

Strategic Framework on Key Actions to Achieve Inclusive Growth and Sustainable Development in Africa & The African Financing Stability Mechanism

16 February 2025



AFRICAN DEVELOPMENT BANK GROUP
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DE DEVELOPPEMENT



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AFRICAN UNION DEVELOPMENT AGENCY

Presentation Outline

01

Introduction and Rationale

02

Africa's Macroeconomic Performance and Outlook, 1970 to Date

03

Challenges and Opportunities

04

Strategic Actions Required to Make Growth Inclusive and Development Sustainable

05

African Financing Stability Mechanism

Introduction & Rationale

...Africa's commitment to Inclusive Growth and Sustainable Development

01

Agenda
2063 of the
African
Union

02

Goal 8 of UN
SDGs

03

AfDB's
High 5s

04

Current GDP
growth rates
are less than
the minimum
of 7%
required

05

Bold actions
required to
achieve
Agenda 2063
goals

AFRICA'S RECENT ECONOMIC PERFORMANCE AND OUTLOOK



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How is Africa Performing now?



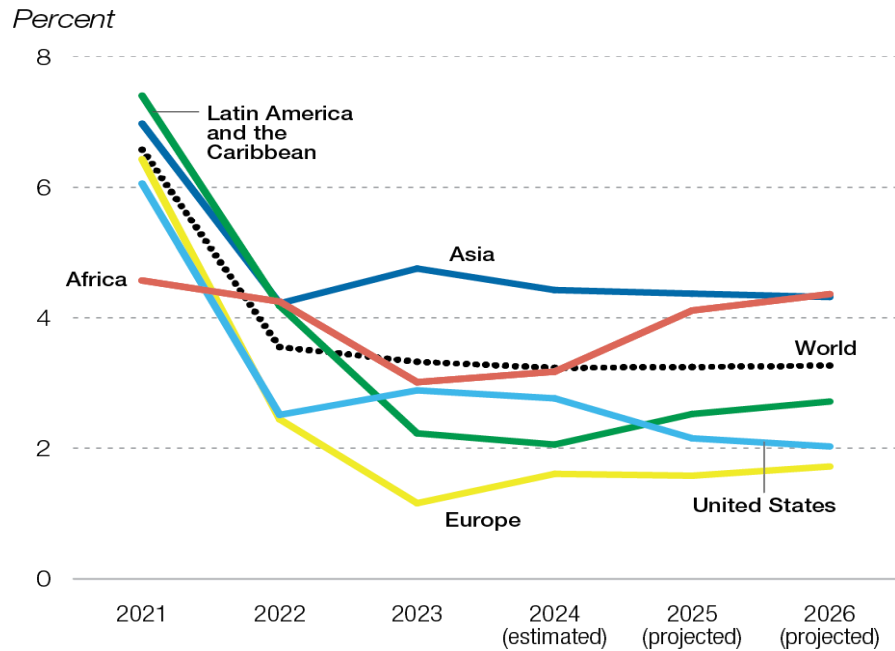
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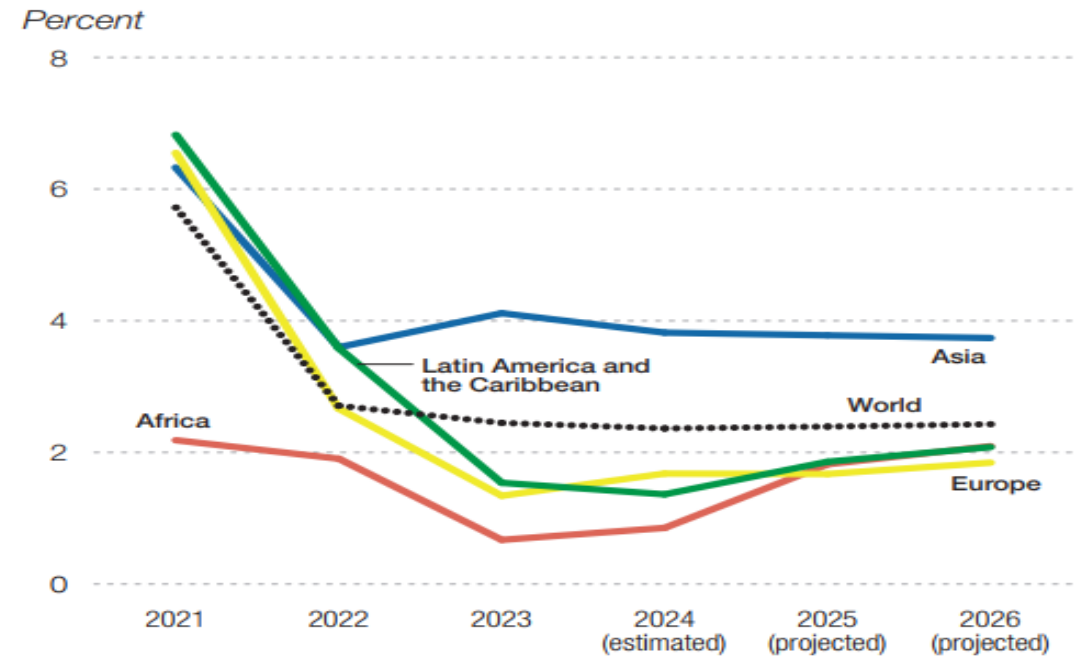
Africa's Growth and Real GDP Per Capita Performance and Outlook: Short Term View

Real GDP Growth (percent), 2021 – 2026



Source: African Development Bank statistics and the International Monetary Fund's World Economic Outlook, October 2024

Real GDP per capita growth, 2021 – 2026

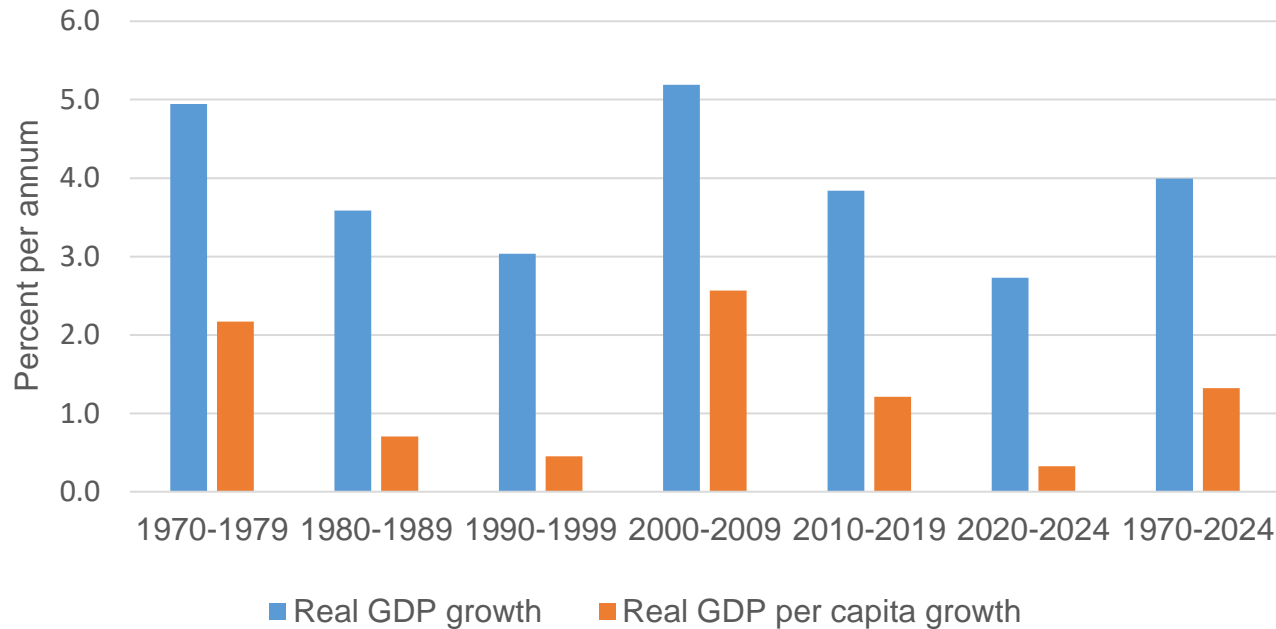


Source: African Development Bank statistics and the International Monetary Fund's World Economic Outlook, October 2024 and United Nations Population Division estimates

How has Africa Performed: 1970 to Date?

Historical Growth Performance of African Economies

Africa's Historical Average Annual GDP and Real GDP Per Capita Growth Rates, 1970-24



Source: African Development Bank statistics

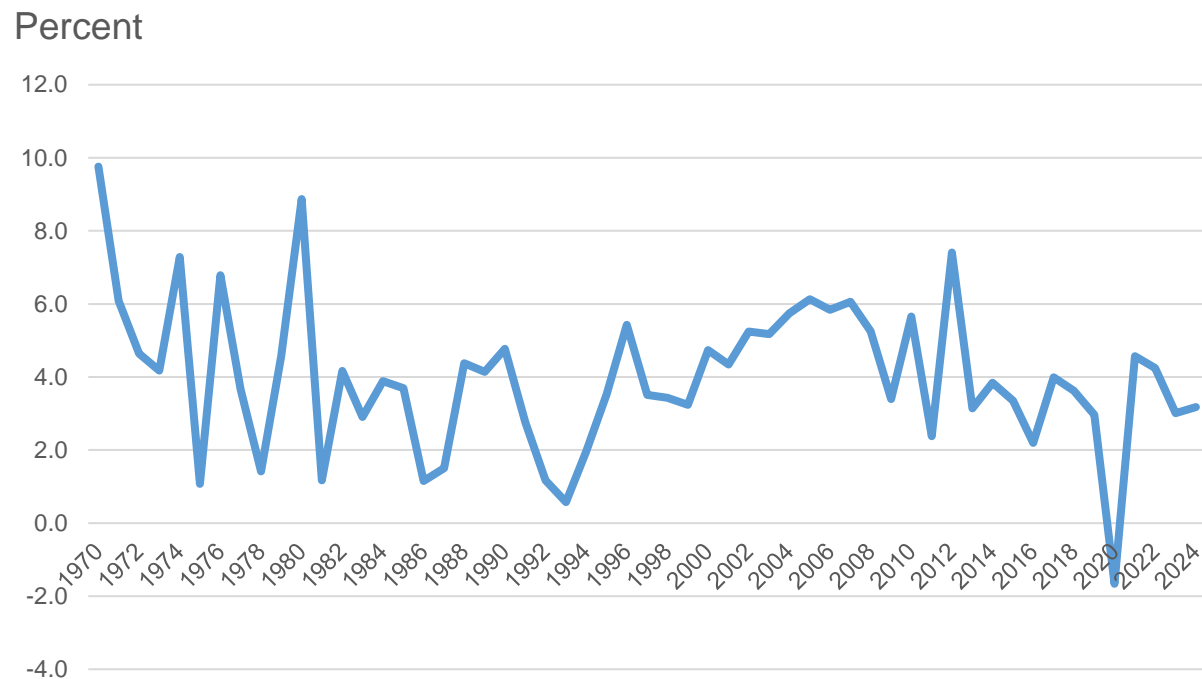
01 Episodic growth performance averaging 4.0 percent a year

02 Well below the estimated 7 – 10 percent annual growth rates required to make a dent on poverty

03 Volatile GDP growth reflecting the lack of economic diversification and exposure to shocks

Real GDP growth volatility and Implications

Real GDP Growth, 1970 – 2024



Source: African Development Bank statistics

01

Volatility of GDP growth

02

Low GDP per capita growth

03

Endemic poverty

04

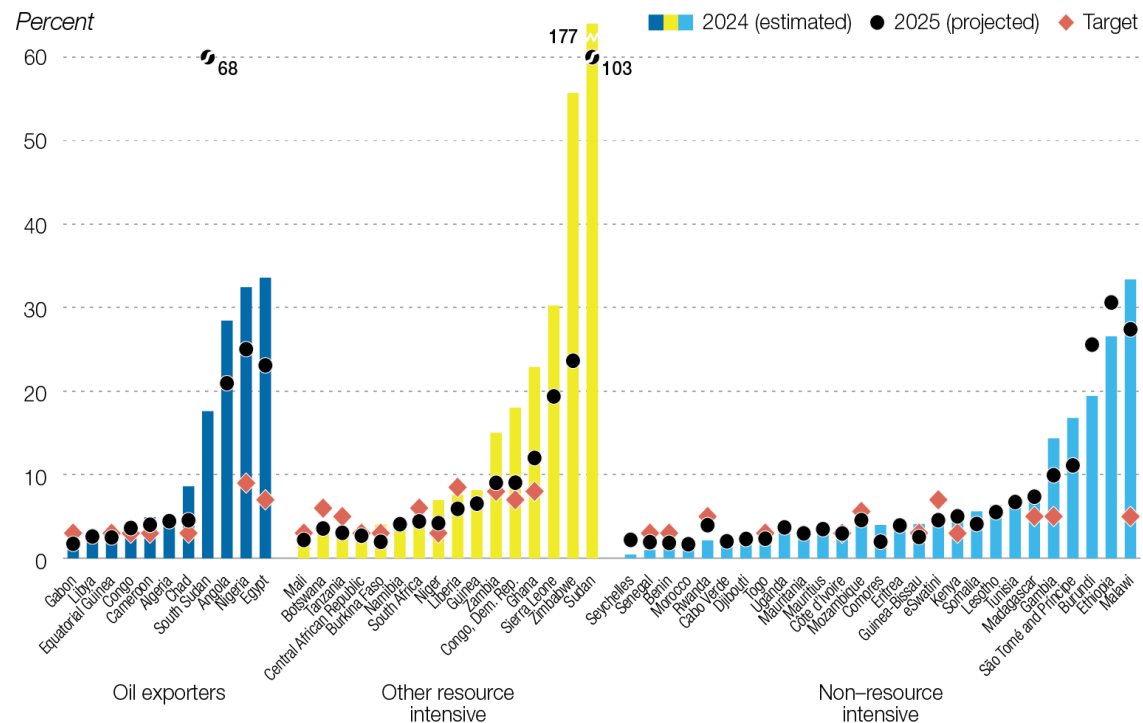
Low SDG outcomes

05

Resilience

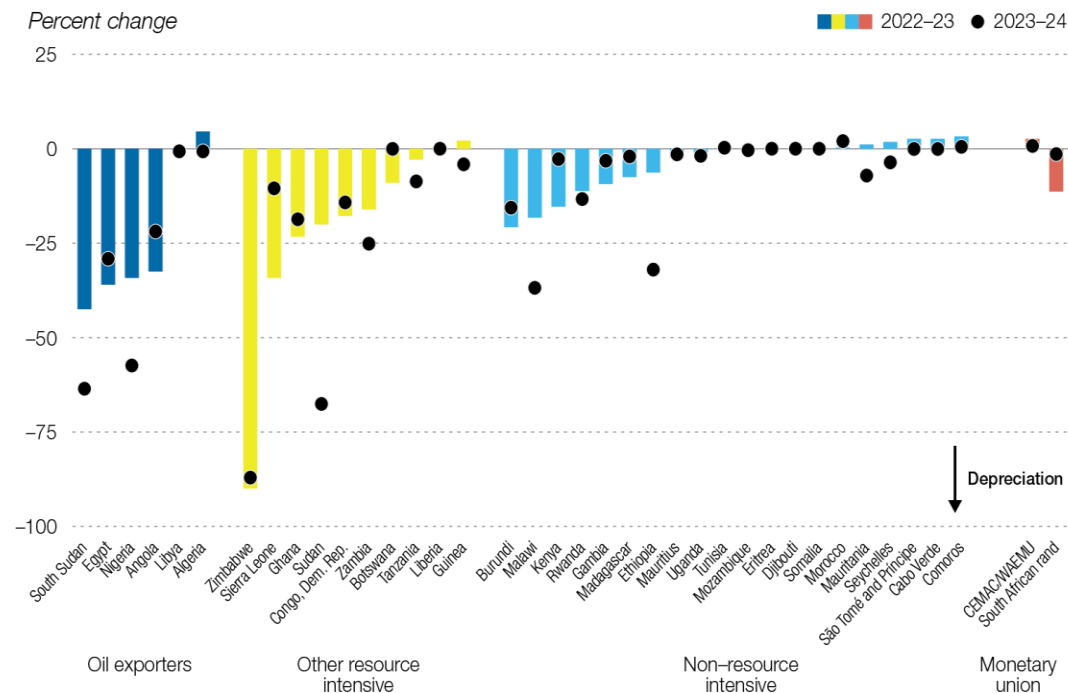
Similar Pattern in the Dynamics of Africa's Macroeconomic Fundamentals since 1970s

Inflation rates in Africa, by Country (percent per annum)



Source: African Development Bank Group statistics

Exchange rate changes: 2022-2023 vs 2023-2024

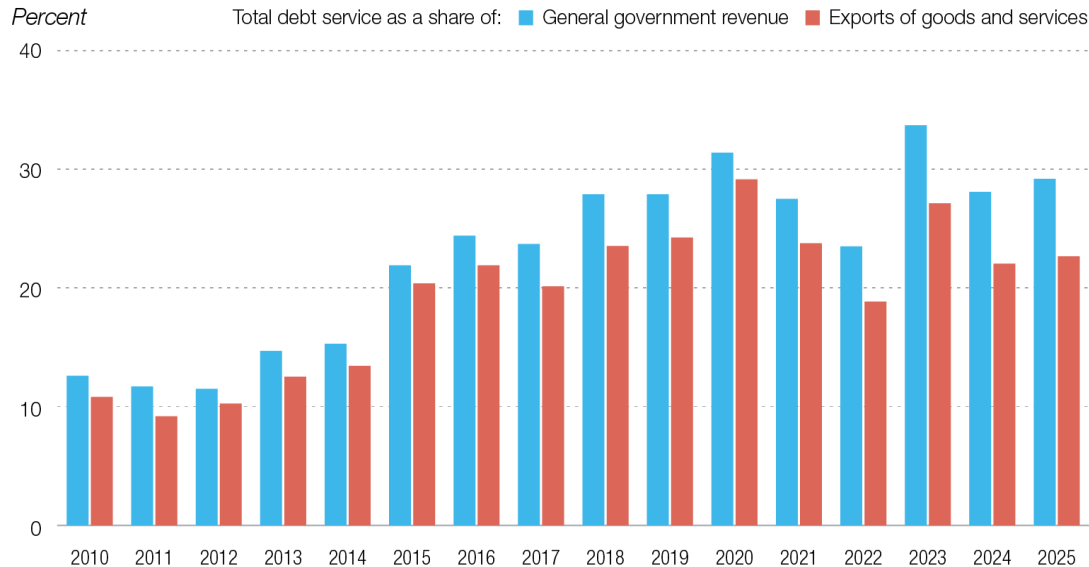


Source: African Development Bank statistics

Africa's debt dynamics present a similar trend

1 Debt-to-GDP ratio to decline to 59.2 percent in 2025 from 63.5 percent in 2021–2023 but debt service remains elevated

Debt service as a proportion of government revenue and exports



Source: African Development Bank statistics

2 ...but sovereign spreads are narrowing since the end of the financial conditions tightening cycle

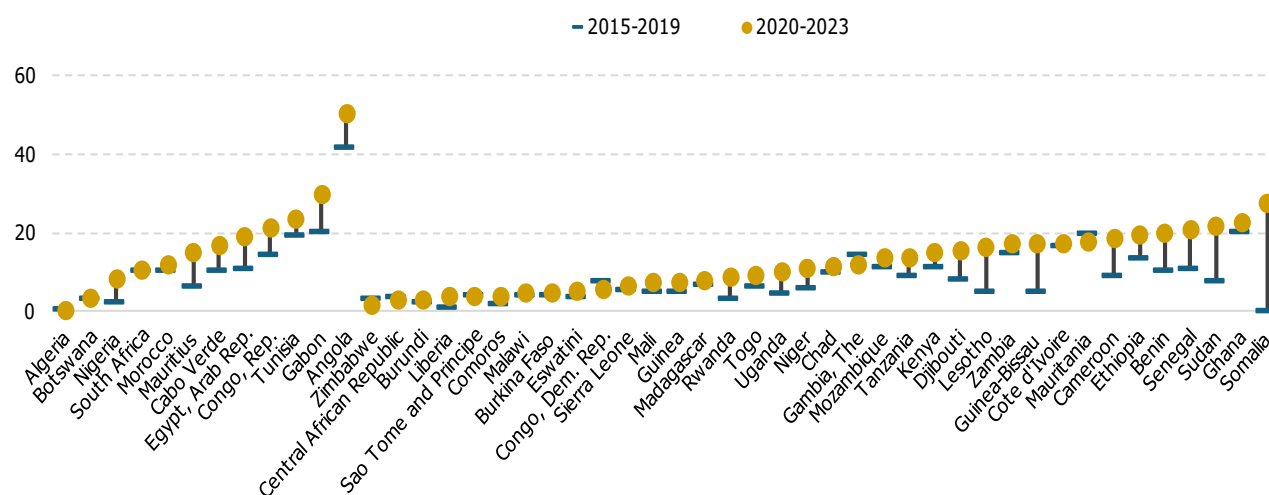
Africa's average sovereign spread and emerging market bond index debt



Source: Staff calculations based on Haver Analytics

High Cost of Debt Service is Heightening the Severity of Debt Burden and diverting resources away from development

Proportion of debt service payments on external debt



Source: Staff calculations using data from World Bank International Debt Statistics 2024

01

Average debt service payments rose to **13.3 percent** in 2020-23 relative to **8.4 percent** in 2015-19.

02

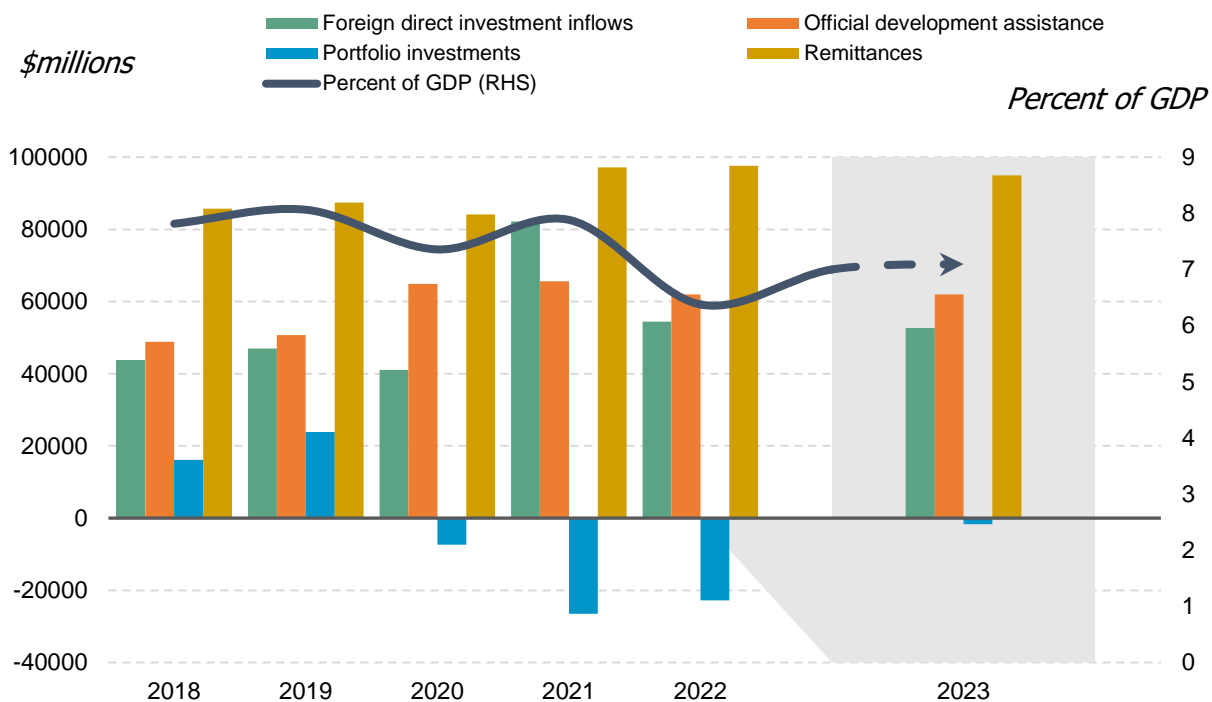
About **\$74 billion** in debt service payments due in 2024, up from \$17 billion in 2010, \$40 billion –Private Creditors

03

Interest costs on debt from capital markets costing African countries **500 percent** more than that from MDBs

Amid Heightened Fiscal Needs, External Financial Flows to Africa have Suffered from Tightening Global Financial Conditions and Domestic Factors

External Financial Flows to Africa, 2018-2023



Source: African Development Bank Statistics

01

Total external financial inflows rebounded by **8.7 percent** in 2023, driven by portfolio investment with net outflows decreasing by over **90 percent**

02

FDI flows weakened by **3.4 percent**

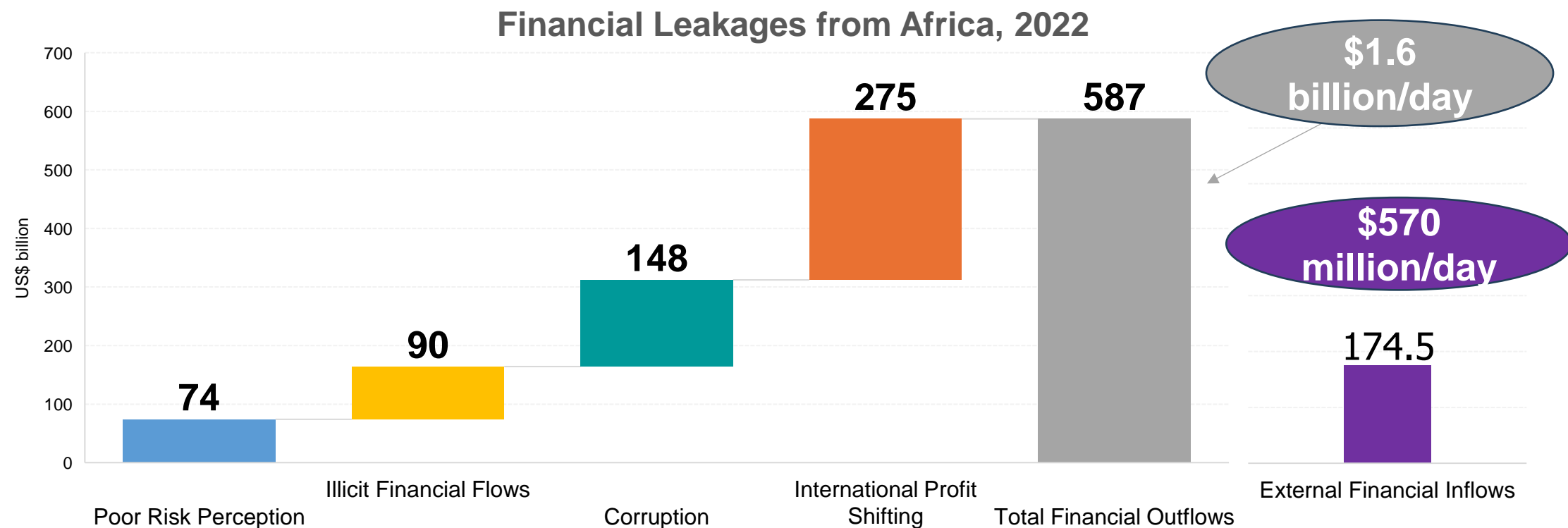
03

Remittances shrunk by a slight **2.7 percent**

04

ODA flows are declining, slowly returning to their pre-pandemic trends

Financial Outflows Outweighs Inflows due to Weak Economic Governance and State Capacity

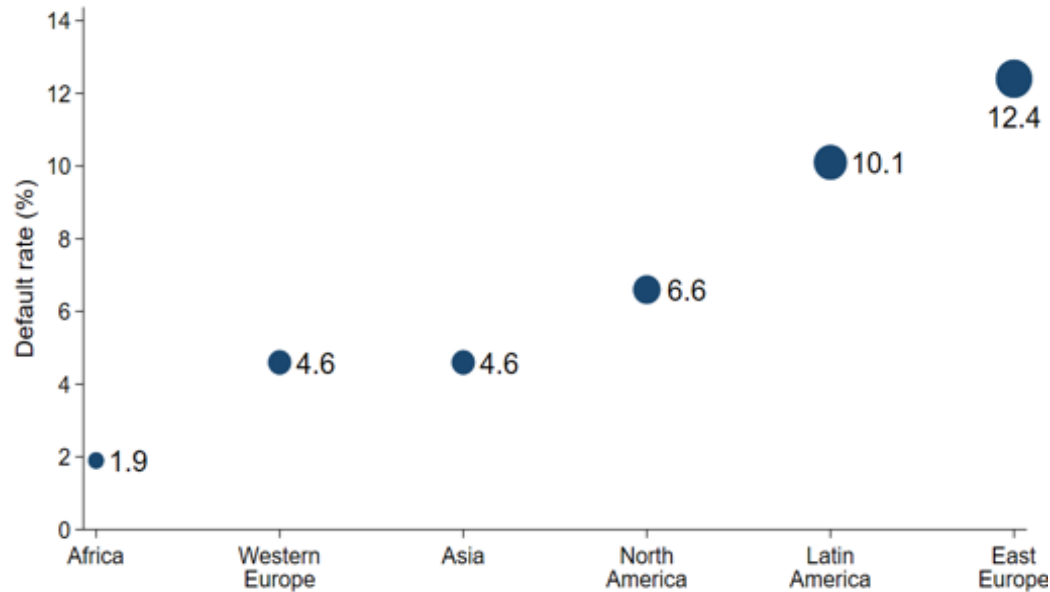


Source: African Development Bank Statistics

Africa has a public investment efficiency gap of 39 percent

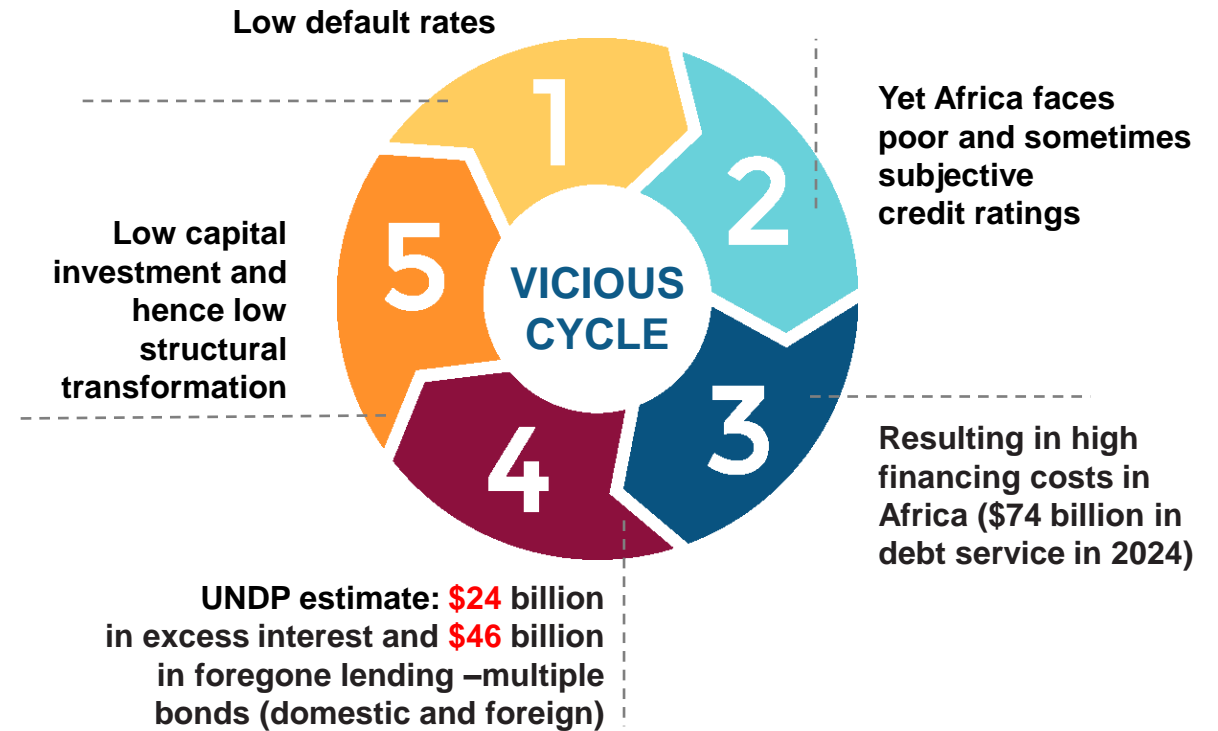
The Paradox: Understanding Africa's Risk Premium In International Markets

Default rates on infrastructure and other projects lowest in Africa



Source: African Development Bank staff calculations based on Moody's Analytics, 2020

Vicious cycle: high financing cost and low capital investment....



Reasons for Action: Systematic Challenges



01

Structural transformation – slow and uneven

02

SDG 2030 and Agenda 2063 targets – mostly off-track

03

Close to **9 out of 10** of the **world's extremely poor people** will be in Africa by 2030

04

At current growth trends, **it could take African countries more than a century on average (108 years)** to transition to a high-income status

05

Most middle-income African countries could remain stuck in a **middle-income trap**

06

Reforms needed to accelerate development financing at scale (domestic and foreign) to drive Africa's transformation

KEY FINDINGS: CHALLENGES AND OPPORTUNITIES

**“In the middle of difficulties
lies opportunities”**

– Albert Einstein.



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Challenges and Opportunities

External

01

Global Commons Challenges: Climate Change and climate policy, Health Pandemics, Global conflicts, etc.

02

Geopolitics of Development

03

Systems of Global Governance: debt, finance, trade, etc.

Domestic

01

State Capacity, Institutions and Governance

02

Productive Infrastructure Development in Key Sectors

03

Business Capital Development

04

Trade and Regional Integration

05

Endogenous Human Capital Development and Utilisation

06

Implementation of Monitoring and Evaluation

STRATEGIC ACTIONS REQUIRED

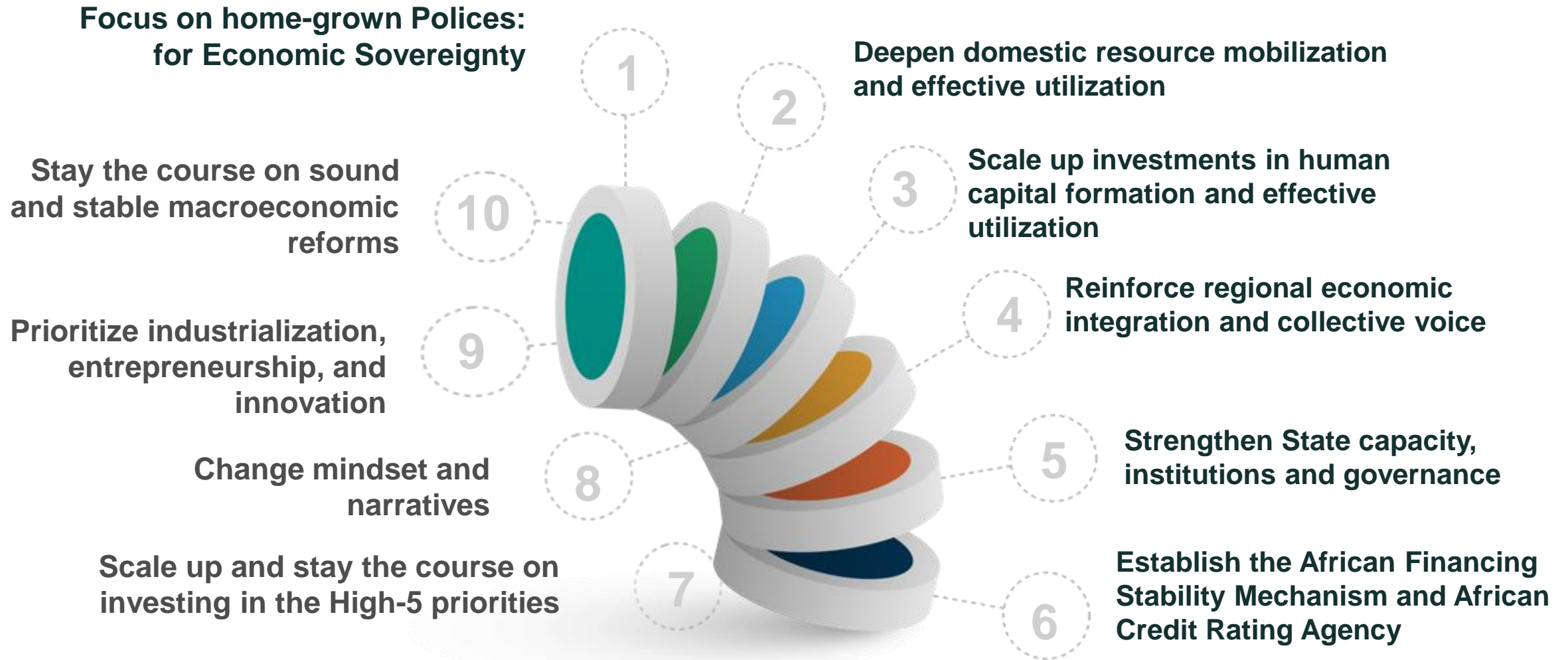


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African Governments and Citizens



International Community (MDBs, DFIs, Bilaterals)

Mindset change



Make the global financial and debt architecture nimbler and more inclusive (CRA methodologies, IMF/World Bank DSF, Climate finance, etc.).

Implement a mandatory requirement for measuring green wealth of Countries in GDP estimates.

Accelerate and scale-up low-cost concessional financing for Africa's development (ADF, SDR rechanneling...).

Leverage private sector financing for transformation.

Improve Africa's access to emergency financing facilities.



AND THE CONTINENT IS ALREADY TAKING STRATEGIC ACTIONS



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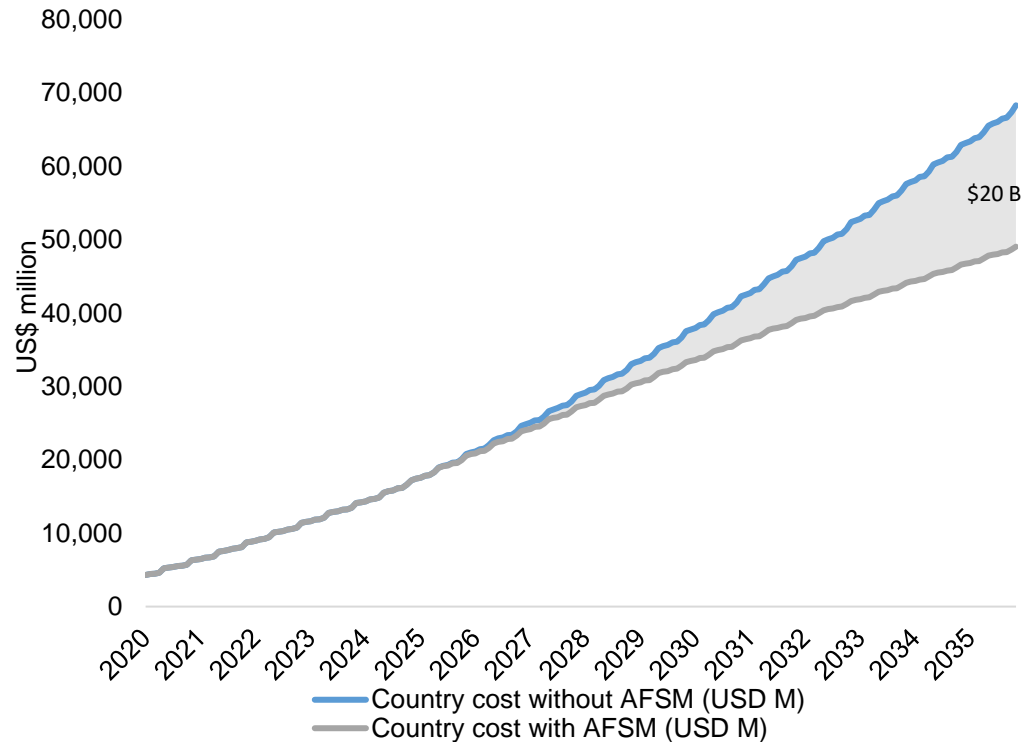
African Union Decision by Assembly/AU/Dec. 817(XXXV) of February 2022

Assembly of Heads of State and Government of the African Union by Decision Assembly/AU/Dec. 817(XXXV) of February 2022 called for the establishment of an African Financing Stability Mechanism (AFSM) and directed the African Union Commission and the African Development Bank to “work with all relevant stakeholders to accelerate operationalization of the mechanism and its growth**”**



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The African Financing Stability Mechanism (AFSM)



01

Designed in response to AU Assembly Decision - Assembly/AU/Dec. 817(XXXV) of February 2022 – to address the Continent's recurrent debt refinancing risks.

02

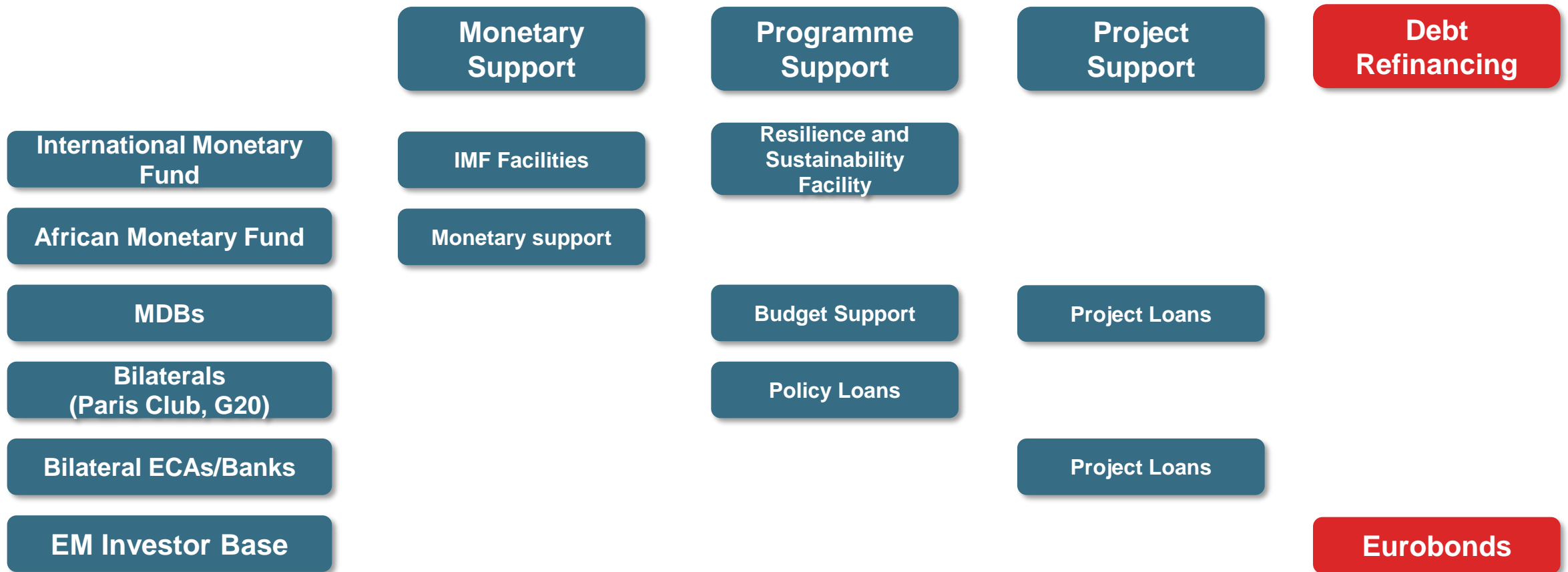
Specific functions:

- (a) Offer debt refinancing loans** at advantageous financial terms and conditional on specific policy actions
- (b) Address immediate macroeconomic imbalances and support structural reforms**
- (c) Enhance market liquidity and support the stabilization of financial markets**

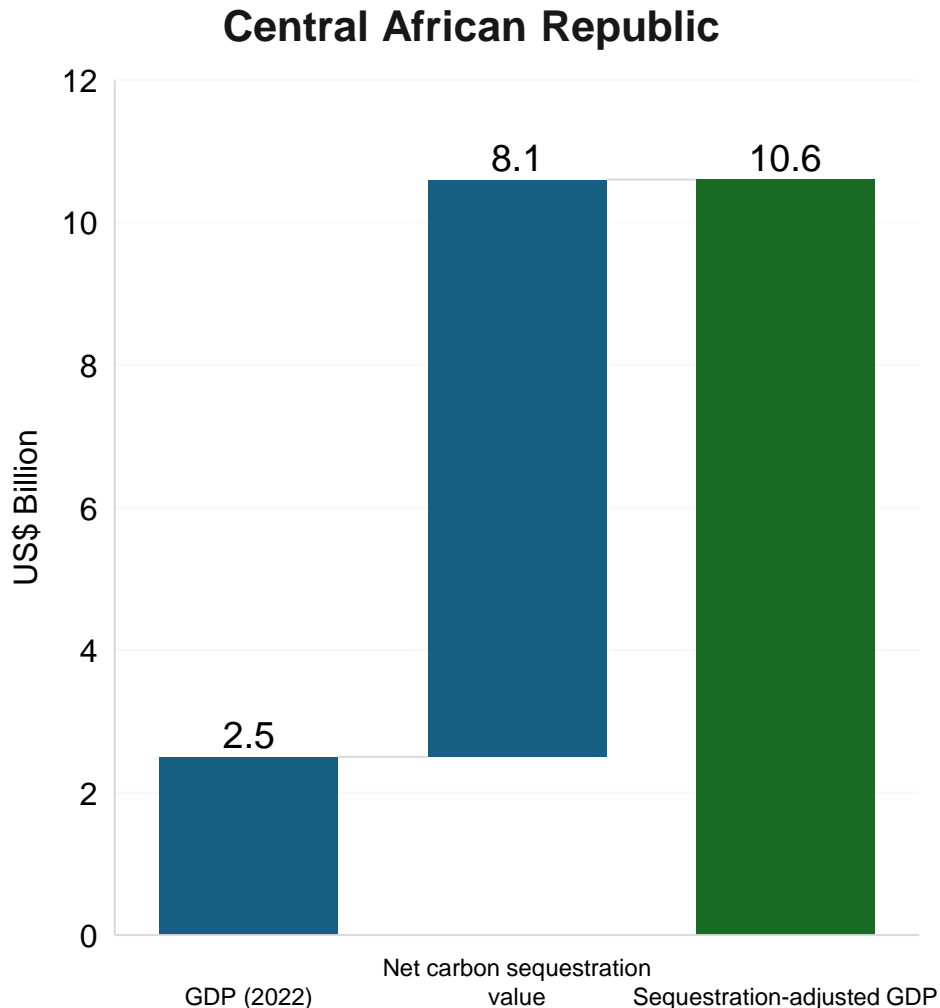
04

When fully implemented the AFSM will save African Sovereigns about US\$20 billion in debt servicing cost by 2035.

The existing international financial architecture doesn't have a mechanism to cope with Africa's debt issue



2. Measuring the Green Wealth of Nations



01

Designed in response to Africa Climate Summit Declaration in 2023

02

Specific goals:

- (a) Assess the value of Africa's natural capital and ecosystems services they provide
- (b) Assess the status of and upgrade national systems of accounts in Countries to include natural capital assets (stocks and flows).
- (c) Rebase GDP of countries, accounting for natural capital assets (stocks and flows)

03

Lunched at a Heads of States Summit held in November 2024 during Cop 29 in Baku, Azerbaijan.

04

When fully implemented this could significantly increase Africa GDP significantly. By factoring in Carbon sequestration function of forest only, Africa's GDP in 2022 could have been 66 billion higher.

CLOSING WORDS

**“In the
middle of
difficulties
lies
opportunities”**

– Albert Einstein.

**“We cannot
use an old
map,
to explore
the new
world”**

– Albert Einstein.

Africa has what it takes to double its annual GDP growth and GDP per capita growth rates consistently for the next 40 years and achieve the Agenda 2063, if the key actions identified are duly implemented.

Thank You !

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