
32. Under a business-as-usual scenario, it could take African countries more than a century on average (108 years, for a median of 86 years) to transition to a high-income status.
33. There is also a potential risk that most African countries which have managed to reach the middle-income status remain stuck in a middle-income trap—a situation whereby a country, after developing quickly, experiences a sharp, sustained drop in economic growth, typically because of a reduction in the rate of productivity expansion. About 26 African countries (or 48 percent) have been trapped in their income status over the past four decades.
34. The evident desynchronization between economic growth performance and sustainable development outcomes suggests that Africa's current development model (which relies heavily on resource extraction without value addition), is not fit for purpose, urgently requiring a complete overhaul if the continent is to catch up with other regions.
35. On Labour Productivity Gaps between Sectors:
36. There remain large gaps in labour productivity between sectors, with mining, utilities and services performing better.
- a. About two thirds of labour force employed in least productive, informal activities, and about one third of manufacturing employment is in low productive sectors.

- b.** This high level of informality drags productivity growth and makes escape from poverty difficult.
37. On Employment Shares by Sectors, 1990 – 2018:
- a.** The employment share of agriculture decreased from 60 percent in 1990 to 42 percent in 2018, but the employment share of the manufacturing sector, traditionally associated with structural change, increased by only 0.6 percentage points to only 9.0 percent.
  - b.** Unlike in other regions, Africa’s structural change has been characterized by the reallocation of economic activities from agriculture to other relatively low- to medium productivity sectors – due mainly to push factors such as climate change, and rising insecurity in rural communities.
38. On Stages of Structural Transformation, 1991 – 2021:
39. Twenty-five African countries are still structurally underdeveloped, based on sectoral employment shares, up from 40 in 1991.
40. The number of structurally developing and structurally developed countries increased from 5 in 1991 to 17, and 8 to 12 since 1991, suggesting that structural transformation is happening in technical terms.
41. However, productivity performance in all sectors remain low to moderate.
- a.** Labor productivity in Africa grew at 1.5 percent a year in the 1990s, approximately 3 percent in the 2000s, and 2 percent in the 2010s. Despite benefiting from labor reallocation across sectors, productivity growth within Africa’s services sectors remains lackluster.
  - b.** The structural change effect is therefore self-extinguishing as non-agriculture sectors do not experience rapid productivity growth.
  - c.** Despite benefiting from labor reallocation across sectors, productivity growth within Africa’s services sectors remains lackluster.
42. On Stages of Structural Transformation by Regions, 1991 – 2021:
43. The patterns of productivity growth among African regions and resource groups are also markedly different, with the services sector playing a major role in the past decade.
- a.** The average growth rates of labor productivity from 1991 to 2019 show that Central Africa grew by –1.3 percent a year, east Africa 1.7 percent, North Africa 1.2 percent, Southern Africa 1.5 percent, and West Africa 2.0 percent.
  - b.** The negative productivity growth in the industrial sector points to levels of small-scale informal manufacturing sector in Africa, with rapid employment growth but negative productivity growth due to lack of economies of scale.
44. On Sectoral Share of Domestic Value Added Embodied in Exports:



45. Our analyses show that the share of domestic value added embodied in exports is decreasing in agriculture, remaining largely the same in mining, slightly decreasing in manufacturing, and increasing in services.
46. On Technology Intensity of Exports:
47. At 14.9 percent in 2021, Africa’s share of medium- and high-tech exports (as a share of manufactured exports) is among the lowest in the world.
- a. The global median (30.3 percent) and other regions such as Latin America and the Caribbean (25.6 percent) and Europe and Central Asia (46.2 percent). This has not changed significantly since 2010.
  - b. This indicates that Africa’s exports has yet to fully exploit the ongoing “fourth industrial revolution” and the technological advances it brings such as big data, the internet of things, machine learning, artificial intelligence, robotics, 3D printing, blockchains, biotechnology, nanotechnology, renewable energy technologies, and satellite and drone technologies.
48. Key Drivers of Sustainable Economic Transformation in Africa
49. Key drivers of structural transformation in Africa include governance quality; control of corruption; government effectiveness; political stability and absence of violence/terrorism; regulatory quality; rule of law; lack of domestic and foreign demand for African products; small market size; and voice and level of accountability systems.
- a. The main “pull” factors include a competitive exchange rate system, access to finance, well-defined and functioning institutions, and gross fixed capital formation; stringent labor market regulations act as “push” factors.
  - b. Institutional factors include the ability of authorities to maintain a stable political environment, fight corruption, and create a favorable economic environment with property rights and simplified administrative procedures.
  - c. Better access to finance is one of the key “pull” factors of structural transformation in Africa.
50. Annual Financing Gap for Structural Transformation by Country
51. The report estimates that the continent would need \$495.6 billion annually, or about 17 percent of Africa’s projected 2024 GDP, until 2030 to accelerate its structural transformation process and put it at par with high-performing developing countries with currently comparable levels of development.
52. Africa needs to close an annual financing gap of \$402.2 billion, or about 13.7 percent of Africa’s projected 2024 GDP, until 2030 to accelerate its structural transformation process.
- a. Physical infrastructure (roads) remains the main contributor to Africa’s financing gap (72.9 percent), followed by human capital formation / education (10.4 percent), energy (9.9 percent), and productivity enhancing science and technologies (6.8 percent).

53. Estimates of financing gaps by sectors, country and regions are provided in the report.
54. Improving efficiency in Domestic Revenue Mobilization (both tax and non-tax revenue streams) will be key for accelerating structural transformation in Africa
- a. Enhancing efficiency in tax administration, public investment and public spending are as important as mobilizing more resources.
  - b. At the median, African countries collected annually in 2000–21 only 24 percent of the value-added tax revenues that they could otherwise have collected with full compliance and without tax exemptions.
  - c. This suggests that there is significant room to improve domestic revenue mobilization to support structural transformation in Africa.
55. However, our analyses show that although some African countries may be able to close the estimated financing gaps through improved mobilization of government revenues, many of them cannot.
56. Regardless of the deadline for structural transformation – be it 2030 or 2063, domestically mobilized resources will not be sufficient in majority of African countries to close the existing financing gap for structural transformation.
- a. To do so, tax-to-GDP ratio needs to increase on average by 13.2 percentage points (ppts) by 2030.
  - b. African governments currently collect about 13.6 percent of GDP in tax revenues, lower than other developing countries (15.4 percent) and high-income countries (21.1 percent).
  - c. Predicted tax capacity—the predicted maximum taxation in an economy given its macroeconomic, demographic, and institutional features—was about 23 percent of GDP in low-income countries, most of which are African. For Africa, predicted maximum tax capacity is about 20 percent of GDP.
  - d. Increasing tax-to-GDP ratio from the current median of 14 percent by an additional 13.2 ppts would require Africa’s average tax to GDP ratio to rise to 27.2 percent, about double the current levels.
  - e. In addition to high levels of implicit tax, this can have undesirable impacts on economic growth and security in countries by suppressing SME growth.
  - f. And, even if countries exhaust their current tax capacity, many African countries will not close the financing gap.
  - g. Regardless, domestic resource mobilization (both tax and non-tax) will not be sufficient in many African countries.
  - h. Affordable international finance and private sector financing is therefore required to complement DRM.
57. Value addition to critical and rare earth minerals presents an opportunity to mobilize additional domestic resources to complement tax revenues in Africa.
58. Under the 2050 net-zero emissions scenario, demand for critical minerals will grow by three-and-a-half times to 2030 from 2021 levels.

59. Under the 2050 net-zero emissions scenario, global revenues from the production of just four key minerals—copper, nickel, cobalt, and lithium—are estimated to amount to \$16 trillion over the next 25 years (in 2023 US dollar terms), with Africa expected to reap more than 10 percent of these cumulative revenues.
60. Through strategic policies – natural capital accounting, local content, franchising and do preferred procurement - discussed in the AEO 2023 report and in chapter 2 report, countries will be able to increase value addition and the technology content in African natural resources and export higher value products to achieve higher revenue flows. Implementing such policies will increase the revenue accruals from these natural resources, create jobs for youths and women in Africa, and ultimately lead to growth in productivity in Africa’s manufacturing sector to drive structural transformation in countries. Countries that continue with business as usual – selling natural resources as commodities with little to no value addition in export markets - will continue to reap low revenues in royalties for their natural resources. It takes political will and sustained policy actions to turn these natural assets into wealth for African countries.
61. And countries need to balance investments in “hard” and “soft” infrastructure to drive productivity growth across sectors.
- a. While investments in “hard infrastructure” – roads, rails, seaports, power plants, etc., is key for structural transformation, without appropriate investment in “soft infrastructure” – economic governance, science and technology research for development and knowledge management - the productivity and development effectiveness of “hard infrastructure” investments will be limited. Without a sound and stable macro-economic policy environment, heightened political and market risks will hike the cost of capital, and limit access to capital for hard infrastructure investments.
  - b. And in most cases, the productivity of investments in hard infrastructures will be sub-optimal due to lack of knowledge. With a public investment efficiency gap of 39 percent, higher than either Europe (17 percent) or Asia (29 percent), Africa needs to invest significantly in research for development to double down on the productivity and development impacts of hard infrastructure investments. Like an aircraft, development cannot fly on one wing.
- 62. Key Take Aways from Chapter 2 of the report:**
- a. Several market failures in the existing GFA locks African countries in a vicious cycle of sustainable poverty.
  - b. Accelerating structural transformation efforts and financing its implementation will be key to unlocking Africa’s development potential.
  - c. And while consistent implementation of structural reform policies are critical to boost the level and sustainability of economic growth, their implementation depends on availability, timeliness, and scale of long-term development financing for structural transformation and enhancing spending efficiency.
  - d. Boosting domestic resource mobilization is a critical source of development financing, to ensure that Africa’s capital drive Africa’s development.

- e. However, even in the best-case scenarios under the current GFA, domestic resource mobilization, private investment and international support fall short of Africa's development finance needs.
- f. A reform of the GFA is therefore critical for structural transformation in Africa.

**63. Chapter 3: Financing Africa's Transformation – The Need for Reform of the Global Financial Architecture**

- 64. While multilateralism and international development finance institutions have served the world well, weaknesses remain. The persistent weak global growth and recurring economic and financial crises. The growing global inequality and continuing human deprivation due to poverty, hunger, conflict, and fragility. The rising challenges to an open global trading regime. And the pervasive risks of pandemics, natural disasters, climate change, and geopolitical tensions. All suggest that more can be done to achieve the ideals for which these institutions were established.
- 65. The respite they offer during a crisis is often short-lived, and the downside trends in economic fundamentals and risks often return in the medium term. Typical examples are Mexico's Tequila Crisis in 1994, and asset selloffs in 2013 after the United States Federal Reserve tightened monetary policy in the aftermath of the Global Financial Crisis. The same scenario is playing out in the post-COVID-19 period.
- 66. We have therefore seen recurrent cycles of booms and busts (recurring economic and financial crises), recurrent debt crisis, and persistent poverty, inequality, and insecurities.
- 67. And the type of challenges faced has increasingly morphed into global commons challenges (climate change, health pandemics; geopolitical tensions/conflicts) which the existing Global Financial Institutional structures are ill-equipped to address.
- 68. Rising global inequalities in – access to and cost of capital, technology, and markets; increasing de-globalization and multi-polarization of trade, is leading to increasing fragmentation and multi-polarization of the global financial architecture.
- 69. The scale and timeliness of global support they provide – be it for climate action, Covid-19 response, debt restructuring and resolution, and ODA resources meant to tackle abject poverty in countries, have not been fit for purpose.
- 70. The episodic countercyclical nature of support and recurrent downside trends; increasing recurrence of global commons challenges (climate change, health pandemics, geopolitical tensions/conflicts); rising inequality in access to and cost of capital, technology, markets;...; inefficiencies in the global tax architecture, risk ratings, debt architecture;...; inadequate scale and timeliness of global financial support for addressing poverty, climate change, contingency finance, SDGs; lack of inclusiveness and voice in the global financial institutions; and rising de-globalization - increasing fragmentation and multi-polarization of global trade, calls for urgent reforms of the global financial architecture.

**71. Affordability, Timeliness and Economies of Scale Matters:**

72. Current global financial architecture is not delivering adequate resources at affordable cost, timely and the scale needed.
73. Africa's access to emergency financing fall far short of needs. Access to emergency financing is largely skewed toward developed economies that needs it least. For example, of the \$650 billion in SDRs issued by the IMF in 2021 to help countries navigate the adverse effects of the pandemic, Africa received \$33 billion, or 5.1 percent, of the total available envelope. In addition, of the \$17 trillion (or 19 percent of global GDP) rolled out as fiscal measures to fight the pandemic in 2020–21, Africa's share was only \$89.5 billion (0.5 percent). And the same trends are observed in the scale and flows of the global climate finance architecture (see AEO 2022).
74. And Africa's access to low-cost concessional finance fall far short of needs to address increasing global commons challenges in low-income countries. At current levels, ADF replenishment amounts remain significantly insufficient to close existing financing gap for structural transformation in ADF Countries. Even when we include IDA financing in Africa, it is still far short of the scale of financing needed to address fragility in Africa.
75. And bilateral debt and ODA flows to Africa falls far short of the needs by countries and targets set by the Donor countries. In addition, these have these progressively declined over decades and are likely to remain suppressed in the short term and commitments and these are being rebranded and rechanneled to other priorities in Donor countries. The rebranding of ODA for addressing global public goods such as climate mitigation have significant tradeoffs for poverty alleviation programs in countries; the use of debt instruments for climate finance exposes climate vulnerable low income countries to debt vulnerability and heightened risk of default, and the repurposing of ODA resources for other global challenges could starve low income countries of the much needed grants to build institutional capacity for development and poverty reduction programs.
76. As shown in chapter 2, the total external financial inflows to Africa including ODA, foreign direct investment, portfolio flows, and remittances remain far below the financing needs. At \$174.9 billion in 2022), all these inflows combined (ODF, FDO, portfolio flows and remittance) are less than 30% of total financial outflows (US\$587 billion) due to mispricing of Africa's risk (\$74.5 billion), illicit financial flows (about \$90 billion), corruption (about \$148 billion) and international profit shifting (\$275 billion).
77. There is therefore urgent need for African countries to scale up reforms to plug the leakages in their domestic revenue mobilization (tax and nontax) and public financial management systems to retain these significant amounts of resources that leave their countries annually.
78. On the other hand, bilateral donors and the international communities need to meet their commitments of support to Africa through ODA and climate finance in new and additional grants not as debt instruments that deepen the debt vulnerability of countries who are already facing Significant fragilities due to climate change which they did not create. There should be no trade-offs between ODA financing for poverty reduction and climate finance.
79. Multi-lateral development Banks (MDBs) such as the African Development Bank Group, the World Bank and other regional development Banks have remained constant in providing low-cost long-term financing to structural reforms and transformation in Africa over the decades.
80. The private creditors have been playing increasing roles in providing financing for development in Africa, often at 500 percent higher cost of capital than those received from the MDBs.

81. On the other hand, the share of bilateral Creditors and ODA resources, excluding China, have been declining over time.
82. Despite the shifting composition of public debt toward private creditors, multilateral borrowing has remained relatively stable since 2000.
  - a. Specifically, the World Bank Group and African Development Bank Group are the top 2 multilateral creditors for Africa, constituting 75 percent of total MDB financing to Africa between 2000-2022.
  - b. Others include the International Fund for Agricultural Development (IFAD), Islamic Development Fund (IsDB), Arab Fund for Economic and Social Development, and European Investment Bank.
83. And of all DFIs, the MDBs has since embarked of reforms to become bigger, bolder, and better.
  - a. Ongoing reforms of the MDBs is a positive development but will not meet Africa's financing needs for structural transformation
  - b. Resources freed from these reforms could secure about \$169.4 billion a year in development financing, or equivalent to about 42 percent of the estimated annual financing gap.
84. Similar reforms are required in the other DFIs (domestic and external); bilateral donor agencies, and African financial institutions to make them better fit for purpose.
85. **Policy Recommendations**
86. In the report, we provide detailed recommendations on improving macro-economic environment in countries, addressing the debt challenges, scaling structural transformation in Africa, and what Africa could do to leverage more resources form the current GFA, as well as the reforms of the GFA needed to make it nimbler, response and fit for purpose.
87. For the sake of time, let me focus on key recommendations for African Countries and Citizens; and the international Community to make the GFA work better for African development.

**88. For African Governments and Citizens:**

- a. **Develop home grown structural transformation plans and develop local capacity (institutional, human, and financial) to consistently implement them.**
- b. **Scale up domestic resource mobilization (DRM) and prioritize prudence in public finance management (PFM), curb IFF and combat corruption.** DRM can be scaled up through various means, including, but not limited to, digitalization of tax administration - improve the transparency of the tax system, widen the tax base, enhance enforcement, mitigate compliance risks, and ultimately stimulate voluntary compliance; increasing non-tax revenues; enhancing the formalization of the informal economy; and strengthening of the social contract via enhanced provision of public goods and services to address widespread implicit taxation and increase compliance. And focus must be placed on effective utilization of mobilized reviews for growth enhancing investments. According to

some estimates, corruption costs Africa \$148 billion every year and about \$90 billion leaves the continent annually in the form of illicit financial flows.

There is no substitute for quality institutions, sound economic governance, political stability and rule of law, in accelerating structural transformation. Without these efforts to transform economies will be like pouring water in a basket and expecting it to remain stainable full.

- c. Invest in natural capital accounting, beneficiation and conservation and include it in the system of national accounts to expand size of the economy.** Much of Africa’s natural capital resources remain largely unexploited, and their values or services they provide are typically poorly measured and sometimes completely unmeasured as part of African countries’ wealth. Investing in and measurement and valuation of natural capital and integrating them in system of national account will help estimate the true value of Africa’s green wealth and improve conservation. Indeed, Africa’s natural resources provide essential environmental services such as carbon sequestration, pollution control and retention of soil fertility, which sustain human existence.
- d. Build and deepen domestic markets (for goods and services, and capital and financial) at national and regional levels to drive economic integration.** Policies such as local content and franchising and preferred procurement could provide low hanging fruits. In this regard, the AfCFTA and the launch in 2022 of the Pan-African Payment and Settlement System (PAPSS) can be a game changer if fully implemented and domesticated by all African countries. Promoting free movement of production factors, including free movement of people. In this regard, several countries that have fully opened their borders to other Africans must be congratulated, namely: *Benin, The Gambia, Seychelles, Rwanda, Kenya.*
- e. Create targeted and streamlined incentives to catalyze mobilization of private capital flows to support countries’ endogenous development plans, in key sectors for structural transformation.** The potential of the private sector to contribute to Africa transformation is huge: global assets under management (AUM) amounted to \$98 trillion at end- 2022 and are expected to reach \$145.4 trillion by 2025. Key policy actions to mobilize the private sector for green transitions were elaborated in the AEO 2023.
- f. Take proactive actions to harness governance of macroeconomic policies and business environment** necessary to improve risk profiling and perceptions and harness innovative global capital and financial instruments needed to build capacity in project preparation.
- g. Mindset change** – There is need for Africans to take full responsibility for their own development in the changing global financial architecture. It behooves on the government and people of each nation to place priority on structural transformation of their own economies. These include the savings culture, to deepening domestic capital and financial market development; consumption patterns to create effective demand for locally produced goods and services to boost domestic manufacturing and inter-regional market integration; efficiency in tax administration and public financial management; focus on enhancing factor productivity of their human, natural and social capital; strengthening national and regional institutions. Consumers do not declare profit. Until Africans start prioritising production and consumption of African products (goods and services), they will be locked in sustainable poverty for the next century.

- h. Regional Economic Integration and Collective Voice** – Accelerating structural transformation requires a minimum scale of capital – political, business, social and financial capital. Effective integration will allow Africa to harness economies of scale and speak in one voice in integrational negotiations to address recurrent global shocks.

**89. For the International Community - MDBs, DFIs and Bilateral Partners:**

- a. Accelerate and scale up the mobilization of long-term and affordable concessional finance for Africa’s structural transformation.** Structural transformation is a long-term process, and the dividends also take time to come through. In the short run, five reform proposals that can help mobilize concessional resources at scale for transformation stand out:
- (i) *Rechannel the IMF SDRs to MDBs to leverage more resources for structural transformation in Africa.* Rechanneling and leveraging \$100 billion-worth of SDRs could increase low-cost financing for Africa by anywhere between about \$12 billion and \$46 billion a year over the next 10 years. The decision by the IMF Board to make available up to 15 billion SDRs (equivalent to about \$20 billion) for rechanneling to the MDBs for use as hybrid capital is a very welcome development. More needs to be done to achieve scale
  - (ii) *Make healthy replenishments of the concessional windows of the AfDB (the African Development Fund, ADF) and the World Bank (the International Development Association).* ADF countries will need about \$245 billion a year for investment across the four key sectors to accelerate structural transformation over the three-year ADF-17 replenishment cycle. This would facilitate access to low-cost concessional resources to enable low-income countries in Africa catch up with their relatively high performing peers in other developing regions.
  - (iii) *Reform global tax governance to make it more transparent and accountable.* On top of higher borrowing costs for developing countries even after adjusting for risk; underinvestment in global public goods, particularly climate action and pandemic preparedness; volatile capital markets with recurring global financial crises; a less transparent international tax architecture enables global tax evasion and avoidance. Reforms would help contain illicit financial flows and tax evasion and avoidance, as well as profit-shifting, which costs African countries about 1 percent of their GDP—the same as total net international inward transfers in 2022. Similarly, measures to enforce greater extractives transparency are crucial, including the extractive Industries Transparency Initiative, which requires compulsory disclosure of all transactions by global corporations and governments in Africa and other developing regions.
  - (iv) *Maximize MDB funding capacity by implementing the G20’s Capital Adequacy Framework (CAF) and the Triple Agenda.* The CAF identifies ways to maximize MDB funding capacity by, for example, optimizing their balance sheets and making the five strategic shifts highlighted in this chapter. The Triple Agenda recommends a three-pronged approach to reforming the MDBs. The G20 also recommends a generalized capital increase for institutions facing a binding headroom constraint.



- (v) *Improve the scale of financing and transparency of bilateral creditors.* Accounting for 20 percent of Africa’s external debt in 2022, resources from bilateral lenders and transparency on their loans should be increased with voluntary disclosure of information on lending terms, to avoid exacerbating debt vulnerability. Donor countries are encouraged to meet the 0.7 percent of GNI threshold for ODA support.
- b.** Reform the global debt architecture to make it more transparent, nimble, accessible, and affordable to developing countries.
- (i) To facilitate debt restructuring there is a need to: (i) develop market-based solutions for unsustainable Eurobonds; (ii) Implement debt relief to free resources for climate actions; (iii) create a sovereign debt authority and a sovereign insolvency system; (iii) G20 countries could consider legislation that encourages private lenders to participate in debt workouts; (iv) create opportunities for MDBs to lend to countries during protracted debt negotiations by implementing the policy of lending in arrears; (iv) further support African capacity development in debt productivity and public financial management; (v) improve the IMF–World Bank Debt Sustainability Framework (DSF) to make it adaptable to new economic realities; and (vi) improve the credit ratings by private agencies.
  - (ii) *The IMF and World Bank should work with other MDBs, including the AfDB, to improve their debt sustainability analyses.* This should include updating the current DSF to reflect the changing structure of economies, and the impact of shocks on economies, especially those in Africa.
  - (iii) The IMF–World Bank DSF methodology for assessing debt sustainability should be made publicly available to make it easy to replicate and independently validate the findings. The DSF also needs to consider climate risks, loss, and damage, as well as the resources needed to scale up investment in climate resilience, the transition to a green economy, increased defense spending to curb threats of insurgency, and delivery of regional and global public goods.
  - (iv) MDBs like the AfDB could work with international credit rating agencies to strengthen methodologies for assessing sovereign risk and help reduce the amount of subjectivity in Africa’s credit ratings. This will reduce the perceived risk of private investment in African countries. Similarly, African countries should engage with these agencies to provide timely data and clarify the risk perceptions assigned to them, to mitigate the apparent subjectivity. State-contingent debt instruments can also help reshape Africa’s public debt risks in a world characterized by rising macroeconomic uncertainty.
- c.** **Strengthen climate finance accessibility for vulnerable countries that need it most.** The misalignment of climate finance architecture with climate vulnerability, cumbersome procedures, and low institutional capacity in most African countries limit the flow of global climate finance to Africa. There is need to simplify the climate finance procedures to make it more accessible to the climate-vulnerable countries that also have limited capacity to fulfill complicated and expensive project preparation procedures. The launch of the Loss and Damage Fund announced at COP27 in Egypt has attracted about \$661 million in pledges as of March 2024. While positive, its future scale should match the immense losses from climate-induced events in countries: a recent UN-commissioned report suggests that \$150

billion–\$300 billion may be needed annually by 2030.<sup>88</sup> Leveraging initial financing of the AfDB’s Climate Action Window, launched during ADF-16, with additional resources from both public and private sources will bolster the flow of climate finance to address climate vulnerability and risk in Africa

- d. Adopt reforms to improve Africa’s access to emergency financing facilities.** Lacking fiscal capacity, most African countries address temporary shocks by borrowing to smooth consumption and investment and to avoid sharp economic fluctuations. Reforms of the GFA need to increase Africa’s access to financial safety nets, and: (i) delink access to IMF financing from quotas; (ii) introduce state contingent clauses in the loan agreements with the IFIs; and (iii) create an African emergency finance facility/financial stability mechanism or institution. African countries should also implement reforms to strengthen and deepen domestic financial systems so that eventually these can become their own real cushion against shocks.
- e. Make the governance of the GFA more inclusive to enhance Africa’s participation and voice.** The IMF has started a process of reforms aimed at increasing Africa’s participation. For example, its Board of Governors completed the 16th General Review of Quotas on 15 December, 2023, which provided for a 50 percent quota increase. Further reforms include proposals to explore approaches for quota realignment. In addition, using a double majority rule could improve the participation of member countries in decision-making. Another proposal, by the recent Bretton Woods Committee report, relates to forming ministerial-level councils in both the IMF and World Bank with decision-making powers over issues pertaining to the global commons that will require international public sector action. This could be quickly achieved by strengthening the powers of two institutional ministerial-level bodies that already exist—the joint Development Committee and the IMF’s International Monetary and Financial Committee, which are advisory and do not have structured, binding decision-making authority. These two councils could meet annually. The addition of the African Union as a full member in the G20 is a welcome initiative, but the African continent remains underrepresented with South Africa as the only sovereign member of the group. Admitting more African countries as sovereign members is recommended. For the longer term, African countries need to implement growth-enhancing policies that will increase the size of their economies and amplify the continent’s voice in the GFA.
- f. Implement a mandatory requirement for countries to adopt policies for greening their GDP.** Africa’s abundant natural resources present an opportunity for economic transformation toward greener growth. Yet, the current economic valuation framework often fails to capture the full extent of the continent’s wealth. Africa’s reliance on natural capital, such as oil, minerals, and forests, has fueled economic growth but also led to unsustainable extraction and environmental degradation. A mandatory update of methodologies for measuring the wealth of countries to include their green wealth—the economic value of natural capital and associated ecosystem services they provide—should be introduced and enforced. This approach will ensure that Africa leverages its natural capital to expand the size of its economy, increase risk profile to mobilize resources in international capital markets to finance structural transformation.
- g. Leverage private sector financing for structural transformation.** The scale of public resources that can be mobilized through a scaling up of domestic revenue mobilization and concessional financing from official multilateral and bilateral creditors to support Africa’s structural transformation to meet the SDGs and Agenda 2063 in the near term will be very

modest relative to the scale of resources required, even in the best-case scenarios. The private sector offers significant opportunities to fill the resource gap. Measures to incentivize private finance for climate and green growth in Africa are therefore critical for structural transformation in Africa. Reforms of the GFA could support asset recycling by transferring existing assets of debt distressed countries to the private sector to generate funding for infrastructure and other catalytic projects to accelerate structural transformation. Reforms could also embed mechanisms for a portfolio-based approach toward private sector investment rather than a project-by-project approach to leverage economies of scale and existing synergies of projects within the same portfolio than projects managed in silos can achieve.

- h. Supporting African and regional institutions in key areas such as Domestic revenue mobilization, public financial management, project preparation, etc.** There is need to scale up the capitalization of the regional and national financing to make them fit for purpose.
- i. Inclusive and Equal Partnerships with clear subsidiarity arrangements.** The challenges of global development has morphed into global commons challenges. There must be greater focus on delivery of regional and global public goods and retooling available support systems to make national and regional MDBs and DFIs take full responsibility in their respective regions.
- j. Mindset change:** There is a need to reform the global development mindset from one of preserving national self-interests to one of collective action to address global commons challenges, recognizing that actions of parties driven by self-interest will not lead to sustainable outcomes. Global commons challenges such as climate change, health pandemics, global insecurity, ..., has demonstrated that individual actions and/or inactions by parties could lead to significant negative externalities on the global community, with significant implications for economic stability and global sustainability. There is need to focus on supporting countries in need to address pressing sustainable development goals to sustaining our common futures.

90. In conclusion, let me end with the wise words of Albert Einstein:

- (i) “In the middle of difficulties lies opportunities”.
- (ii) “We cannot use an old map, to explore the new world”.

91. Africa is still the among the best investment destinations in the world with high risk-adjusted rates of return. And the World is becoming more African.

92. A reformed GFA that is nimbler, more transparent, inclusive and equitable is good for everyone. Let us stand together to build our common future.

93. Thank you very much for your attention.