INFORMATION & COMMUNICATION DIRECTORATE

Press Release No: **Date: 11th August 2023**
Venue: Addis Ababa, Ethiopia.

Inclusive growth and sustainable development: AU Commissioner Amb. Muchanga outlines what Africa must do.

In July 2023, Ministers of Finance, Monetary Affairs, Economic Planning and Integration, and Central Bank Governors of African Union (AU) Member States, adopted far-reaching recommendations on driving more investments and boosting growth in Africa for sustainable recovery from the shocks of the various crisis that have hit the continent and the world over.

Convened under the 6th Ordinary Session of the African Union Specialized Technical Committee on Finance, Monetary Affairs, Economic Planning and Integration from 20 to 21 July 2023 in Nairobi, Kenya, the ministers and central bank governors explored avenues on various mechanisms to support African states sustainably invest in soft and hard infrastructure, human capital and skills development for a productive transformation; the need to adopt an African development narrative that promotes home grown solutions; the need to harmonize data on climate change and environmental sustainability; transforming the agricultural sector through reforming the land tenure system, adopting irrigation technologies, increasing fertilizer uses and provision of climate-smart extension services to farmers to boost the productivity of the agriculture sector; investing in modernization of the health sector to develop the local pharmaceutical industry; the need to improve good governance particularly through budget openness; and developing domestic capital markets to integrate natural capital in development planning, finance, and economic policies, to underpin the transition to green and resilient African economies.

Amb. Albert Muchanga, the African Union Commissioner for Economic Development, Trade, Tourism, Industry, Mining (ETTIM) lauds the consensus by the ministers and central bank governors on the key drivers for growth and the harmonised continental efforts for shared prosperity. He elaborates on how to actualize these commitments.

Q 1: what is the status of Africa's economic growth and why was the convening of the STC on Finance, Monetary Affairs, Economic Planning and Integration timely?

Since the turn of the 21st century, Africa has boasted the world's second-highest rate of economic growth after developing Asia, a growth supported by investment. However, the continent needs more transformative, sustainable growth. Globally, growth is projected to fall from an estimated 3.4 percent in 2022 to 2.9 percent in 2023, then rise to 3.1 percent in 2024. This global economic crisis has had a negative effect in the growth in African economies particularly on key drivers of growth, such as production and trade flows, capital inflows and natural resource sector.

Africa's estimated average growth of real Gross Domestic Product (GDP) slowed from 4.8 percent in 2021 to 3.8 per-cent in 2022 and is projected to stabilize at 4 percent over 2023–24 only if African economies are able to rebound from the combined and persistent effects of the COVID-19 pandemic, climate change and the disruptions to global trade and supply chains primarily in agricultural, fertilizer, and energy sectors following the Russia–Ukraine crisis. At the same time, Africa's growth reflects the limited structural transformation process affected by low investments in strategic sectors such as agriculture, industry and services which have created new risks and are exacerbating pre-existing vulnerabilities.

The main issue however is that Africa's growth remains below the 7 to 10 percent annual target that is essential to achieve the vision and aspirations of Agenda 2063 and to generate decent jobs, and lessen inequalities and poverty. This is the reason why the discussions by the ministers incharge of Finance, Monetary Affairs, Economic Planning and Integration, and the central bank governors was timely to reflect and explore avenues for inclusive and sustainable growth and development.

Q 2: What structural issues must be addressed for Africa to rebound growth and increase domestic resource mobilization?

Africa's persistent sovereign debt vulnerabilities, high debt levels, and climate and environmental concerns remain the main threats to medium- and long-term growth trajectories. There is a consensus that structural transformation must be driven by sound economic policies. Data-informed evidence suggests that the next half century in Africa offers good prospects for realizing the African vision of a dynamic, diversified, and competitive economic zone. There are a few low hanging fruits that Africa can exploit. I would say the intra-African trade and investment driven by the implementation of the African Continental Free Trade Area (AfCFTA) opens new opportunities for integrating into regional value chains by expanding access to markets, inputs, technology, and investment.

The creation of new regional value chains will expand Africa's active participation in global trade. We have countries like Morocco or South Africa that have successfully upgraded their automotive production to supply European and other highly competitive markets. The integration of markets provides the critical mass of consumers, skills, suppliers, and other resources needed to develop and scale up knowledge-intensive sectors such as automotive and pharmaceutical value chains. In the digital sector, for example, start-ups in smaller African economies can take advantage of having access to high-performance data centers, which are largely concentrated in Egypt, Nigeria, Kenya, and South Africa.

Upgrading transport energy, infrastructure and logistics remains key for cross-border investments. Limited transport infrastructure, fragmented regulations and delays at border posts continue to weigh on investment projects that rely on imports and exports. Programmes such as the Programme for Infrastructure Development in Africa (PIDA) can mobilise investments and contribute to the upgrading of current infrastructure networks. Studies shows that by 2030, USD 411 billion will be required for all transport equipment – trucks, railway vehicles, aircraft and ships to accommodate increased trade due to the AfCFTA. Governments must therefore invest in basic infrastructure, such as reliable and affordable power supply, transport infrastructure, digital infrastructure, such as high-speed internet, mobile virtual networks, and interoperable systems for sustainable development.

Relatedly, developing soft skills such as communication, analytical and critical thinking is important to enable workers to adapt to different tasks in a rapidly changing technological environment. We must not forget ancillary skills related to manufacturing which remain important for supporting the digital economy, including physical skills that require dexterity, and lower skills such as sales, repair, and maintenance.

Regional development corridors and cross-border special economic zones (SEZs) can offer "quick wins" to attract regional sustainable investments. Development corridors represent important ways of addressing the infrastructure deficits on the continent. Similarly, cross-border SEZs are emerging as means to catalyse private investment. For instance, the Musina-Makhado SEZ is located near the Beitbridge Border Post between South Africa and Zimbabwe, a gateway to Southern African Development Community (SADC) countries and a critical location on the region's North-South trade corridor. The SEZ is intended to boost regional trade in energy and manufacturing, especially in the metal industry, while creating job opportunities for thousands of people.

Generating domestic sources of development finance calls for strong and effective states endowed with the legitimacy to raise the necessary revenue as well as the capacity for efficient delivery of public services. This is also key for attracting international development finance. State leadership is critical for accelerating and strengthening regional integration, to create larger markets for developing the continental manufacturing base for a wide variety of clean products and technologies.

And finally, let me underscore the importance of leveraging the capacity of the private sector to drive the economic transformation process of Africa's industrialization and economic diversification agenda. Governments must create an enabling business environment for private sector to thrive to boost productivity through targeted policy reform and investments. This includes creating frameworks and policies that support and stimulate the expansion of Micro, Small, and Medium Enterprises (MSMEs) to support sustainable growth on the continent.

Q 3: What are some of the major outcomes of the recently concluded 6th STC on Finance, Monetary Affairs, Economic Planning and Integration?

The STC was a success. Africa spoke in one voice on various issues to drive inclusive and sustainable development. We held several discussions whose outcome is in the Ministerial Declaration. However, let me highlight some of the issues the Ministers and Central Bank Governors deliberated on.

- They endorsed recommendations on enhanced efforts to tackle Illicit Financial Flows (IFFs) and tax-related issues. The African Union will continue collaborating with the United Nations Economic Commission for Africa (UNECA), the African Tax Administration Forum (ATAF), and other Pan-African institutions to conduct in-country missions to assess the needs and provide tailor-made capacity building to Member States on stemming IFFs and support their efforts to enhance tax collection systems. We will also develop a Common African Position to promote effective tax cooperation.
- African Virtual Investment Platform (AVIP) will be fully operationalized. The Platform will support African governments address key challenges related to the mobilisation and impact of investment. This support includes raising awareness and improving knowledge on Africa's priority projects and possible sources of financing, public and private, foreign, and domestic. The platform will also assist in the co-creation of comprehensive and timely information on all aspects of investment and cover good policy practices for ensuring greater impact on sustainable development. It will also be a enhance dialogue among African policy makers and development partners to find ways to fast-track resource mobilisation for impactful investment projects.
- The ministers endorsed the proposal made by the African Peer Review Mechanism (APRM) on of a private sector-led self-funded African Credit Rating Agency. The Agency will strengthen data dissemination and transparency standards in strengthening credit ratings in Africa.
- The process of the establishment of the African Monetary Institute (AMI) is ongoing and we expect the Association of African Central Banks to consider and endorse the Revised Draft Statute of AMI which will be a transitionary measure towards the establishment of the African Central Bank (ACB). Once operational, AMI will oversee the implementation of the macroeconomic convergence criteria of the African Monetary Cooperation Programme (AMCP) and to undertake the preparatory work leading to the establishment of the ACB. The establishment of a single African Central Bank and the creation of a single African currency as key components in the realization of the African Economic Community and Monetary Union on the continent.
- The Ministers and Central Bank Governors also recommended the MANSA digital initiative, a repository platform which provides a single source of primary data required for the conduct of customer due diligence on African entities; Financial Institutions, Corporates and SMEs. The platform also provides complementary collection of information on investment in Africa, country profiles and traded products/ services of African countries; enabling insights into Africa and deepening positive perceptions of the continent, thereby altering the risk perceptions of Africa

and significantly addressing "de-risking" of the continent, and ultimately promoting and increasing trade in Africa.

- The STC also looked at other very key issues on the status of integration; the Study of the Establishment of an African Financial Stability Mechanism; drummed support for the central role African Multilateral Financial Institutions in African Sovereign Debt Resolution and its relevance to supporting continental development; The meeting also endorsed the recommendations from the African Union Private Sector Forum held in July 2023 that interrogated various actions to be enhanced by member states, private sector, Regional Economic Communities, financial lending institutions, and the African Union on how to drive inclusive growth and sustainable Development in Africa towards the Implementation of the African Continental Free Trade Area (AfCFTA).

Africa is on the right track, we have emerging and existing challenges that Member States, individually and collectively, have expressed commitment to address. The current macroeconomic situation and the future prospects of Africa's growth offer real opportunities to achieving inclusive growth and sustainable development in the years and decade ahead. We must act together now. The Commission remains committed to support Africa's efforts to achieve shared prosperity under Agenda 2063.

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