AES Africa Economic Symposium

2nd Edition

FOSTERING AFRICA'S ECONOMIC TRANSFORMATION THROUGH INNOVATIVE FINANCING

July 11th - 12th, 2024 - Rabat, Morocco

GENERAL RAPPORTEUR

Larabi Jaïdi, Senior Fellow, Policy Center for the New South

SUMMARY REPORT

10 YEARS POLICY CENTER FOR THE NEW SOUTH

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Stephen Gardner

Graphic Design
Youssef Aït El Kadi

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SUMMARY REPORT


AES
Africa
Economic
Symposium
The Role of Science, Technology, and Innovation
in Driving Africa's Economic Growth
September 21st - 22nd, 2023 – Rabat, Morocco

INTRODUCTION

The Africa Economic Symposium (AES) is the Policy Center for the New South's new major conference, alongside the renowned Atlantic Dialogues and the African Peace and Security Annual Conference (APSACO). AES aspires to be a continent-wide annual gathering of prominent economists, policymakers, and academics, which will bring together global and continental perspectives on the issues shaping the future of Africa's economic development.

The global economy is going through a period of exceptional uncertainty that combines the aftermath of the health crisis, the consequences of the Russia-Ukraine war, and the increasing impacts of climate change. Fragmentation of the world economy is linked to the effects of the war, the potential decoupling between the economies of the major powers (United States-European Union-China-Russia), which would be associated with technological competition at the origin of more aggressive and protectionist industrial policies, and a redefinition of macroeconomic policies in Western countries.

The worsening of these risks is weakening African economies, hampering growth, fueling inflation, disrupting supply chains, increasing energy and food insecurity, reviving the specter of external debt, and raising concerns about the stability of Africa's public finances. The interrelationships between these multiple risks make them more complex to manage. At the heart of the AES is the drive to understand the economic repercussions of these uncertainties, the risks they pose to the evolution of African economies, and the structural transformations that the continent needs to accelerate.

For African economies, the challenges are immense. The extent of the economic repercussions of the crisis depends on their structural characteristics. Against a backdrop of growing social needs and growing macroeconomic imbalances, space for economic policies is shrinking. The pressures on external balances generated or accentuated by the crisis must be examined in the light of the exposure and vulnerability of African economies to such shocks, i.e. in terms of their capacity to absorb them.

In this context, public policies and the decisions that reflect them should seek and strike a delicate balance between the requirements of economic and social recovery in the short term, and structural transformation in the medium and long terms. In the face of an uncertain outlook, African economies should reduce their vulnerabilities to current or future shocks as much as possible. As a first step, this may require rebuilding capacities to safeguard countries' economies against greater risks. In addition, countries can become more resilient by strengthening their public policy frameworks. This context of uncertainty, conducive to large-scale risks, requires public authorities to exercise strict vigilance to preserve this resilience.

In the medium term, deepening structural reforms to generate high-quality and transformative growth is of great importance. Strong growth is perhaps the most essential remedy for eliminating macroeconomic imbalances, since a growing economy allows for more policy space. Many African economies face the twin imperatives of reinvigorating underlying trend growth and improving its quality. The dissipation of shocks offers a chance to shift the focus back to these major long-term challenges, and thus lay the foundations for stronger, more inclusive, and more sustainable growth.

Furthermore, technology is emerging as the game changer in global economic competition. Technology is a lever of influence and positioning in the dual geoeconomic and geopolitical battle. In the twenty-first century, the battlefield on which the great powers clash is digital. New technologies (3D, biotechnology, nanotechnology, etc.) greatly stimulate the economic development of countries and consequently their positions in the global economy. Artificial intelligence in particular can enable civilian and military uses that could change the balance of power in the world by giving new actors crucial capabilities. Effective policies need to be defined to strengthen Africa's engagement in the geopolitics of technology. African countries, which are still unaware of the role that technology plays in global competition, must change their mindsets and recognize that ignoring the geopolitical power issues linked to new technologies is not a winning strategy.

African countries are at different stages of technological transformation. A few indicators are often put forward to show that Africa has already propelled itself into the digital revolution. This is the case for some emblematic indicators of the rapidly increasing number of African start-ups specializing in technology, e-learning platforms, innovation hubs and incubators active throughout the continent, and the improvement of the quality of communication infrastructure networks. In fact, the development of the digital economy in Africa, its adoption, and its affordability vary enormously according to professional situation, location, and level of education. Research and development spending in African countries remains well below the world average. In addition to higher cognitive skills, various behavioural, interpersonal and socio-emotional skills (creativity, risk-taking, decision-making, persuasion and negotiation skills, networking and teamwork, etc.) are not widely disseminated.

The main digital sectors, despite their growth trajectories, will not be enough to offer job prospects to the millions of young graduates who enter the labour market every year. Concerns about the impact of advanced technologies on employment have fueled a growing debate on the need to adapt the social contract to the new context of rapid technological change, as well as key parameters of the social, cultural, and political environments. New technologies also offer an opportunity for African countries to keep up to date in terms of technology, and thus to reduce the gaps between them and other countries. Innovation in these areas could help diversify economies, create better-paying jobs, and catalyze economic growth and structural transformation, while addressing the existential threat of climate change.

Thus, African countries need to harness the power of science, technology, and innovation to boost economic growth and escape the middle-income trap. This will require revamping the nexus between educational policies, R&D, innovation, and economic policies, and defining modern industrial policies that will serve development through clear roadmaps and transparent objectives. In addition, as Africa remains the continent most threatened by climate change and chronic food insecurity, science and technological innovation have the potential to smooth the energy transition and increase food production, making it a vital area of focus for promoting sustainable economic growth.

The great challenge for African economies is to acquire the capacity to implement the major innovations that will shape the future of the world economy system. Capacity is essential for countries to be able to exploit the opportunities offered by new and emerging technologies—and there is a significant gap between developed and developing countries. If Africa wants to be more than a consumer of technology and aims to be less dependent on the great powers, it must make its way and be itself an actor in technological competition. Otherwise, it risks becoming a playground for technological competition between great powers. Technological battles are being waged in a growing number of areas in which Africa is called upon to define strategies and policies that will enable it to achieve strategic autonomy. The challenge for Africa is to work with partners and multilateral organizations—such as the Organization for Economic Co-operation and Development, the World Intellectual Property Organization and others—to develop effective, open, and value-based technological standards. Through multilateral institutions, including the World Bank and the International Monetary Fund, the World Trade Organization and the G20, Africa should contribute to the establishment of an international data protection regime.

Similarly, regional groups such as Mercosur, the African Union, and ASEAN should establish a framework for their member states to cooperate closely on technological issues. These groupings would be strengthened by establishing rules and regulations, such as those on artificial intelligence. They can use the allure of access to their digital marketplaces to strengthen their alliances. The financial institutions of these regional groups should encourage companies to invest in the adoption of critical technologies, while seeking to reduce their technological dependencies.

Over two days, experts, scholars, and policymakers participated in thematic discussions revolving around these issues, setting out their views on how Africa could be positioned as the new engine of global growth. The AES centered on the theme ‘The Role of Science, Technology, and Innovation in Driving Africa’s Economic Growth’, and featured five panels and a discussion on the Annual Economic Report on Africa.

- **Panel 1:** Challenges of Monetary Policy: Navigating Inflation Dynamics in the Face of Supply Shocks.
- **Panel 2:** Challenges of Fiscal Policy: Managing Debt Sustainability
- **Panel 3:** Promoting Innovation-led Growth in Africa
- **Panel 4:** Industrial Policy for Innovation and Technology Upgrading in Africa
- **Panel 5:** The Power of Innovation for Sustainable Development: Meeting the Challenges of Climate Change, Energy Transition, and Food Security in Africa
- **Report Presentation:** Annual Report on the African Economy

INTRODUCTORY
REMARKS

KARIM EL AYNAOUI
Executive President of the Policy Center for the New South.

- The African Economic Symposium (AES) is an occasion to convene African experts and shape our own narrative on the continent's pressing issues and concerns.
- It is important to build this narrative while acknowledging the importance of cooperation with international partners, particularly in the North. This approach eschews the false dichotomy of 'South versus North' in favor of a more nuanced understanding of the need for the South to address its own challenges.
- The call for Africa to take ownership of its narrative and cooperate with others is timely, especially in light of the current challenges in managing international public goods and fostering global cooperation.
- The need for a paradigm shift is urgent, especially given the multiple crises and transitions currently unfolding in areas such as climate and digital transformation.

KEYNOTE ADDRESS

ABEBE AEMRO SELASSIE

Director of the African Department, International Monetary Fund.

- African development faces significant challenges in human capital, infrastructure, and private investment, requiring a substantial injection of funding.
- The international community's financial commitments to Africa are consistently falling short, and the pandemic has exacerbated the financing deficits.
- It is logical to conclude that long-term funding needs should be anchored in sustainable resources. For governments, this entails leveraging internal revenues, primarily taxation.
- Market borrowing will inherently have limited scope for development financing, making it essential for Africa to continue relying on its internal resources as a cornerstone of its development strategy.

MACROECONOMIC POLICY CHALLENGES IN AFRICA

SESSION 1

MONETARY POLICY CHALLENGES: IS INFLATION OVER?

While global financial market conditions have shown improvement and the world economy remains resilient in combating inflation, African economies continue to face challenges. Although signs of resilience are evident across the continent, with inflation rates decreasing in nearly two-thirds of African countries, inflation levels remain stubbornly above pre-pandemic levels, squeezing the most vulnerable. This scenario prompts critical questions about the effectiveness of monetary policy in curbing inflation while sustaining robust economic growth. Furthermore, as central banks in Africa have adopted tighter monetary policies, countries are grappling with the new reality of high interest rates. Future monetary policy decisions by central banks will significantly impact macroeconomic conditions and shape the nature of economic landing of African nations. Amid the current uncertain environment, each central bank decision carries implications for its credibility and financial stability, necessitating strong coordination between monetary and prudential policies.

Chair

MEHDI BARTAL

Professor, Mohammed VI Polytechnic University

Speakers

CHRISTOPHER ADAM

Professor, University of Oxford

HASSAN HACHIMI ALAOUI

Professor, Ibn Zohr University

CHRISTOPH WEISS

Principal Advisor, Economics Department, European Investment Bank

MAIN IDEAS & POLICY RECOMMENDATIONS:

- The global economy, including Sub-Saharan Africa (SSA), has transitioned from a period of historically low interest rates following the global financial crisis to a prolonged period of higher interest rates. This earlier phase saw significant debt accumulation, particularly sovereign debt, benefiting from favorable debt dynamics. Today, despite falling inflation, high interest rates persist, posing new fiscal challenges, particularly in SSA where fiscal dominance driven by debt levels is a major concern.
- The unprecedented and successful coordinated monetary and fiscal response during the COVID-19 crisis has left a legacy of increased liquidity provision and forbearance on non-performing loans by central banks. This has led to more unconventional and potentially inefficient policies, such as financial repression, which has impacted credit growth, especially in SSA where the banking system intermediates a significant share of credit.
- Central banks are now operating in an environment with more frequent and intense supply shocks, exacerbated by climate change. SSA, while experienced in handling such shocks, faces increased financial sector stress and volatility. Central banks must balance price stability with these new challenges and ensure stronger balance sheets. The value of concessional financing is higher than ever, and mobilizing climate financing should be integrated into a broader sovereign finance framework.
- The quality of policymaking by central banks in Africa is hindered by unreliable statistical data. Consumer price indices do not accurately reflect regional disparities, with outdated weighting components based on surveys from a decade ago. The recent inflation wave, driven by food prices, highlights the need to update these weights, though the structural dependence on food makes this challenging.
- African central banks should expand their statistical frameworks, gathering information from economic operators to improve inflation expectation data. Increased transparency in modeling and communication with the public and academic community is crucial for converging inflation expectations and enhancing monetary policy effectiveness.
- While central banks aim to support economic growth by aligning policy rates with the neutral rate, the lack of information on this rate complicates monetary policy assessment. Combating inflation also involves actions to improve climatic conditions, highlighting the interconnectedness of economic and environmental policies.
- Africa has faced tighter financial conditions in 2022 and 2023, impacting

economic stability. Central banks have simultaneously tackled inflation, which disproportionately affects the poor, in a context of weak growth, weak exchange rate appreciation, and poor stock market performance.

- Despite higher policy and deposit rates, loan rates did not immediately increase, creating potential profit opportunities for banks. However, many banks chose to lend to the public sector instead of the private sector, reflecting concerns about economic and asset conditions.
- Banks have reported changing credit standards, leading to continued tightening of credit. This reflects their cautious approach in a challenging economic environment, impacting overall credit availability and economic activity.

SESSION 2

ADDRESSING FISCAL DISCIPLINE

The current economic context in Africa is marked by a persistent rise in vulnerabilities, particularly those related to increasing debt. Projections from the International Monetary Fund indicate that the region's public debt-to-GDP ratio is expected to increase of over 10 percentage points in the next five years. This trend raises serious concerns about the ability of African nations to prevent the risk of over-indebtedness while maintaining rigorous fiscal discipline. This task is even more difficult in a political context marked by upcoming elections in many African countries, where pressures for increased spending and popular initiatives risk undermining economic stabilization efforts. Faced with such challenges, it becomes imperative to rethink budget management on the continent by promoting greater discipline and rigor. These are essential conditions for ensuring long-term sustainability and meeting the continent's development objectives. The development of medium-term budget planning strategies is a crucial step. Exploring the potential of sovereign wealth funds and fiscal rules as budget stabilization mechanisms is also essential. These tools can provide a clear framework for sustainable fiscal policy and help mitigate economic shocks.

Chair

Speakers

BADR MANDRI

Economist, Policy Center for the New South

MARTIN KESSLER

Executive Director, Finance for Development Lab, Paris School of Economics

ANDY MCKAY

Professor, University of Sussex

KWAME OWINO

Chief Executive Officer, Institute of Economic Affairs

MAIN IDEAS & POLICY RECOMMENDATIONS:

- Rising levels of debt and high debt service costs are major concerns. Many countries, particularly those classified as high risk, face significant challenges due to the high debt service burden, which complicates their fiscal policies and economic stability.
- The IMF and other international financial institutions play a critical role in supporting countries with high debt levels. They provide financial assistance, technical support, and policy guidance to help countries manage their debt and implement structural reforms. The IMF's involvement often includes facilitating debt restructuring agreements and providing concessional financing to ease the burden on heavily indebted countries.
- China's shift from being a major lender to a significant borrower has implications for global debt dynamics and increases the importance of other international lenders stepping in to fill the financing gaps left by China's reduced lending.
- The IMF's role in managing debt:
    1. The IMF provides financial assistance and facilitates debt restructuring agreements to help countries manage their high debt levels and debt service burdens.
    2. The IMF aids countries in implementing structural reforms and policy adjustments necessary for economic stability and growth, especially during times of economic distress.
    3. The IMF collaborates with other international financial institutions, development banks, and donor countries to provide comprehensive support packages for countries in economic difficulties. This coordination is crucial in addressing global debt challenges and ensuring sustainable economic development.
- The debt-to-GDP ratio in African countries has been rising significantly since 2010. This trend was exacerbated by the COVID-19 pandemic, but the upward trajectory had already begun earlier. This increasing ratio indicates that countries are accumulating debt faster than their economies are growing.
- The shift in the nature of debt from foreign currency debt to more domestic and private sector debt reduces the risks associated with currency exchange rates but complicates the debt landscape with multiple domestic creditors and private sector involvement. This diversification can lead to challenges in debt management and repayment strategies.
- Many African countries have crossed the debt sustainability threshold, which is a measure used to determine the maximum level of debt that

a country can sustain without external help. This indicates significant solvency concerns as countries struggle to manage and repay their growing debt burdens, leading to fears of potential defaults and economic instability.

- The increase in global interest rates poses a major challenge for African countries. When interest rates were low, borrowing was more feasible and sustainable. However, as interest rates rise, the cost of borrowing increases, making it more difficult for countries to service existing debt and take on new debt. This shift puts additional pressure on national budgets and financial stability.
- The effective management of public spending and increasing tax revenue are crucial to addressing debt challenges. African countries need to implement robust public financial management programs to ensure that government spending is efficient, targeted, and focused on critical areas like education, infrastructure, and healthcare. Moreover, increasing tax revenue is essential for sustainable economic growth and reducing dependence on external borrowing.
- Fiscal expansion in many African countries has contributed to debt problems. This expansion, which began in the 1990s, aimed to sustain public investment and compensate for past periods of austerity.
- African nations have invested heavily in public infrastructure to stimulate growth following periods of economic difficulty. However, this compensatory spending has led to debt accumulation and highlights the need for more sustainable investment strategies.
- African countries initially relied on concessional debt with favorable terms but transitioned to commercial debt due to political and economic pressures. This shift has increased their financial burdens and raised concerns about debt sustainability.
- Long-term development plans have led to significant government spending without corresponding increases in tax revenue, thereby contributing to fiscal stress.
- Improving tax collection and generating new revenue streams are critical for managing debt and supporting sustainable development. Rather than overburdening the population with higher taxes, efficient tax systems can help stabilize economies.
- Effective governance requires strong legislative oversight to manage debt responsibly. Repeated increases in the debt ceiling, as seen in countries like Kenya, have led to unsustainable debt levels, highlighting the need for robust oversight mechanisms and fiscal discipline.

THEME OF THE YEAR: FOSTERING AFRICA'S ECONOMIC TRANSFORMATION THROUGH INNOVATIVE FINANCING

SESSION 3

NAVIGATING FINANCIAL RESOURCE LIMITATIONS AMIDST GROWING ECONOMIC DEVELOPMENT NEEDS

Africa faces critical financial resources gaps amid growing development needs. From building essential infrastructure and fostering technological innovation to ensuring a just transition to renewable energy and meeting the social needs of a growing population, the imperative for financial resources to navigate these complexities and drive development progress is becoming increasingly urgent. Mobilizing financial resources from both domestic and international sources is critical to support investments in renewable energy infrastructure, social programs, and technological advances. However, financial development alone is insufficient. Effective governance plays an equally important role in maximizing the impact of financial resources. Transparent and accountable governance frameworks ensure efficient allocation of resources, minimize corruption, and optimize investments in critical areas such as renewable energy, infrastructure, and human capital. This session will explore key aspects of sustainable development in Africa as financial resources become increasingly scarce.

Chair

ARKEBE OQUBAY METIKU

Former Senior Minister and Special Adviser to the Prime Minister of Ethiopia

Speakers

NAGESH KUMAR

Director and Chief Executive, Institute for Studies in Industrial Development

MAVIS OWUSU-GYAMFI

President & CEO, African Centre for Economic Transformation

TAFFERE TESFACHEW

Senior Advisor, The Tony Blair Institute for Global Change

MAIN IDEAS & POLICY RECOMMENDATIONS:

- India and Africa share similar developmental trajectories, offering significant opportunities for mutual cooperation and growth. Both regions are poised to benefit from a youthful, expanding workforce, in contrast to the aging populations seen in other parts of the world. Harnessing this demographic dividend is critical to driving economic development in both regions.
- The digital revolution and the rise of green industries present both challenges and opportunities. While automation and AI may displace some jobs, they also create new roles requiring specialized skills. By prioritizing workforce development and collaboration in sectors such as solar energy and electric vehicle batteries, India and Africa can capitalize on their strengths and promote sustainable growth.
- To advance in these key areas, reforms in Multilateral Development Banks (MDBs) are essential to enhance lending capacity and support sustainable development. Additionally, attracting high-quality Foreign Direct Investments (FDIs) is essential, with a focus on strengthening local manufacturing and technological capabilities.
- Africa's structural transformation faces obstacles due to limited economic diversification and competitiveness. Countries like Morocco and Tunisia demonstrate how diversification enhances resilience and enables faster recovery from economic shocks.
- For African countries to drive growth, they must strategically define and invest in specific value chains, improve infrastructure, and focus on regional and niche markets to enhance efficiency and stimulate economic development.
- Addressing inefficiencies in public investment and leveraging development banks are critical steps. Furthermore, enhancing regional collaboration and ensuring African representation in financing decisions are vital for formulating effective economic strategies.
- Despite notable growth in recent decades, with some African nations achieving double-digit growth rates, the pace and quality of economic transformation remain insufficient due to weak development capacity and stagnant productivity.
- Boosting technological capabilities, human capital, infrastructure, and industrial policy, along with effective domestic resource mobilization, are key ingredients for developing capacity, expanding production, and improving economic diversity.

- While FDI can offer capital, technology, and job creation, its impact in Africa is weakened by over-reliance on the extractive sector, excessive incentives, and illicit financial flows. Strengthening domestic finance, improving FDI-related policies, and ensuring debt is used to build capacity are essential for meaningful economic transformation.

THEME OF THE YEAR: FOSTERING AFRICA'S ECONOMIC TRANSFORMATION THROUGH INNOVATIVE FINANCING

SESSION 4

INNOVATIVE FINANCING MECHANISMS FOR GREEN TRANSITION

To achieve Africa's green transition by 2030, a significant amount of $3 trillion is required, which is much higher than the current global climate spending of $600 billion. Meeting the sub-Saharan energy access gap alone requires an annual investment of $20 billion. To bridge the financing gap, innovative financing mechanisms need to be unlocked. These methods include mobilizing private capital through green bonds and impact investing, maximizing public resources with grants and guarantees, empowering communities with microfinance and carbon credits, and harnessing technology to improve transparency and incentives. This session explores the current burdens that hinder the use of innovative financing mechanisms in Africa, the role of the private sector in supporting the financing of green transitions, and how efficient collaboration between the private and public sectors can unleash the potential of innovative mechanisms that combine resources mobilizing return and risk mitigation.

Chair

RIM BERAHAB

Senior Economist, Policy Center for the New South

Speakers

HANS PETER LANKES

Managing Director and Deputy Chief Executive, ODI

DAOUDA SEMBENE

Director, AFRICATALYST

MAIN IDEAS & POLICY RECOMMENDATIONS:

- Many innovative financing solutions already exist and have been tested, but the missing element is the political will and the commitment to scale them, particularly in Africa. It is critical to leverage proven models and expand them, rather than continuously experiment with new approaches.
- The finance gap goes beyond climate finance, encompassing broader development needs such as resilient agriculture, adapted cities, economic transformation, energy access, and green supply chains. A comprehensive approach is needed, integrating climate finance with broader growth finance. For example, a study suggests that developing countries (excluding China) will need about USD 1 trillion in external finance over the coming years, with USD 180 billion from concessional sources and half of that from bilateral Official Development Assistance (ODA).
- There is a dual challenge: insufficient finance and a lack of bankable projects. Solutions must address both sides by increasing available funding and developing a pipeline of viable projects. International financial institutions often cite the lack of projects as a constraint, not a lack of funds. Development banks could potentially cover over 30% of the USD 1 trillion finance gap, translating into an additional USD 320 billion.
- Development banks must play a larger role by optimizing their balance sheets, adopting new lending models, and mobilizing private finance. While development banks are key to bridging the finance gap, substantial private sector involvement is also necessary. Institutional investors, such as pension funds and insurance companies, which manage between USD 50 trillion and USD 100 trillion in assets, remain largely untapped for emerging markets. For example, reallocating European insurance investments could potentially double flows to about USD 120 billion annually for emerging markets, including Africa.
- Several successful financial innovations such as green bond funds, climate investor funds, and structured portfolios already exist. These models need to be scaled up and tailored to African contexts. Development banks should also adopt practices such as selling mature infrastructure assets to free up capital for new investments, using guarantees more effectively, and improving project preparation facilities. The Asian Development Bank's guarantee scheme for climate finance projects leverages USD 5 for every USD 1 guaranteed, demonstrating the potential for smart use of guarantees to amplify funds.
- Traditional financing methods, such as private equity, need innovative

approaches to work effectively in Africa. Regulatory and policy changes are necessary to make these traditional methods viable for green investments. For instance, Africa's pension funds, with over USD 2 trillion in assets, can be mobilized for green investments with the right policies in place.

- Perceived risk remains a significant barrier to investment in Africa, with investors often overestimating the risks due to political instability and other factors. This results in higher premiums. Addressing this requires better risk mitigation tools and accurate risk assessments. For instance, African countries are estimated to pay over USD 74 billion more in interest rates due to misaligned credit ratings.
- Domestic financing sources must also play a major role in funding green transitions. African financial institutions should collaborate to co-finance projects, significantly boosting investment. Regional institutions like the African Development Bank can help pool resources and share risks, with local institutional investors playing a crucial role in providing substantial funding for development projects.
- Instruments such as green bonds, blue bonds, and carbon markets have been successfully implemented globally but require scaling up in Africa. The global green bond market has exceeded USD 2.5 trillion, yet Africa's share is only 0.1%, underscoring the need for greater adoption. Overcoming the challenges in implementing these instruments is essential for scaling up and attracting more investment to support sustainable development.
- Governments need to create an enabling policy environment to attract green investments, including regulatory frameworks that support innovative financing and incentivize private investors. Additionally, developing a pipeline of bankable projects is crucial, as the lack of feasible and bankable projects is a major barrier to investment. Innovative project preparation and presentation strategies are essential to facilitate the flow of investment into green projects.

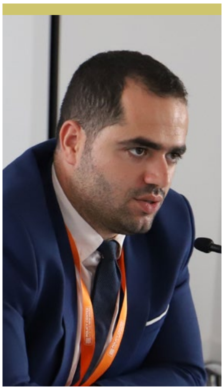
THEME OF THE YEAR: FOSTERING AFRICA'S ECONOMIC TRANSFORMATION THROUGH INNOVATIVE FINANCING

SESSION 5

THE ROLE OF DEVELOPMENT FINANCE IN ADDRESSING SOCIAL CHALLENGES

Development finance plays a pivotal role in shaping inclusive and sustainable development outcomes in Africa. This session will delve into the multifaceted relationship between development finance and social dimensions of progress across the continent. As African countries strive to achieve inclusive growth and address pressing social challenges, understanding the impact and effectiveness of development finance is paramount. Over the years, development finance interventions have aimed to foster economic growth while addressing social disparities. However, the effectiveness of these initiatives in improving social indicators such as poverty reduction, healthcare access, education outcomes, gender equality, and social inclusion warrants critical examination. This session will explore how development finance can be harnessed to amplify social impact and advance inclusive development agendas in Africa.

Chair



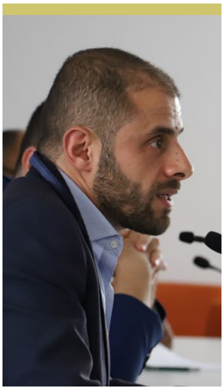
HAMZA SAOUDI

Senior Economist, Policy Center for the New South

Speakers

ABDELKHALEK TOUHAMI

Full Professor, Mohammed VI Polytechnic University



CHAHIR ZAKI

Chaired Professor, University of University of Orléans and Economic Research Forum

MAIN IDEAS & POLICY RECOMMENDATIONS:

- Implementing social protection requires an annual budget of 50 billion dirhams. However, financing this initiative remains a major challenge for the government, which is already committed to other significant expenditures.
- To fund social protection, the government has decided to cut certain subsidies. However, this raises the question: Could these cuts undermine the positive effects of social protection for poor populations?
- 32 billion dirhams are allocated to fiscal expenditures whose effectiveness remains uncertain. The government could review this area to create the necessary budget leeway to fund social spending.
- In most African countries, social protection policies are reactive rather than proactive. They mainly respond to crises after they arise, limiting their effectiveness and sustainability.
- Despite African countries' ongoing reliance on World Bank and IMF financing, social challenges continue to persist.
- Successful examples of formalizing the informal sector are rare. Countries like ours still struggle to balance the informal sector's role as a buffer against economic shocks with the vulnerability of informal workers.


SESSION 5
NANCE
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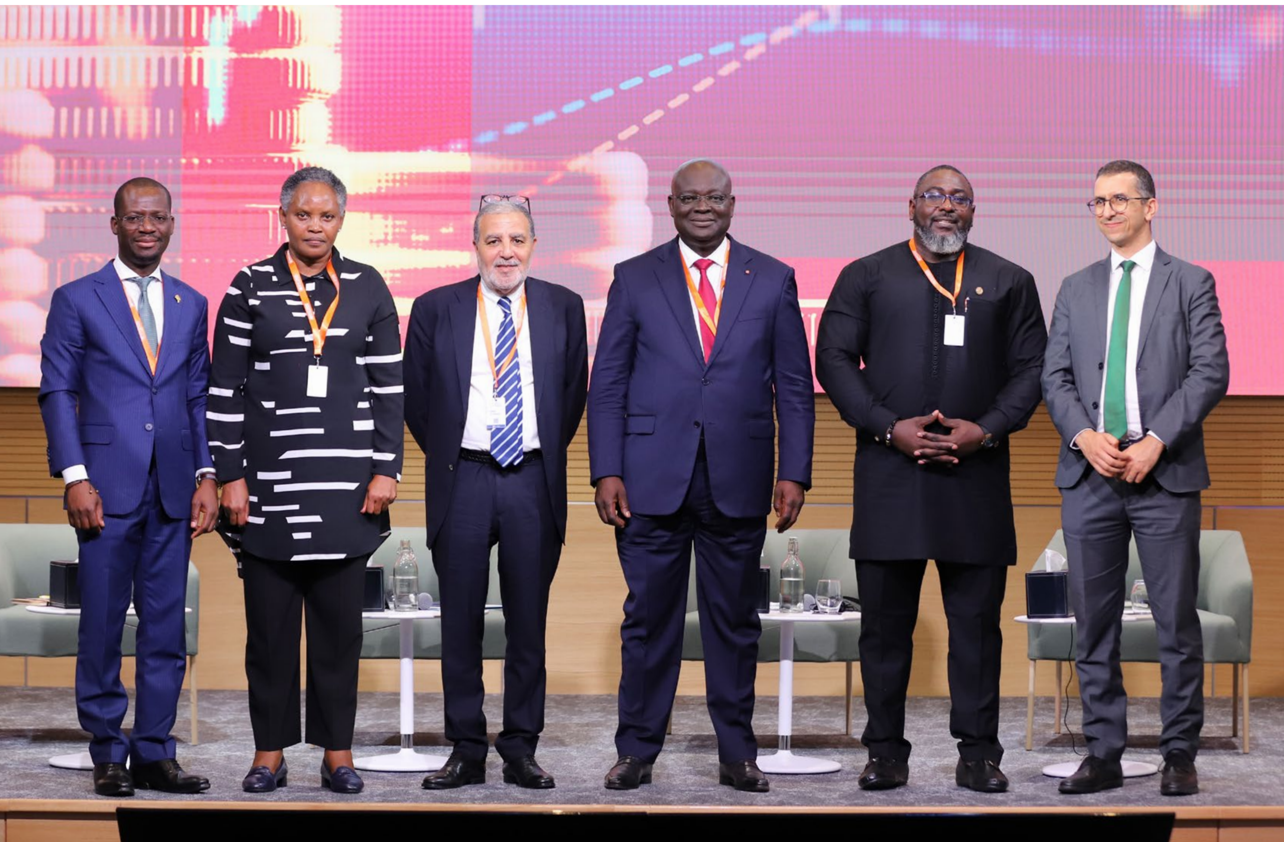
DEVELOPMENT FINANCE
SOCIAL CHALLENGES
Chahir Zaki

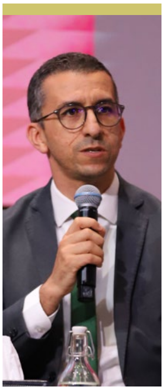


SESSION 6

UNLOCKING DOMESTIC FINANCING POTENTIAL

Unlocking Africa's domestic financial potential necessitates a multifaceted approach encompassing various key strategies. Strengthening the banking sector and local financial markets is paramount to mobilizing private savings and directing them towards productive investments. Concurrently, reforming public finance can play a pivotal role in expanding fiscal space and optimizing the allocation of public resources, fostering an environment conducive to sustainable growth. Vigilant monitoring of tax fraud and illicit financial flows is essential to safeguarding revenue streams and ensuring transparency. Moreover, leveraging Public-Private Partnerships (PPPs) within a robust regulatory framework, emphasizing stringent monitoring and transparency, can facilitate infrastructure development and spur economic progress. Finally, maximizing the financial potential of sovereign wealth funds presents a significant opportunity for funding development initiatives and bolstering long-term economic resilience. By addressing these pillars comprehensively, Africa can unlock its domestic financial potential and pave the way for inclusive prosperity.

Chair



ABDE-LAAZIZ AITALI

Head of Economics Department, Policy Center for the New South

Speakers

TAYO ADULOJU

Chief Executive Officer, The Nigerian Economic Summit Group

MAMADOU BITEYE

Executive Secretary, African Capacity Building Foundation

IDRISS EL ABBASSI

Professor, Mohammed V University

ROSE NGUGI

Executive Director, Kenya Institute for Public Policy Research and Analysis

SAM-PAWENDE TAPSOBA

Deputy Chief Economist, African Export-Import Bank

MAIN IDEAS & POLICY RECOMMENDATIONS:

- Political will for mobilizing domestic funding resources is crucial to our discussion. This must go beyond addressing short-term challenges and focus on establishing it as a structural, long-term priority.
- Developing strategies to create a funding system that meets countries' needs is another important aspect.
- Stakeholder engagement is necessary to align efforts around this political will and the strategies for setting up a sustainable funding system.
- Institutional leadership is essential for motivating commitment from various stakeholders.
- A final key point is the importance of data, which remains critical to all the above efforts.
- Examining domestic funding resource mobilization from a capacity-building perspective is essential.
- Various studies conducted on domestic resource mobilization highlight that the lack of appropriate capacities is a cross-cutting challenge across many African regions, affecting strategic, institutional, and operational levels.
- Strengthening institutional and regulatory capacities is therefore a priority area for fostering long-term change in Africa.
- Inter-agency cooperation, transparency, and accountability are fundamental to harnessing capabilities for mobilizing domestic resources.
- Within the context of multiple challenges—such as navigating a complex macroeconomic and fiscal environment while addressing development needs—several key avenues for domestic resource mobilization emerge.
- One significant avenue is strengthening the banking sector and local/regional financial markets. This can be achieved by enforcing laws, increasing savings, exploring alternative methods to engage with the informal sector, and utilizing fintech to enhance financial inclusiveness.
- Another avenue is to enhance fiscal discipline and strategically allocate public resources for greater efficiency.
- Lastly, leveraging public-private partnerships (PPPs) is of utmost importance in mobilizing resources for development.
- The roles of the private sector and households in contributing to public resources and private savings are vital, but these roles cannot be fully

realized without ensuring income generation and access to economic opportunities. Therefore, creating an enabling environment is central.

- In addition to mobilizing domestic funding resources, the fact that a large portion of the population works in the informal sector raises concerns about decent work and working conditions.
- In the current era of rapid technology adoption and the rise of fintech, financial literacy must become a priority in Africa to effectively harness domestic funding resources.

SESSION 7

THE ROLE OF INTERNATIONAL FINANCING IN AFRICA'S DEVELOPMENT

Africa is facing pressing financial needs to reach its development goals. The continent is also severely exposed to climate change and will require massive investments in climate adaptation and mitigation projects. This situation is exacerbated by elevated levels of debt and risks of debt distress, consequential to the duplication of shocks since the covid-19 pandemic, including tighter financial conditions that have kicked many African countries out of the international markets. In face with this situation, International financial institutions are called to step up their game and increase the scale of their intervention. However, under the current configuration, these institutions appear to be far from being equipped to face the looming challenges of the 21st century. The Multilateral development banks (MDB) system is lacking the required size to provide more funding to development projects and deliver on global public goods and African countries are lacking a safety net mechanism that can act as a stabilizer in face of recurrent shocks.

Chair

SAN BILAL

Senior executive and Associate director of Sustainable economies and climate action cluster, European Centre for Development Policy Management.

Speakers

FRANÇOIS BOURGUIGNON

Emeritus Professor, Paris School of Economics

ERIK BERGLOF

Chief Economist, Asian Infrastructure Investment Bank

ANDREW DABALEN

Africa Region Chief Economist, World Bank Group

RICHARD KOZUL-WRIGHT

Director of the Division on Globalization and Development Strategies, UNCTAD

MAIN IDEAS & POLICY RECOMMENDATIONS:

- The importance of mobilizing both domestic and international resources for development.
- The ambitious goal set in 2015 to scale up financing from billions to trillions to achieve the SDGs. However, a decade later, the scale of ambition has been reduced, leading to some disappointment.
- The need to rethink and adapt business models and financial operations in response to emerging challenges.
- The world is now experiencing multiple, overlapping crises, unlike the past where crises were more sporadic. This raises concerns about whether current international financial models are suited to addressing these ongoing crises.
- The traditional model of responding to one crisis at a time is no longer sufficient in the face of persistent, multifaceted crises.
- There is a dual emphasis on financing development and addressing climate change, including funding for green energy and climate adaptation, both of which present significant financial challenges.
- Identifying synergies between financing development and climate change is crucial to avoid trade-offs that could undermine social expenditures.
- Climate finance is emerging as a critical component of development finance, poised to reshape the financial architecture over the coming decades.
- Part of the required funding should come from domestic actors and the private sector, including FDI, while the international financial system is expected to provide the remaining trillions.
- Advanced countries need to commit to increasing their financial contributions to meet climate finance demands, aiming for a standard of around 1% of their GDP toward global development.
- Addressing climate change necessitates a shift in how financial resources are allocated and managed, especially within development finance.
- Climate mitigation involves substituting current technologies, particularly in energy production, with greener alternatives. While this does not necessarily alter the scale of infrastructure needed, it changes the type of infrastructure required.
- Many African countries are grappling with debt distress, and additional

funds may be used for debt relief rather than climate adaptation or mitigation.

- Donors are focused on providing funds specifically for climate action, not for debt relief, which presents a challenge in ensuring the funds are utilized as intended.
- The integration of climate finance with development finance will take time to establish, making it essential to address the current financial issues in African countries to restore their growth potential.
- Investments in climate adaptation and mitigation will significantly shape development and global financial architecture in the coming decades.
- Climate finance offers a unique opportunity to accelerate growth in Africa and beyond.
- Despite contributing minimally to climate change, Africa is highly vulnerable to its impacts, requiring substantial adaptation investments that are difficult to finance.
- Mitigation efforts, along with investments in nature-based infrastructure, can attract external capital and create new economic opportunities in Africa.
- Strengthening state capacity and enabling the private sector to contribute to building a new economy in Africa is crucial.
- New technologies, such as electric vehicles and battery technology, have the potential to drive transformative changes in Africa, mirroring innovations seen in places like Beijing.
- The role of multilateral development banks:
    - MDBs can provide more patient capital , build state capacity, support bold policy initiatives, and offer innovative financial instruments and risk-sharing mechanisms. MDBs can also mobilize the private sector, and build state capacity.
    - MDBs can provide local currency finance, particularly for infrastructure projects, to develop local capital markets aligned with local revenue streams.
    - Africa, in particular SSA, requires significant transformation to address high levels of poverty, inequalities, and low employment.
    - Africa's economic growth has been volatile over the past 60 years, with alternating periods of low or negative growth and recovery, thereby hampering sustainable development.
    - A new growth model is needed to drive Africa's economic transformation, focusing on shifting the composition of investments toward sustainable growth.

- African countries face high interest rates, closed financial markets, and flat ODA, which limits their ability to finance necessary investments for growth.

THREE KEY SOLUTIONS:

- **Debt Reduction:**

  Address insolvency in some African countries and provide debt reduction to enable growth. For those with liquidity issues, offer liquidity financing to manage large repayments.

- **Affordable Financing:**

  Expand concessional financing for critical infrastructure, health, education, and climate mitigation. This requires rethinking and scaling up existing concessional financing instruments.

- **Importance of International Cooperation:**

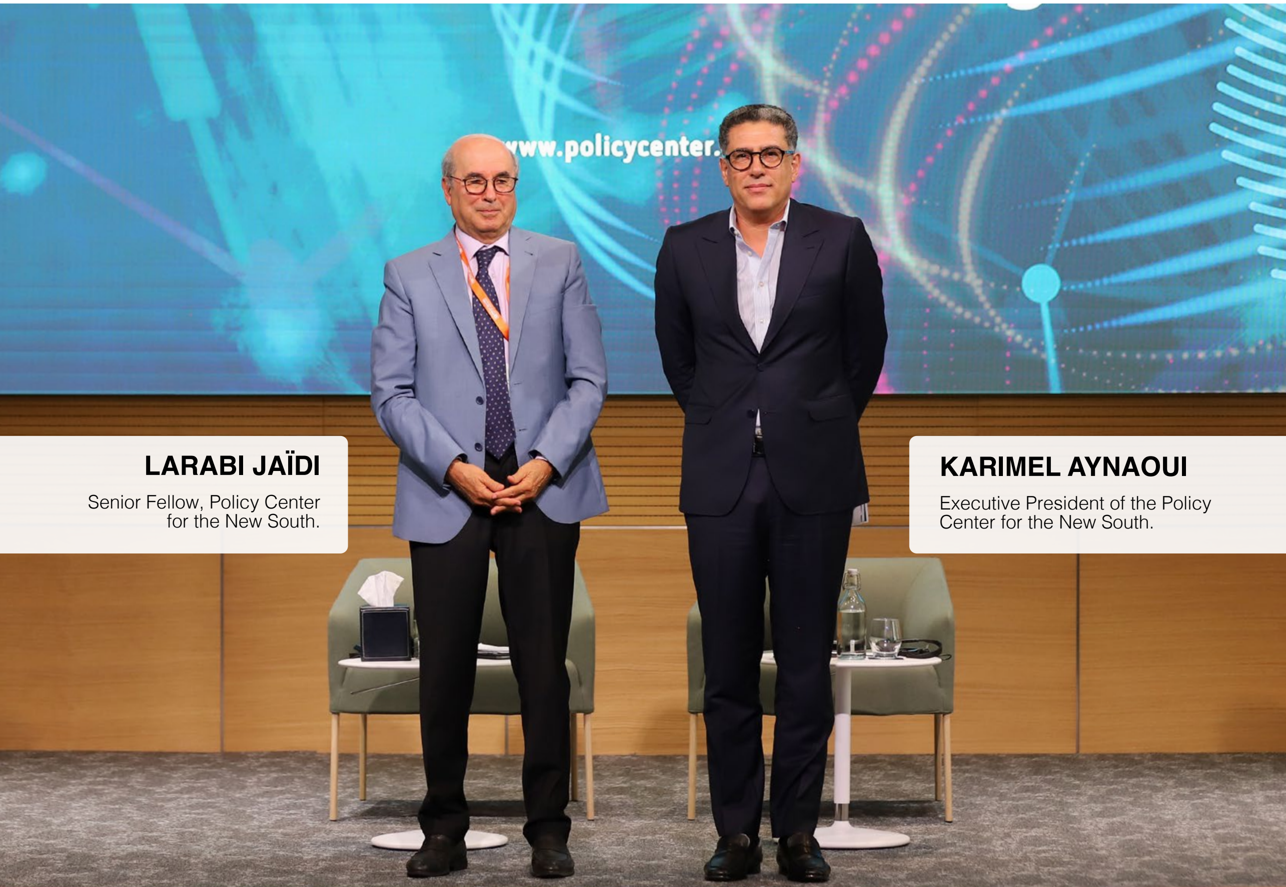
  Collaboration with international partners, such as the IMF, is vital to provide the necessary financial support and insurance against economic shocks.

HISTORICAL PERSPECTIVE AND SHIFT IN ECONOMIC MANAGEMENT:

- Reflecting on the Bretton Woods Conference of July 1944 highlights the importance of stable international economic management.
- The shift in the late 1980s and early 1990s toward enabling private capital marked a departure from the previous stability-focused system.
- This new system has been marked by instability, experiencing numerous financial shocks, including the global financial crisis of 2007-2008.
- The system is heavily dependent on debt, and fragmented, polarizing, and unequal in its economic outcomes.
- Addressing the challenges posed by this system, alongside the climate crisis, is crucial.

PROPOSED REFORMS:

- Specials drawing rights (SDRs): Make more effective use of SDRs for long-term financing while overcoming political barriers.
- Capital Flow Management: Develop better mechanisms to manage speculative and highly mobile capital flows.
- Sovereign Debt Workout Mechanism: Establish a system to manage sovereign debt crises, as many countries face development crises due to high debt servicing costs, often exceeding spending on health and education.
- Public-Public Partnerships: Promote collaboration between public entities to tackle these global challenges.



LARABI JAÏDI

Senior Fellow, Policy Center for the New South.

KARIMEL AYNAOUI

Executive President of the Policy Center for the New South.

REPORT PRESENTATION

ANNUAL REPORT ON THE AFRICAN ECONOMY

MAIN IDEAS & POLICY RECOMMENDATIONS:

Karim El Aynaoui:

- 5th Edition of the Report: Financing issues are the key theme of the report, consistent with the theme of this second edition of the AES conference.

Larabi Jaïdi:

- Structure of the Report and Philosophies:

  The report is authored by 24 to 25 African researchers, including 10 from Morocco, with the remainder coming from various countries from across the continent.

- The report examines Africa's economic situation using a macroeconomic lens, then explores a sectoral theme with a specific focus on South Africa. The second part explores the situation within African economic communities, examining how countries manage a single currency and whether these communities are converging. The third part looks at the continent's financing needs and the architecture of international finance.

The three main risks for Africa:

- Risk of a divided Africa: The continent has shifted from a period when it was seen as a zone of dynamic economic growth to a post-COVID era marked by severe financial difficulties, with a slowdown in growth for some countries, and economic fragmentation for others.
- Transitions for transformations: Financing climate change presents a risk that depends on central banks' ability to adapt and manage trade-offs between short-term financing needs and long-term goals.
- Reforming Africa's banking and financial system: Reforming this system is essential to support economic stability and promote sustainable development across the continent.

CLOSING
REMARKS

KARIM EL AYNAOUI

Executive President of the Policy Center for the New South.

- Resilience is essential for sustainable development.
- Widespread concerns about the future persist.
- The extensive list of necessary reforms is acknowledged to overwhelm policymakers.
- Institutions like the World Bank and the African Development Bank are vital, but there is a pressing need for greater efficiency and scale.
- Effective leadership is crucial for addressing global challenges and implementing reforms.
- There is a global interest in fostering a prosperous Africa while reducing carbon emissions as part of a comprehensive growth strategy.
- Markets must be organized, and surplus savings from advanced economies should be invested in productive assets.
- Strong leadership and long-term vision are key to achieving sustainable development and effectively managing global challenges.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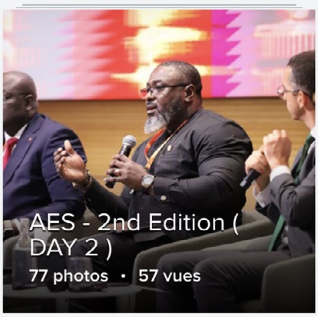

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