

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

Edition

Stephen Gardner

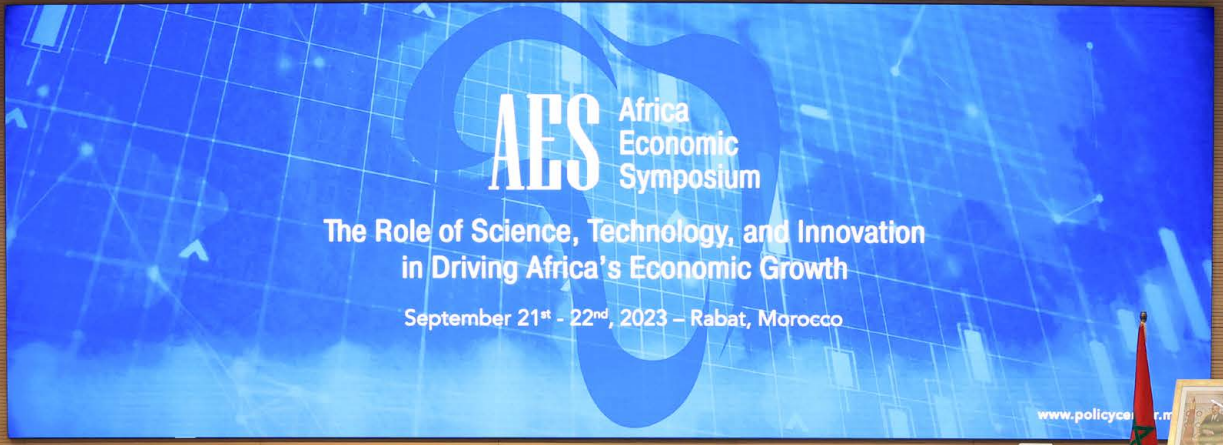
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SUMMARY REPORT



AES Africa
Economic
Symposium

The Role of Science, Technology, and Innovation
in Driving Africa's Economic Growth

September 21st - 22nd, 2023 - Rabat, Morocco

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INTRODUCTION

The Africa Economic Symposium (AES) has established itself as a major annual event organized by the Policy Center for the New South, joining the ranks of other flagship conferences such as the 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, bringing together global and African perspectives on macroeconomic management challenges and structural transformations that shape the future of Africa's economic development.

The 2024 edition, held under the theme “Fostering Africa's Economic Transformation through Innovative Financing”, focused on exploring innovative financial strategies and governance reforms required to bridge the widening financial gaps amidst the continent's growing development needs. African economies are currently navigating a complex macroeconomic environment marked by geopolitical uncertainties, eroding fiscal stability, and rising pressures for funding infrastructure development, energy transition, and technological advancement. Despite continent-wide efforts to tighten monetary policies in response to entrenched inflation, concerns about fiscal discipline and debt sustainability have intensified, particularly in light of the 2024 electoral cycle in many African countries.

Simultaneously, Africa is facing a critical financial deficit to meet its expanding development needs, ranging from increasing social demands to modernizing infrastructure and supporting technological progress. Effectively addressing these priorities requires an integrated strategy that combines resource mobilization, private investment attraction, and the establishment of robust public-private partnerships (PPPs) within a strengthened governance framework. In this context, AES 2024 sought to define a comprehensive agenda for Africa, aimed at reducing fiscal vulnerabilities while supporting long-term inclusive and sustainable growth.

In the face of unprecedented challenges, public policies must strike a delicate balance between restoring market confidence and supporting the structural transformation of African economies. Short-term budgetary adjustments must be accompanied by deep structural reforms that generate high-quality growth and

reduce exposure to future shocks. This requires a strong focus on mobilizing domestic resources, curbing illicit financial flows, and improving fiscal transparency to expand the fiscal space and secure the resources needed to finance development. Moreover, the 2024 edition underscored the critical role of climate finance in Africa's development. As a continent disproportionately affected by climate change, Africa has the opportunity to redefine its economic priorities around a green energy transition. Discussions highlighted that mobilizing climate finance and integrating green technologies into development strategies offer unique opportunities to enhance the continent's resilience and support sustainable growth.

Technology emerged as a central lever for Africa's economic future. Digital transformation, the adoption of new technologies, and innovation have the potential to position Africa as a key player in the global economy—provided that public policies foster a competitive and innovative environment. It is imperative for the continent to rethink its industrial policies, strengthen research and development capabilities, and align education policies with the demands of tomorrow's labor market.

The Africa Economic Symposium 2024 provided a significant forum to examine the strategic shifts needed for Africa's economic transformation and to outline a clear path towards inclusive and sustainable prosperity. The recommendations stemming from various thematic sessions and the presentation of the Annual Economic Report on Africa offered concrete guidance on overcoming resource mobilization challenges while strengthening institutional capacity and financial governance across the continent.

The symposium featured seven key panels and the presentation of the Annual Report on the African Economy, each addressing a core theme:

- 1. Monetary Policy Challenges: Is Inflation Over?**
Explored the complexities of persistent inflation, high interest rates, and their impact on monetary policy in Sub-Saharan Africa.
- 2. Addressing Fiscal Discipline:**
Discussed strategies to manage growing debt burdens, the role of international financial institutions, and the need for maintaining fiscal stability.
- 3. Navigating Financial Resource Limitations Amidst Growing Development Needs**
Focused on overcoming financial constraints through strategic resource mobilization and leveraging Africa's youthful demographic advantage.

4. Innovative Financing Mechanisms for Green Transition

Highlighted the need to scale up climate finance solutions and increase private sector involvement to support sustainable development in Africa.

5. The Role of Development Finance in Addressing Social Challenges

Examined how development finance can support social protection systems, formalize the informal sector, and strengthen social safety nets.

6. Unlocking Domestic Financing Potential

Emphasized the importance of enhancing tax governance, building institutional capacity, and leveraging fintech to boost domestic resource mobilization.

7. The Role of International Financing in Africa's Development

Addressed the interplay between domestic and international financing and the need for rethinking financial models to meet Africa's evolving needs amid global crises.

8. Report Presentation: Annual Report on the African Economy

INTRODUCTORY REMARKS



KARIM EL AYNAOUI

Executive President of the Policy Center for the New South.

- The second edition of the Africa Economic Symposium, organized by the Policy Center for the New South, focused on the theme of “Fostering Africa’s Economic Transformation through Innovative Financing.” It was opened by Dr. 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

Speakers



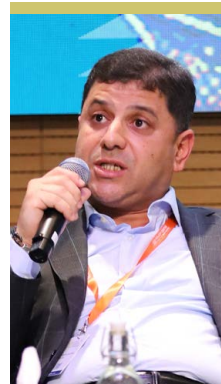
**MEHDI
BARTAL**

Professor,
Mohammed
VI Polytechnic
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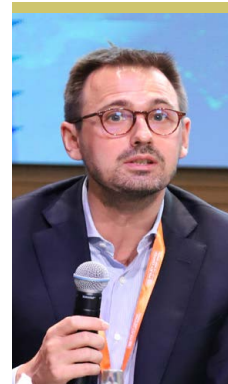
**CHRISTOPHER
ADAM**

Professor, University of
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**HASSAN
HACHIMI
ALAOU**

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.



MACROECONOMIC POLICY CHALLENGES IN AFRICA



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
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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

Speakers



**ARKEBE
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METIKU**

Former Senior
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Minister of Ethiopia



**NAGESH
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Director and Chief
Executive, Institute for
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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
SAUDI**

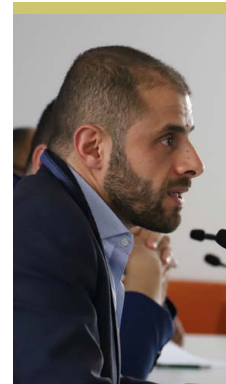
Senior Economist,
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Speakers



**ABDELKHALEK
TOUHAMI**

Full Professor,
Mohammed VI
Polytechnic University



**CHAHIR
ZAKI**

Chaired Professor,
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.





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



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

Speakers



ABDE-LAAZIZ AITALI

Head of Economics Department, Policy Center for the New South



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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.



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



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

Speakers



SAN BILAL

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



FRANÇOIS BOUR-GUIGNON

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.



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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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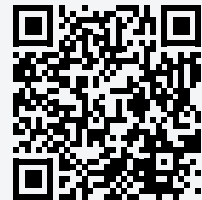


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