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HIGHLIGHTS

AFRICAN ECONOMIC OUTLOOK 2024

Driving Africa's Transformation

The Reform of the Global Financial Architecture

HIGHLIGHTS

CHAPTER 1
AFRICA'S ECONOMIC PERFORMANCE AND OUTLOOK

African economies remain resilient amid multiple shocks, with their average growth projected to stabilize at 4.0 percent in 2024–25, nearly a one percentage point higher than the 3.1 percent estimated in 2023.

Average real gross domestic product (GDP) growth is estimated to have slowed from 4.1 percent in 2022 to 3.1 percent in 2023. The decline is attributed to a variety of factors, including persistently high food and energy prices on the back of sustained impacts of Russia's invasion of Ukraine,* weak global demand weighing down export performance, climate change and extreme weather events on agricultural productivity and power generation, and pockets of political instability and conflict in some African countries. Despite the continuing headwinds, 15 countries recorded a growth rate of at least 5 percent in 2023. Although three of the continent's largest economies recorded lower real GDP growth rates, more than half (31) of African countries had higher real GDP growth rates in 2023 than in 2022, with 6 of them—Burkina Faso, Djibouti, eSwatini, Libya, the Republic of Congo and South Sudan—posting real GDP growth rates of more than 2 percentage points.

Despite the global challenges that tested economies worldwide, the African continent is projected to remain resilient. Real GDP growth is projected to rise to 3.7 percent in 2024 and 4.3 percent in 2025, exceeding the 4.1 percent in 2022, as most of the effects of the above factors weighing on growth in 2023 fade away (figure 1 and annex 1.1A). The projected rebound in Africa's average growth will be led by East Africa (up 3.4 percentage points) and Southern Africa and West Africa (each rising by 0.6 percentage points). Crucially, 40 countries will post higher growth in 2024 relative to 2023, 17 economies are projected to grow by more than 5 percent in 2024, and the number could rise to 24 the following year, as the pace of growth accelerates. This is remarkable and Africa will retain its 2023 ranking as the second-fastest growing region after Asia, in 2024-25 with projected GDP growth exceeding the global average of 3.2 percent in 2024.

* Wording agreed at the 2022 African Development Bank Group Annual Meetings in Ghana. Algeria, China, Egypt, eSwatini, Namibia, Nigeria, and South Africa entered a reservation and proposed "Russia–Ukraine Conflict."

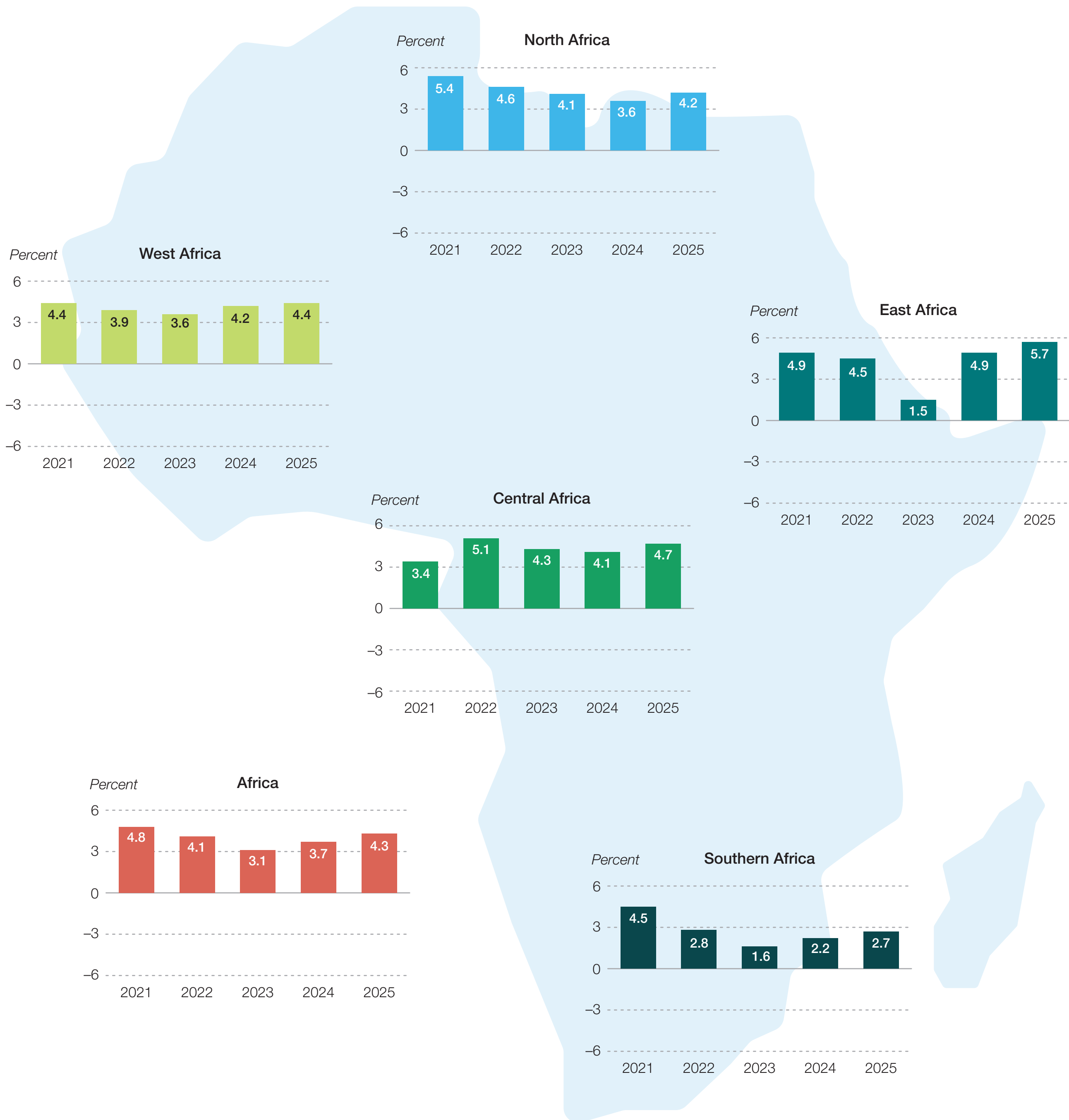
The growth outlook in 2024–25 is heterogenous across Africa's regions and economic groupings, reflecting differences in the structure of economies, commodity dependence, and the domestic policy responses to mitigate impact of these shocks.

- **East Africa** is expected to bounce back as Africa's fastest growing region, with real GDP growth rising from an estimated 1.5 percent in 2023 to 4.9 percent in 2024 and 5.7 percent in 2025. The downward revision of 0.2 percentage points for 2024 compared with the forecast in the January 2024 MEO is due to larger-than-expected contractions in Sudan and South Sudan due to the ongoing conflict in the former.
- Growth in **Central Africa** is expected to moderate from 4.3 percent in 2023 to 4.1 percent in 2024 before improving strongly to 4.7 percent in 2025. The upgraded forecast of 0.6 percentage point for 2024 over the January 2024 projections is attributable to expectations of stronger growth in Chad and the Democratic Republic of Congo due to expectations of favourable metal prices.
- Growth is projected to pick up in **West Africa**, rising from an estimated 3.6 percent in 2023 to 4.2 percent in 2024 and consolidating at 4.4 percent the following year. This is an upgrade of 0.3 percentage points for 2024 over the January MEO 2024 projections, reflecting stronger growth upgrades in the region's large economies—Côte d'Ivoire, Ghana, Nigeria, and Senegal.
- In **North Africa**, growth is projected to decline from an estimated 4.1 percent in 2023 to 3.6 percent in 2024 and 4.2 percent in 2025, with a downward revision of 0.3 percentage point for 2024 from the January 2024 MEO. Except for Libya and Mauritania, growth has been revised downward for all other countries in the region.
- Growth in **Southern Africa** is projected to pick up slightly from an estimated 1.6 percent in 2023 to 2.2 percent in 2024 and firm up to 2.7 percent in 2025. The growth rates for 2024 and 2025 show an upgrade of 0.1 percentage point over the January 2024 projections, mainly reflecting a 0.7 percentage point increase in South Africa's projected growth. Due to South Africa's larger weight in the region, the upgraded growth forecast offset the combined effect of downward revisions in Angola, Botswana, Lesotho, Zambia, and Zimbabwe.
- Average growth in **non-resource–intensive economies** is projected to improve from an estimated 4.8 percent in 2023 to 5.3 percent in 2024 and 5.6 percent in 2025. This growth is underpinned by increased public investments in major growth sectors and substantial capital outlays on critical public infrastructure including electricity, transport, and logistics.
- Growth for **tourism-dependent economies** is projected to decelerate from 5.8 percent in 2023 to 4.7 percent in 2024 and further to 3.9 percent in 2025. This deceleration reflects the stabilization of tourism numbers to trend levels, with projected slower economic growth in Mauritius and Seychelles as the key driver for the group.
- Average growth in **oil-exporting countries** is expected to decline from an estimated 3.7 percent in 2023 to 3.5 percent in 2024 but could pick up the pace to 4 percent in 2025. The projected slowdown in 2024 reflects lower oil production targets set by the Organization of the Petroleum Exporting Countries (OPEC), lower growth projections in South Sudan following the vandalizing of an oil pipeline due to the ongoing conflict, and uncertainty over new mechanisms for Angola's oil exports following its exit from OPEC.
- Growth in **other (non-oil) resource-intensive economies** on the continent is estimated to improve strongly from 0.3 percent in 2023 to 2.7 percent in 2024 and consolidate at 3.3 percent projected for 2025. The sharp increase in growth will be driven largely by rebound in China's demand for metals and minerals linked to expansions in smart grids and construction.

The projected rebound in Africa's average growth will be led mainly by East Africa (up 3.4 percentage points)

The dynamics of Africa's macroeconomic fundamentals have remained mixed amid considerable challenges. Figure 2 presents the detailed outlook for countries' key macroeconomic indicators for 2024–25 on average, while Annex 1.1B provides details for 2024 and 2025.

FIGURE 1 Growth performance and outlook by region, 2021–25 (percent)



Source: African Development Bank statistics.

Average consumer price inflation in Africa is estimated to have increased by 3 percentage points to 17 percent in 2023, from 14 percent in 2022. The increase reflects a combination of higher local food prices induced by drought-related domestic supply shortages, liquidity overhangs from pandemic-related fiscal and monetary policy stimulus undertaken in 2020–21, and the pass-through effects of currency depreciation against a strong US dollar propelled

FIGURE 2 Outlook for key macroeconomic indicators, average, 2024–25

Country	Real GDP growth	Inflation	Current account balance	Fiscal balance
Algeria	3.8	6.2	0.4	–11.5
Angola	3.5	15.3	4.3	–1.3
Benin	6.3	2.3	–4.3	–3.5
Botswana	4.2	4.3	1.2	–1.0
Burkina Faso	4.2	2.2	–6.0	–5.7
Burundi	5.2	17.3	–6.5	–4.1
Cabo Verde	4.8	2.1	–6.5	–2.7
Cameroon	4.2	5.3	–1.8	–0.3
Central African Rep.	2.7	3.7	–9.5	–2.4
Chad	5.2	3.3	1.1	2.5
Comoros	4.3	2.5	–5.6	–3.2
Congo Dem. Rep.	5.7	13.5	–4.1	–1.6
Congo, Rep.	4.3	3.3	2.8	3.3
Côte d'Ivoire	7.0	3.2	–6.5	–3.6
Djibouti	6.4	1.9	19.8	0.1
Egypt	3.9	29.2	–3.1	–6.8
Equatorial Guinea	–1.2	3.6	–4.3	–0.5
Eritrea	3.0	4.0	12.7	0.7
eSwatini	4.2	5.0	3.4	–1.9
Ethiopia	6.7	18.4	–1.6	–2.6
Gabon	2.8	2.4	–0.2	–0.9
Gambia, The	6.0	13.5	–6.6	–2.8
Ghana	3.8	16.0	–2.1	–4.6
Guinea	4.8	10.6	–10.0	–2.5
Guinea-Bissau	5.0	4.3	–4.3	–3.4
Kenya	5.5	5.8	–4.6	–5.4

Country	Real GDP growth	Inflation	Current account balance	Fiscal balance
Lesotho	1.9	5.2	–4.8	–1.9
Liberia	5.7	7.0	–24.2	–3.0
Libya	7.0	2.7	23.4	6.5
Madagascar	4.9	7.8	–4.2	–4.4
Malawi	3.5	20.8	–8.9	–8.2
Mali	5.0	1.9	–6.2	–3.8
Mauritania	4.8	4.5	–8.0	–1.8
Mauritius	4.3	5.4	–4.3	–4.4
Morocco	3.6	3.9	–0.7	–4.3
Mozambique	5.2	4.8	–40.6	–2.4
Namibia	2.9	4.5	–9.0	–4.1
Niger	9.1	3.3	–8.3	–3.7
Nigeria	3.3	26.2	3.3	–4.2
Rwanda	6.7	6.1	–10.8	–6.1
São Tomé & Príncipe	1.6	11.6	–10.2	–3.1
Senegal	9.8	4.1	–9.6	–3.6
Seychelles	4.1	1.8	–7.2	–1.4
Sierra Leone	5.0	26.9	–3.2	–2.6
Somalia	3.8	4.6	–10.3	–0.9
South Africa	1.5	4.6	–3.0	–4.3
South Sudan	–2.0	17.8	–5.5	–4.0
Sudan	–2.7	121.7	–5.9	–4.5
Tanzania	5.8	3.4	–4.1	–2.5
Togo	5.6	2.4	–3.1	–5.3
Tunisia	2.5	6.9	–3.7	–6.2
Uganda	6.5	4.7	–8.5	–3.9
Zambia	4.5	8.2	5.8	–4.3
Zimbabwe	2.8	21.2	0.5	–1.6

Note: GDP growth and inflation are in percentage, while current account balance and fiscal balance are in percent of GDP. This heatmap plots the countries' outlook for selected key macroeconomic indicators. Countries are ranked in three criteria: "green" for good performers, "yellow" for fair performers and "red" for weak performers. Real GDP growth above 6 percent is colored green, 4–6 percent is colored yellow and below 4 percent is colored red. Inflation rates below 5 percent is colored green, 5–9.9 percent is colored yellow and double digit is colored red. Current account surplus is colored green, deficits below 5 percent is colored yellow and above 5 percent is colored red. Fiscal deficits below 3 percent is colored green, 3–5 percent is colored yellow and above 5 percent is colored red.
Source: AfDB staff calculations.

by high interest rates in the United States. Across regions, the inflation picture is mixed. **East Africa** has the highest inflation at 26.5 percent in 2023, with Sudan leading the way at 245.3 percent. **West Africa** has the second highest at 20.3 percent, with Sierra Leone and Ghana topping the list. **North Africa** experienced the highest inflation increase of 8.1 percentage points to an average 16.3 percent in 2023, driven by rising prices in Egypt and geopolitical tensions. **Central Africa's** inflation also rose 3.5 percentage points to 10.3 percent in 2023, with the Democratic Republic

of Congo experiencing a 10.6 percentage point rise. Only in **Southern Africa** has the inflation rate fallen, from 10.8 percent in 2022, reaching single digit of 8.6 percent in 2023, driven by declines in Angola, Botswana, South Africa, and Zimbabwe.

Higher inflation across Africa has eroded any socioeconomic gains made before the COVID-19 outbreak. The outlook for Africa's inflation remains unfavorable, with the average rate expected to rise from an estimated 17 percent in 2023 to 17.8 percent in 2024 before cooling down to 12.3 percent in 2025. The projected increase in 2024 reflects sustained high food prices and widening imbalances between supply and demand in domestic and global food markets, as well as high energy prices, mainly affecting net oil countries. The structural nature of the current wave of high inflation has undermined the effectiveness of conventional monetary policy tools such as increases in policy rates and require a different approach to stem the tide.

The depreciation of African currencies persisted in 2023, albeit to a lesser extent than in 2022. Under pressure from sustained high global interest rates and continued global uncertainty fueled by geopolitical and trade tensions, most African currencies depreciated further against the stronger US dollar in 2023. For instance, Nigeria's naira depreciated by 95.6 percent in 2023. This depreciation largely reflected market correction following reforms undertaken in the foreign exchange market in June 2023, which led to the floating of the naira. The second biggest losses were for the Angolan kwanza (32.8 percent) and the Zambian kwacha (15.4 percent). Both countries have experienced limited foreign currency liquidity on the market, and in Angola the situation was exacerbated by lower oil prices and the end of the moratorium by Chinese creditors. The depreciation in Zambia was further compounded by weak market sentiment due to protracted debt restructuring. However, due to their total or partial peg to the euro, which regained some strength against the dollar in 2023, certain currencies such as the CFA franc, the Moroccan dirham, the Cabo Verdean escudo, the São Tomé E Príncipe dobra, and the Comorian franc pared their earlier losses and gained slightly against the US dollar in 2023.

Fiscal deficits are expected to slightly widen before reaching prepandemic levels, but uncertainties remain high. Four years since the outbreak of COVID-19, fiscal positions are slowly returning to the prepandmic levels as countries rein in spending and institute measures to mobilize domestic revenues. Updated estimates show that the average fiscal deficit on the continent increased slightly from 4.9 percent of GDP in 2022 to 5 percent in 2023, mainly due to marginal widening of the primary balance from 1.6 percent of GDP in 2022 to 2.1 percent of GDP in 2023. The deterioration in the primary deficit is mainly due to measures implemented to mitigate the effects of rising food prices amid falling energy sector revenues. The fiscal deficit across the continent is projected to narrow in 2024 to 4.7 percent of GDP and further to 4.3 percent of GDP in 2025 after the slight increase to 5 percent of GDP in 2023.

Four years since the outbreak of COVID-19, fiscal positions are slowly returning to the prepandmic levels as countries rein in spending and institute measures to mobilize domestic revenues

The average current account deficit is projected to widen from an estimated 1.7 percent of GDP in 2023 to 2 percent of GDP in 2024 and 2025. The projected widening reflects expectations that oil prices will remain relatively elevated and stabilize at around $77 per barrel, with net oil-importing economies severely affected. However, these projections—respective improvements of 0.2 percentage points and 0.1 percentage point over the January 2024 forecasts for 2024 and 2025—reflect the rebound in global trade and the boost to China's commodity imports as its construction sector stabilizes and resilience in domestic economy is aided by recovering investments and firm consumer spending.

External financial flows to Africa have suffered from tightening global financial conditions and high uncertainty. External financial flows to Africa—foreign direct investment (FDI), official development assistance (ODA), portfolio investment and remittances—fell by 19.4 percent in 2022 to $174.9 billion, or 5.9 percent of Africa's GDP, from $217.1 billion in 2021. This decline, reversing a strong immediate postpandemic recovery was broad-based. Foreign direct investment fell by about 44 percent, and the continent recorded net portfolio outflows of 17 percent and a reduction in ODA inflows of about 6 percent.

Only remittances recorded a marginal increase of 0.2 percent.

Public debt is declining but still above pre-pandemic levels, highlighting the severity of the debt burden on the continent. Africa's median public debt ratio, which rose from 54.5 percent of GDP in 2019 to 64 percent in 2020, stabilized at around 63.5 percent from 2021–23 and is expected to decline further to around 60 percent from 2024—halting a decade long upward trend. While debt levels have stabilized across the continent with relative improvements in fiscal positions, the ratio remains high and above prepandemic levels in many countries where public finances have been volatile due to the unprecedented shocks. The debt overhang reflects the burden of Africa's indebtedness in the face of government actions to support pandemic-stricken economies and to cushion households against effects of the high food and energy costs and the higher cost of borrowing induced by effects of Russia's invasion of Ukraine. In addition, external debt service payments as a proportion of government revenues have risen above the prepandemic level in many countries. The median debt service on external debt for 49 countries with available data rose from 6.8 percent of government revenue over 2015–19 to 10.6 percent over 2020–22. Resources channeled to debt service have eroded fiscal space, further constraining governments' capacity to invest in growth-promoting sectors and human capital development—education and health, two areas where average public expenditure on the continent is below that for comparator regions.

Africa's positive economic outlook comes with cautious optimism given the considerable global uncertainty and geopolitical tensions

Africa's positive economic outlook comes, however, with cautious optimism given the considerable global uncertainty and geopolitical tensions.

Main downside risks:

- Persistent inflationary pressures in many African countries could put further pressure on African economies by further lowering real wages and keeping interest rates high for longer. This has implications for private sector activity in countries with higher domestic borrowing costs.
- The protracted gridlock in global trade and investment and attendant effects stoked by rising geopolitical tensions and polarization have upended Africa's growth, and further escalation could jeopardize the continent's economic recovery.
- Higher commodity prices could ignite a new wave of inflation, upend the decline in poverty, and delay the process of monetary policy easing to spur growth on the continent, which in turn could jeopardize the positive economic outlook.
- Increased regional conflicts and political instability in some countries have imposed untold human suffering and large social and economic costs. Left unresolved, these conflicts will exacerbate the already dire humanitarian and socioeconomic situations, with long-term consequences for economic and macroeconomic stability in these economies.
- Climate shocks constitute yet another important downside risk to growth recovery in Africa. Indeed, climate change poses grave threats to countries across Africa—but especially in transition states in the Horn of Africa and across the Sahel region.

Main tailwinds:

- If the positive trend in fiscal consolidation and debt structuring gains further traction and global market conditions improve, African countries could see sovereign interest rates decline, stimulating economic growth as their risk premia fall in tandem.
- Continued structural transformation and renewed capital accumulation could strengthen growth prospects. A virtuous cycle of between- and within-sector productivity growth could lift real wages, opening space for savings mobilization needed to fund long-term capital accumulation of both public and private sectors.
- The return to lower policy rate environment in advanced economies and some emerging markets could lift economic growth. A wave of rate cuts would revive credit growth in both regions, boost consumer sentiment, alleviate pressure on public debt servicing, and reinforce global growth. Africa would directly benefit from rebounding global growth as the two regions combined represent 40 percent of the

world's GDP, 55 percent of the FDI stock in Africa, and about two-thirds of ODA to Africa.

A mix of policies is needed in the short, medium, and long terms to address Africa's macroeconomic challenges and put economies back on the path of sustained, higher growth.

In the short term

- To achieve faster disinflation and anchor inflation expectations at minimal cost to the economy amidst weakening domestic currencies requires tailored monetary policy adjustments. In particular, the monetary policy stance can be more accommodating in economies where core inflation is moderate and headline inflation is driven mostly by temporary supply shocks.
- Addressing exchange rate pressures should be a key short-term policy priority. In countries with floating exchange rates, currencies should therefore be allowed to adjust as much as possible, since trying to resist movements based on fundamentals could have adverse secondary consequences on the economy. In countries with pegged exchange rates, monetary policy must be aligned with that of the anchor country to maintain external stability and avoid further losses in foreign exchange reserves as they intervene to preserve the exchange rate parity.
- Promoting local production and diversifying import sources are key to addressing rising food prices. Supporting African smallholder farmers can trigger an agricultural revolution to feed Africa, especially in urban areas. African countries need to provide farmers with broad access to affordable finance, improved food production technologies (especially certified seeds adapted to extreme climatic conditions), and large-scale systematic extension and mechanization services to increase food production and thus stabilize food prices in the short to medium term.
- Implementing governance reforms and strengthening debt management capacity is key to reducing the burden of public debt—as is the efficient use of borrowed resources. Investing in growth-creating sectors and infrastructure is crucial to unlock the economic potential of African economies.

In the medium to long term

- With elevated public debt choking many countries, scaling up domestic resource mobilization should be a top policy priority for African countries to accelerate structural transformation. Including improving debt management and fighting illicit financial flows, a multidimensional approach is needed to improve the collection and retention of resources generated domestically.
- Reforming the current global financial architecture can accelerate debt restructuring. Key proposals include forming an expanded creditor committee with private lenders to smoothen coordination challenges and establishing a Comparability of Treatment formula to minimize technical disputes.
- Creating an enabling environment is crucial for attracting and scaling up external financial flows as complementary sources of development financing to accelerate Africa's economic transformation. Although domestic resources will remain an integral and larger part of financing Africa's economic transformation, external financial flows will be essential as complementary sources of funding development needs.
- Accelerating structural reforms to build resilient economies. The prolonged growth volatility that Africa has experienced in the aftermath of the COVID-19 pandemic, coupled with the decline in income growth, clearly calls for prioritizing structural reforms to strengthen the continent's resilience to shocks.

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CHAPTER 2 TAKING STOCK OF AFRICA'S ECONOMIC TRANSFORMATION PROGRESS

African economies have exhibited remarkable resilience amid multiple shocks, but their structural transformation has been slow and uneven. Real aggregate GDP is growing, but so is the continent's population. Thus, while real

aggregate GDP grew on average at 3.8 percent annually over the four decades preceding the COVID-19 period, surpassed only by developing Asia, Africa's real GDP per capita has been consistently growing at one of the slowest rates in the world since the 1980s. Moreover, the structure of most African economies has not changed much since the 1990s, such that traditional sectors have continued to drive Africa's growth and employment.

In effect, Africa has been transforming without a marked level of industrialization but through a low-skill services sector, mainly because of low manufacturing activity. The expansion in services employment, which contributed to growth-enhancing structural change, has been matched by a sharp decline in the share of employment in agriculture. This transformation has occurred through the reallocation of economic activities from agriculture to other relatively low-productivity sectors, notably personal and retail services, rather than to more productivity-enhancing manufacturing. But this type of sectoral reallocation has a limited impact on structural transformation. So, despite recent momentum in overall services growth, only 30.1 percent of Africa's services exports in 2022 (20.7 percent in 2005) were in high-skill services, such as insurance, pensions, finance, and information and communication technology (ICT).

Africa has been transforming without a marked level of industrialization but through a low-skill services sector, mainly because of low manufacturing activity

Africa's structural transformation process has also been slow and uneven. Many African countries are still at the early stage of structural transformation, characterized by a widening gap between labor productivity in the agricultural and non-agricultural sectors. The agriculture sector, which employs 42 percent of Africa's workforce, is still 60 percent less productive than the economy-wide productivity level. Conversely, mining, utilities, and financial services, which together employ only about 3 percent of Africa's total workforce, are over 10 times more productive than the average for the economy. Most African workers are therefore stuck in low-productivity sectors and cannot earn enough to escape poverty.

Based on their sectoral employment shares, close to half (25) of African countries can be considered as structurally underdeveloped. In these countries, the agricultural sector absorbed at the median 61.9 percent of total employment in 2021, more than 21 percentage points higher than the median continental value (40.6 percent). In these countries, the median agricultural labor productivity is only 17.5 percent that of nonagricultural sectors, with a median share of agriculture in GDP at about 23.2 percent. Only 12 African countries can be categorized as structurally developed, with industrial workers outnumbering those employed in the agriculture sector.

In addition to manufacturing, services can be an engine of Africa's productivity growth if well harnessed. African countries can leverage the main features of services—smaller size of firms relative to manufacturing ones, high productivity potential regardless of firm size, and smaller role of physical capital relative to manufacturing—to develop a services-led growth model. This model should include the promotion of both nontradable services, which are generally more labor intensive and less capital intensive—and tradable services such as tourism, business, and finance, and ICTs, which could bring in foreign exchange revenues needed to finance transformation. Services already are becoming increasingly important in Africa's international trade: the value of its services trade rose more than fourfold between 2000 and 2022, from $66.4 billion to $269.4 billion.

Institutions matter for structural transformation and countries with well-defined and functioning institutions that invest in productivity-enhancing soft and hard infrastructure have transformed their economies. By being able to reduce transaction costs and information opacity, politically stable and less corrupt countries managed to crowd-in private investments, boost productivity, stimulate growth, and increase real incomes. Countries with good quality public services coupled with policy consistency are also most likely to transform their economies because of the citizenry's buy-in to structural reforms. Consequently, these countries performed relatively well in transforming their economies with more resources efficiently allocated to critical sectors

(such as education, energy, transport infrastructure, and ICTs) that have large potential to foster structural transformation. Quality infrastructure—soft and hard—reinforces the transformational benefits of consistent policies and of robust institutions.

Africa will need to close an annual financing gap of about $402 billion by 2030 to fast-track its structural transformation and catch up with high-performing developing countries from other regions. This financing gap presupposes that the continent prioritizes investment needs in education, energy, productivity, and infrastructure, key Sustainable Development Goals (SDGs) more directly relevant in improving structural transformation. Mobilizing additional resources domestically—including by leveraging investment in the continent's huge endowments in natural resources, especially in critical and rare earth minerals—and tax collection coupled with more efficient public spending could help bridge a significant part of this financing gap.

Yet, domestic resources alone will be insufficient in many African countries to fill their financing gap for structural transformation by 2030. Many African countries have limited fiscal space and low tax capacity. And the private sector remains very risk averse and its participation relatively small, especially towards investment in critical sectors for structural transformation. Thus, given the short period before the SDGs deadline, a majority of countries may fail to mobilize domestically the enormous resources required to close their financing gap by 2030. For those countries, scattered across the continent's five regions, a more reasonable target and combination of financing options would be to allow for a gradual but steady structural transformation process over a longer period to ensure the mobilization of both domestic and external resources. Regardless of the targeted deadline, however, the increased participation of the private sector will be crucial to supplement public resources.

Accelerating the pace of Africa's structural transformation will thus require a multipronged and gradual approach that allows countries to mobilize their estimated colossal resources.

Policy recommendations

African countries need to establish, prioritize, and institutionalize endogenous development plans and policies tailored to areas of comparative advantage and implement them consistently, while avoiding policy reversals that tend to disrupt progress. To address their development challenges, there is a need for African countries not to outsource their development plans but to take full ownership by harnessing local knowledge of their economies and sociocultural conditions, as well as other unique areas of comparative advantage, within national, regional, and global contexts. The rate and pace of structural transformation of African countries will largely depend on the quality, relevance, and effectiveness of policies and the continued and institutionalized implementation of development plans and strategies. Therefore, there should be unreserved political commitment to rally citizens towards a nationally agreed development plan and vision, avoiding the recurrent and electoral cycle–induced policy reversals that characterize most African countries. Continuous and systematic implementation of public policies, in particular linking fiscal policies to structural transformation objectives, will create certainty and stability to attract domestic and foreign capital into areas supportive of the structural transformation agenda.

They need to urgently scale up investments to build requisite human capital suited to local realities, circumstances and development priorities, including adequate skills training to prepare the workforce for the future. Countries need to scale up investments in education at all levels, building and improving the quality and relevance of the technical and soft skills required to drive their development agenda, tailored to local contexts and circumstances. This will require prioritizing systems of learning and curricula that enhance productivity growth in sectors of comparative and competitive advantages. For example, countries need to prioritize scaling up skills in science, technology, engineering, and mathematics (STEM), and those rich in natural resources—minerals and vast arable land—will need to train enough geologists, agronomists,

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and other related experts to allow them to leverage their resources to drive structural transformation. Furthermore, the domestication of education and skills learning and training systems, including the language of teaching, will be crucial to improve the quality and relevance of the education curriculum and leverage the ongoing fourth industrial revolution, technology, and ICT boom. African countries should thus establish innovation centers of excellence—in collaboration with host universities and technical and vocational training centers. They should develop demand-driven skills training programs to better align education and training systems to labor markets and thus reduce widespread skills mismatch on the continent. And they should strengthen public-private partnerships to make skills acquisition of graduates in tune with labor market needs, which holds promise in supporting Africa's structural transformation.

Countries need to scale up domestic resource mobilization and prioritize prudence in public finance management

Countries need to scale up domestic resource mobilization (DRM) and prioritize prudence in public finance management (PFM). African countries must own their development agenda and have the primary responsibility for financing their structural transformation. To this end, mobilizing more resources, in particular domestically, should be a key priority of each country's development strategy. However, domestic resource mobilization has so far not kept pace with Africa's enormous development financing needs. Revenues collected are often used inefficiently or siphoned off through corruption and other leakages. To accelerate DRM, countries need to consider the following aspects.

First, they need to mobilize more *tax revenues.* The Bank estimates that the median African tax-to-GDP ratio should increase from its current level of about 14.0 percent to a minimum of 27.2 percent to be able to close, by 2030, the estimated annual financing gap of $402.2 billion for structural transformation. To scale up DRM for structural transformation, countries need to invest in systems that improve efficiency in tax administration and public financial management. This will require, for instance, enhancing the digitalization of tax collection and administration systems.

Second, countries could also aim at increasing *nontax revenues* such as property income, royalties, fines, penalties, forfeits, and business permits , which are often neglected or difficult to administer due to complex processes and the widespread informality of economies. PFM systems should incorporate nontax revenue planning into the budgetary process, ensuring that the revenues collected are not only efficiently allocated but also utilized. Strong political commitment will be needed to develop expertise in core departments and fiscal units in charge of collecting such revenues.

Third, African countries will further need to improve *tax compliance* by enhancing the social contract with their citizens. Countries should seek to promote voluntary tax compliance to increase DRM. Enforcement capacities, which are often weak in many countries, and hard-to-tax sectors, such as informal companies, predominate. More importantly, governments should visibly use tax revenues for public welfare by providing quality public goods and services to enhance trust in the utilization of public resources and significantly reduce implicit taxation.

Fourth, enhancing the *formalization of the informal economy* could also boost DRM. The size of the informal sector in Africa significantly limits the tax base and revenue collection. For instance, informal employment in Africa accounts for 85.8 percent of total employment, the largest percentage in the world. To promote formalization, policymakers could take a broader strategic approach that seeks to register informal firms not only to tax them but also to protect their rights, entitlements, and assets as entrepreneurs. The attractiveness of the formal sector can be enhanced, for example, by providing greater access to resources and information, pension schemes, social insurance, or other incentives—conditioned on registration—through intermediaries such as business associations, nongovernmental organizations, or local community groups.

Finally, in addition to improving domestic revenue mobilization, countries need to build capacity in the *prudent and efficient management of public finance* throughout the public financial

management cycle, from DRM to strengthening supreme audit and public accountability systems.

Countries need to build and deepen national and regional markets for goods, services, capital, and finance. Developing domestic and regional financial and capital markets will reduce countries' dependence on external markets and minimize vulnerability to global shocks. Developing robust financial markets will require improving property rights regimes, diversifying the supply of financial products and services in the banking sector, and regionalizing financial markets through legal harmonization and cross-listing of assets at the regional level. Capital market development will require creating an enabling policy and regulatory environment to mobilize at scale and channel resources held by pension funds and insurance and collective investment schemes for financing structural transformation. In that regard, the AfCFTA can be a game changer if fully implemented and domesticated by all African countries. It will create a single continental market for goods and services, with free movement of capital, talent, and skills. Implementing policies that enable free mobility of labor and services—such as the open visa entry for Africans being championed by Kenya and Rwanda—would facilitate the operation of the AfCFTA.

The creation of preferred procurement solutions, through the AfCFTA, will ensure that countries leverage the continent's abundant natural resources, add value to them, and expand productive capacity and services growth. The launch in 2022 of the Pan-African Payment and Settlement System (PASS) by the African Union and the African Export-Import Bank to complement trading under the AfCFTA is therefore a move in the right direction, as it will help address currency risks between trading partners. The PASS simplifies the historical complexities and costs of making payments in local currencies across African borders, providing operational efficiencies that open vast economic opportunities for all stakeholders.

Countries could further proactively pursue and promote a policy of franchising and leveraging the technological know-how of foreign firms, or promote cross-border investment among African countries, to complement local content policies and requirements, especially where capacity—technical and financial—is lacking.

Policy priority should be given to the creation of targeted and streamlined incentives to catalyze private capital flows to support countries' endogenous development plans in key sectors for structural transformation. Incentivizing the private sector could support countries' structural transformation efforts. By making the conditions right for the private sector, creating a conducive business environment, and providing carefully crafted and targeted fiscal incentives, African countries could stimulate the private sector—domestic and external—to invest more in critical sectors. The use of innovative financing instruments such as blended finance could increase private participation in infrastructure for green growth by derricking the sector. The development of sustainable finance instruments (including green bonds and loans and sustainability bonds and loans), as well as carbon markets, could boost private sector investment in green sectors.

In addition, remittances—the largest and most stable source of external funding in Africa—are an important source of external financing. Their function in promoting investment for Africa's transformation can be enhanced through, for instance, diaspora bonds and diaspora "remittance securitization."

Policy priority should be given to the creation of targeted and streamlined incentives to catalyze private capital flows to support countries' endogenous development plans in key sectors for structural transformation

Countries need to invest in natural capital accounting beneficiation and conservation and include it in the system of national accounts to expand the size of the economy. Much of Africa's natural capital resources remain largely unexploited, and the values or services they provide are typically poorly measured—and sometimes completely unmeasured—as part of African countries' wealth. As a result, the value of African economies continues to be underestimated amidst the abundance of green wealth. Investing in, measuring, and valuing natural capital and integrating them into systems of national account will help estimate the true value of Africa's green wealth,[1] expand its GDP, and improve conservation. The Bank, in collaboration with

many African countries, has been advocating for proper valuation of the green wealth of the continent and the incorporation of services they offer in GDP. Indeed, Africa's natural resources provide essential environmental services such as carbon sequestration, pollution control, and retention of soil fertility, which sustain human existence. The inclusion of such critical environmental services in the valuation of country GDP—the green GDP—could encourage green transition in countries.

By investing in youth entrepreneurship development programs, African countries can harness the continent's demographic dividend. Young people are Africa's greatest asset, which, if well harnessed, could speed up structural transformation. By 2030, one in four young people in the world will be African, and, if well nurtured, this young population can drive the continent's future economic growth and its structural transformation. However, reaping the benefits of the demographic dividend from African youth would significantly depend on investment in human capital development and on creating economic and job opportunities for young people. Of people ages 15–35 not in school, one-third are unemployed and discouraged, another third are vulnerably employed, and only one in six is in wage employment. The Bank estimates that 17 million jobs need to be created every month between now and 2063 to keep the participation and unemployment rates of African youth constant. Supporting young people to create their own businesses holds promise in leveraging the continent's demographic dividend and addressing widespread youth unemployment and underemployment. That is why, under its Jobs for Youth in Africa Strategy and its Youth Entrepreneurship and Innovation Multi-Donor Trust Fund, the Bank is supporting African countries in establishing Youth Entrepreneurship Investment Banks as a model to address market failures and fragmentation in the provision of tailored financing and non-financing services to young entrepreneurs in Africa

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It is also critical that countries launch ambitious national infrastructure programs for broad-based policy implementation to accelerate structural transformation. While in the long term all types of infrastructure are important, in the short term countries need to prioritize which infrastructure to build depending on their geographic situation and level of development and concentrate limited resources on creating "islands of excellence" with dense and sector-specific infrastructure to boost productive capacities and competitiveness. Priority could be given to the energy sector, which is most likely to achieve a high social rate of return, and to the transport sector, which is especially important for landlocked countries in creating linkages to coastal countries with seaports. Given the significant transformational impact of digitalization, investing in the ICT sector will close the existing digital divide between African countries and the rest of the world. An ambitious national digitalization program in Africa will further increase economy-wide competitiveness, enhance efficiency and transparency of policy implementation, improve DRM, and curb illicit capital flows, as well as address widespread market inefficiencies, facilitate proper measurement and valuation of natural capital, and support the competitiveness of youth-led businesses.

By taking proactive actions to harness the governance of macroeconomic policies and the business environment, countries will be able to improve risk profiling and perceptions and harness the innovative global capital and financial instruments needed to build capacity in project preparation and implementation. The lack of investment-ready project pipelines is often cited as among the most important impediments not only to unlocking private finance but also to leveraging existing innovative finance instruments. Large infrastructure projects have extensive development and gestation periods and often entail multifaceted feasibility studies and expert transaction advice. Many African governments and local private sector players lack the capabilities, as well as the resources, to design and implement infrastructure projects with commercial potential. In addition, short political cycles may constrain private sector financing commitments to long-term infrastructure projects. Many investors therefore lack bankable project pipelines, as only a few projects meet financiers' risk return expectations, and so fail to reach financial

closure. Building capacity in project preparation and implementation is therefore crucial. Building such capacity would require, for instance, that private financiers not only provide resources but also participate in building bankable projects. The participation of financiers across the entire project cycle from concept to bankability and financing (that is, from the development of strong feasibility studies to the analysis of market prospects and the establishment of viable business plans) will ensure that they have a stake in and ownership of proposed projects, which will increase the probability of the project receiving financing and succeeding when it becomes operational. Moreover, enhancing the governance of the macroeconomic and investment climate will be key to improving the risk profiles of African countries and changing external perceptions about African markets.

CHAPTER 3 FINANCING STRUCTURAL TRANSFORMATION IN AFRICA: REFORMING THE GLOBAL FINANCIAL ARCHITECTURE

Over the past decades, multilateral financial institutions have collectively and individually been vital for financing development. They have supported countries during major global economic challenges, such as the Latin American Debt Crisis of the early 1980s, the African Debt Crisis of the 1980s and 1990s, the Asian Financial Crisis of the late 1990s, the Global Financial Crisis of 2007–09, and the recent COVID-19 pandemic in 2020–21, to name a few. They have also supported economic recovery efforts in Africa and other developing regions by spearheading global response actions in times of crisis. Recent examples include the Debt Service Suspension Initiative, the G20's Common Framework for debt resolution, and the IMF's general allocation of the equivalent of $650 billion in Special Drawing Rights (SDRs) to ease the fiscal and balance-of-payment challenges that several developing countries faced during the pandemic.

While the global financial architecture (GFA) has served a great deal over past decades, it has also failed to deliver resources at scale to meet Africa's financing need for structural transformation. Indeed, the current global financial architecture and system of multilateralism is not delivering enough resources in a timely manner and scale to meet national and global development goals in Africa, including the SDGs and the African Union's Agenda 2063. Neither the public nor private sector as currently constituted has been able to channel enough resources to address the development financing needs of Africa. The current system also makes access to development finance very expensive and cumbersome for African countries. The high cost of sovereign borrowing by these countries relative to their peers in other regions of the world often leads to debt vulnerabilities. The structure and scale of the current global climate finance architecture mirror the current GFA, making it difficult for the most vulnerable African countries to harness climate resilience opportunities. This climate finance architecture is complicated and loosely defined, misaligned with climate vulnerabilities and climate risks, and has been unable to channel enough resources to implement African countries' Nationally Determined Contributions.

Another limitation of the global financial architecture is reflected in Africa's sovereigns facing higher costs of financing in international capital markets than advanced and emerging economies, given perceptions of risk by international investors originating from subjective credit ratings. In 2021, African sovereign eurobonds were issued with yields above 5 percent and, in 40 percent of the cases, yields exceeded 8 percent. In contrast, the average sovereign bond yield for advanced economies was 1.1 percent, and for emerging market economies, 4.9 percent. It has been estimated that African countries are paying 500 percent more in interest costs when borrowing in international capital markets than when borrowing from the World Bank or other multilateral development banks such as the African Development Bank.

These weaknesses of the global financial architecture have amplified calls on the necessity for reforms of institutional governance in the

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multilateral institutions to make the instruments of global financial governance more nimble, inclusive, and responsive. To meet the scale and scope of global challenges, global financial institutions need to scale up development financing from billions to trillions of dollars. Achieving the required scale of financing will entail close collaboration between the public and private sectors across all levels—global, regional, and national—as well as the development of innovative financing mechanisms to leverage resources from all sources. The World Bank, IMF, and regional development banks need to work more collaboratively and deploy their risk capital more innovatively to leverage private capital at scale. There is also an urgent need to reform the GFA to make it nimbler and fit for orderly debt restructuring.

Recycling Special Drawing Rights through multilateral development banks (MDBs), implementing the MDB capital adequacy reforms, and reforming credit rating methods could increase financing for Africa's structural transformation and drive the continent to a higher level of economic development

This need for reform is most evident in Africa, where the population still living in extreme poverty is estimated at about 34 percent, debt vulnerabilities are increasing, the benefits of international trade remain below expectations, and the impacts of climate change, to which the continent has not contributed, are costing it 5–15 percent of GDP per capita growth annually. Further, debt resolution in Africa, especially outside Paris Club processes, has been disorderly and protracted, with costly economic consequences.

Given their membership structures, the multilateral development banks, and financial institutions—the World Bank, IMF, AfDB, and other regional development banks—are best placed to lead global and regional efforts to mobilize and allocate resources at scale toward achievement of the SDGs in developing countries and to addressing global commons challenges. But their governance structures (shareholding models and weighted voting systems) and the resources available to them often affect the speed and scale of financial flows to countries that need funding the most, as was evident during COVID-19 responses. Access to emergency financing was largely skewed toward developed economies that needed it least. For example, of the $650 billion in SDRs issued by the IMF in 2021 to help countries navigate the adverse effects of the pandemic, Africa received $33 billion, or 4.5 percent, of the total available envelope. In addition, of the $17 trillion (or 19 percent of global GDP) rolled out as fiscal measures to fight the pandemic in 2020–21, Africa's share was only $89.5 billion (0.5 percent). And the same trends are observed in the scale and flows of the global climate finance architecture, which is misaligned with, for example, climate vulnerability and voluntary carbon market development.

Measures are needed to strengthen global, regional, and national institutions, as are subsidiarity agreements between global and regional institutions, to increase responsiveness to increasingly complex development challenges in Africa and elsewhere in the developing world. Multilateralism, including development finance institutions, has over the decades transformed into multilayered forms of governance. Profound changes are symbolized by the growing role of regional development banks such as the AfDB, Asian Development Bank, Islamic Development Bank, Latin America Development Bank, and the Inter-American Development Bank. Most countries are members of these regional organizations, with some overlapping memberships. These banks can enhance multilateral efficiency by sharing burdens, building capacity, exchanging information and best practices, and increasing legitimacy through positive policy outcomes.

Implementation of specific reforms regarding recycling SDRs through MDBs, implementing the MDB capital adequacy reforms, and reforming credit rating methods could increase financing for Africa's structural transformation and drive the continent to a higher level of economic development. Rechanneling SDRs through the MDBs could increase financing for Africa by about $46.2 billion a year over the next 10 years if the recommendations of the Bridgetown Initiative —to rechannel $100 billion to the MDBs—is implemented. Reforms of the MDB Capital Adequacy Framework proposed by the G20 could increase financing for Africa by another $5.2 billion a year. In addition, Africa could save up to $44 billion in accumulated debt arrears if the IMF's lending into arrears policy is fully implemented. Africa could

also save up to $74 billion a year in interest payments if the global credit ratings system were fairer and based on fundamentals. Collectively, these initiatives could secure $169.4 billion a year in development financing, or about 42 percent of the estimated annual financing gap of $402.2 billion, to fast-track Africa's structural transformation.

Implementing the following GFA reforms could unlock substantial capital for structural transformation in Africa, but they should not be considered a panacea. The continent needs to also capitalize on domestic resources, including leveraging its abundant natural and human capital, improving the collection of tax and nontax revenues, enhancing public spending efficiency, and fighting illicit financial flows and tax evasion and avoidance, which drain significant resources outside the continent.

Policy recommendations

Given the scale of the resources needed to accelerate structural transformation in Africa and the identified weaknesses of the global financial architecture, the following policy recommendations emerge:

Accelerate the scale of low-cost concessional financing for Africa's development, through:

- Rechannelling the IMF SDRs to MDBs to leverage more resources for structural transformation in Africa.
- Making a healthy replenishment of the concessional windows of the African Development Bank and the World Bank—the ADF and IDA, respectively.
- Reforming global tax governance to make it more transparent and accountable.
- Maximizing MDBs' funding capacity through the implementation of the G20's Capital Adequacy Framework and the Triple Agenda.
- Improving the scale and transparency of bilateral and private creditors.

Reform the global debt architecture to make it more transparent, nimble, accessible, and affordable to developing countries, through:

- Accelerating debt restructuring and updating the current Debt Sustainability Framework (DSF) to reflect the changing structure of economies and the impact of shocks on economies, especially those in Africa.
- Making the IMF–World Bank DSF methodology for assessing debt sustainability publicly available to make it easy to replicate and independently validate the findings.
- MDBs like the AfDB working with international credit rating agencies to strengthen methodologies for assessing sovereign risk and to help reduce the information gap in assessing the credit ratings of Africa's sovereigns.
- Strengthening climate finance accessibility for vulnerable countries that need it most
- Simplifying procedures of the climate finance architecture to make it more accessible to climate-vulnerable countries, who also have limited capacity to fulfill complicated and expensive project preparation procedures.
- Scaling up the Loss and Damage Fund, announced at COP27 in Egypt, to match the fiscal impacts of physical climate effects in countries.
- Discouraging the use of debt instruments as climate finance, which often increases the debt vulnerability of climate-vulnerable countries.

Adopt reforms to improve Africa's access to emergency financing facilities. Three actions could be envisioned:

- Delink access to IMF financing from quotas.
- Introduce state contingent clauses in loan agreements with the IFIs.
- Create an African emergency finance facility/financial stability mechanism or institution.

Make the governance of the GFA more inclusive to enhance Africa's participation and voice:

- Governance of the international financial system provides little voice to countries of the Global South, and particularly to Africa.
- Increasing Africa's voice in global financial institutions will increase its ownership of decisions taken in these organizations, in line with its growing importance on the global stage.
- The addition of the African Union as a full member in the G20 is a welcome initiative, but the African continent remains underrepresented, with South Africa as the only sovereign member of the group.

Global financial architecture reforms could unlock substantial capital for structural transformation in Africa, but they should not be considered a panacea

- Admitting more African countries as sovereign members is recommended.
- For the longer term, African countries need to implement growth-enhancing policies that will increase the size of their economies and amplify the continent's voice in the GFA.

Implement a mandatory requirement for countries to adopt policies for greening the wealth of nations.

- Despite playing a minimal role in global greenhouse gas emissions, Africa's natural assets, like the Congo Basin rainforest, act as critical carbon sinks, contributing significantly to climate change mitigation efforts.
- While these natural assets deliver significant global public goods, such as carbon sequestration, biodiversity conservation, and other ecosystem services, the value of these positive externalities are not fully factored in the measurement of the wealth of countries.
- Properly valuing this natural capital and accounting for it in national systems of accounts can foster sustainable development and green transitions.
- African countries can leverage their green wealth to improve their credit ratings and unlock resources, such as carbon credits, to invest in green transitions and sustainable development goals.

Leverage private sector financing for transformation and climate justice.

- The scale of public resources that can be mobilized through scaling up domestic revenue mobilization and concessional financing from official multilateral and bilateral creditors in the near term will be very modest relative to the scale of resources required to support Africa's structural transformation to meet the SDGs and Agenda 2063, even in the best-case scenarios.
- The private sector offers significant opportunities to fill the resource gap. Measures to incentivize private finance for climate and green growth in Africa are therefore critical for structural transformation in Africa.
- Reforms of the GFA could support asset recycling by transferring the existing assets of debt-distressed countries to the private sector to generate funding for infrastructure and other catalytic projects to accelerate structural transformation.
- Reforms could also embed mechanisms for a portfolio-based approach toward private sector investment, rather than a project-by-project approach, to leverage economies of scale and existing synergies of projects within the same portfolio more than projects managed in silos can achieve.

NOTE

1. As used in this context, *green wealth* is a term denoting the unmeasured value of Africa's natural capital", as espoused by Dr. Adesina, President of the African Development Bank Group. See https://www.afdb.org/en/news-and-events/speeches/keynote-speech-dr-akinwumi-adesina-president-african-development-bank-group-40th-anniversary-guardian-newspapers-lagos-nigeria-28-november-2023-66327.

Amid multiple successive headwinds, Africa's average real GDP growth of 3.1 percent in 2023 was second only to that of developing Asia (4.7 percent). This growth outturn for Africa was, however, lower than the previous year's 4.1 percent due to persistently high inflation, weak global demand for the continent's exports, heightened exchange rate depreciations, impacts of climate change, and pockets of political instability in some countries. The outlook for the medium term appears more favorable, as global, regional, and domestic economic conditions gradually improve. Average real GDP growth is projected at 3.7 percent in 2024 and could strengthen further to reach 4.3 percent in 2025. At the projected growth rate, Africa is poised to retain its position as the second fastest growing region after developing Asia in 2024. Importantly, growth in 17 African economies is projected to exceed 5 percent in 2024 and 10 of them could join the world's top 20 fastest growing economies.

The positive outlook is subject to several caveats, however. Domestic inflationary pressures remain entrenched, and with continued strengthening of the United States dollar, domestic currencies in Africa could stay pressured. High food prices will also complicate deploying traditional monetary policy tools to lower inflation to single digits in a majority of countries. The gridlock in trade and investment, protracted by rising geopolitical tensions, may offset any gains from domestic policy interventions. Regional conflicts and political instability as well as climate shocks should also be closely watched to avoid weakening growth.

Africa's average growth had been sustained at about 4 percent for four decades before the outbreak of COVID-19. However, Africa's real GDP per capita growth has not grown fast enough—and has been consistently one of the lowest in the world since the 1980s—and thus unable to engender rapid socioeconomic transformations and improve people's living conditions. A major factor for this asymmetry is that the structure of most African economies has remained relatively unchanged, with traditional sectors—mainly agriculture, travel, transport, and other low-skilled services—continuing to drive Africa's growth and employment. For instance, the agriculture sector alone accounts for 42 percent of the continent's workforce, yet it is 60 percent less productive than the economywide productivity rate.

Accelerating the pace of Africa's structural transformation is essential to engendering inclusive growth, but it will require substantial resources to invest in critical sectors that add value to the continent's vast natural resources. The Bank estimates that closing an annual financing gap of about $402 billion by 2030 and prioritizing investment in education, energy, productivity, and infrastructure—coupled with effective and consistent implementation of domestic endogenous programs—could unlock the continent's transformation potential. Africa should also capitalize on the emerging high value services sector and leveraging its main features—smaller firms, high productivity, and greater labor intensity—to develop a services-led growth model. That model should include the promotion of tradable and nontradable services such as tourism, business, finance, and ICTs, with significant potential to generate foreign exchange to finance Africa's structural transformation. Domestic efforts to promote manufacturing led-industrialization would ensure that the continent catches up with high-performing developing countries from other regions.

The scale of resources to support Africa's structural transformation cannot be generated solely from domestic sources, even with significant improvement in revenue collection. External resources—both public and private—should be explored to complement domestic resources. However, this calls for radical reforms of the global financial architecture to make it inclusive, nimble, and fit for purpose to mobilize resources at scale and affordable terms. The growing momentum of international calls for reforms present an opportunity for Africa to ensure that the reformed global financial system is responsive to its needs, particularly to finance structural transformation and the SDGs as well as climate action and other global public goods.

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