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**7th African Union Specialized Technical Committee on
Finance, Monetary Affairs, Economic Planning and
Integration**

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Tunis, Tunisia**

Concept Note on the Theme of the 7th STC

“Enhancing Macroeconomic and sectoral policies coordination in Africa: challenges, opportunities and policy priorities for inclusive growth and sustainable development”

I- Context

1. Achieving the peaceful, united, prosperous and powerful Africa We Want, under Agenda 2063, calls for coordinated policies at all levels to fast track the transformative processes leading to inclusive growth and sustainable development. The premises of this ambition are encapsulated in various continental strategies including: the Lagos Plan of Action, the Abuja Treaty of 1991 and Agenda 2063 towards the creation of an African Economic Community through a phased approach comprising amongst other the strengthening of sectoral cooperation and establishment of regional free trade areas (FTAs), a continental customs union, a common market, and a monetary and economic union.
2. Despite these continental, regional and national development plans since the creation of the Organisation of African Unity in 1963, African economies have experienced fluctuations in their GDP growth rates, with some periods that raised hopes of a rising Africa. Periods of optimism have repeatedly been truncated by external shocks which led to a downward trend in GDP growth rates within a few years. Thus, almost 20 of the years 1961 and 2020, the continent experienced a decline in GDP per capita despite GDP growth, suggesting insufficient growth levels, as population growth outpaced GDP growth.
3. Individually, African countries have experienced different growth trajectories, typically alternating phases of growth, stagnation, decline or even catastrophic falls. Countries such as Botswana, Burkina Faso, Cabo Verde, Egypt, Morocco, and Tunisia recorded extended years of growth. Others such as Liberia, Sierra Leone and Mozambique experienced sharp drops in GDP per capita due to conflicts, before rebounding. In some countries, GDP per capita in 2020 was lower than in 1961. Few African countries, including Botswana, Equatorial Guinea, Angola, and Ethiopia, have achieved sustained GDP growth rates above 7% over two decades, but also experienced down turns in some periods. Overall, African countries exhibit patterns of rise and fall, indicating fundamental challenges in the structure of growth.
4. Africa is known to face several challenges that tend to limit its growth sustainability and inclusivity. These include Africa's debt dynamics, impacts of Covid-19, weak institutional and governance capacity, natural resources and commodity dependence, climate change and insecurity, limited investment, trade and regional integration, and weak infrastructure. While these may be considered challenges, they are, indeed, opportunities that could be leveraged to achieve inclusive growth and sustainable development. For instance, the African Continental Free Trade Agreement (AFCFTA) has the potential to create US\$4.3 trillion market, with 1.3 billion people with expectations to pick at US\$ 15 trillion market for a population of 2.7 billion inhabitants in 2060.
5. With this backdrop, one of the puzzling challenge hampering Africa's ability to sustain its socio-economic development is the misalignment of public policies at national, regional and continental levels with the expected goal of achieving and sustaining high economic performance. Ministers, during their deliberations will be invited to critically look at the issue of enhanced coordination between macroeconomic and sectoral policies in Africa. The 7th STC will discuss and highlight the challenges, opportunities and policy priorities for inclusive growth and sustainable development through enhanced coordination between macroeconomic and sectoral policies in Africa. The aim is to place each African

country on a path of 7-10 percent annual GDP growth and to break out of the vicious cycle of poverty and ultimately achieve Agenda 2063.

6. It is in that context that the 7th Specialised Technical Committee on Finance, Monetary Affairs, Economic Planning and Integration will be convened in Tunis, Tunisia, from 3 to 7 July 2024, under the overall theme: “Enhancing Macroeconomic and sectoral policies coordination in Africa: challenges, opportunities and policy priorities for inclusive growth and sustainable development”.

II- Challenges and costs of lack of coordination between Macroeconomic and sectoral policies

Erratic and jobless growth

7. The lack of coordination between macroeconomic and sectoral policies is reducing Africa’s ability to achieve inclusive 7 to 10 percent growth and sustainable development as encapsulated in Agenda 2023. Over the past four decades, Africa has experienced growth episodes that can be classified into three categories: (i) growth accelerations, (ii) growth spikes; and (iii) failed take offs. During 1960-2014, more than 30 countries including Botswana, Burkina Faso, Cabo Verde, Egypt, Morocco, and Tunisia recorded growth accelerations with sustained GDP growth rates of 7 percent or higher over two decades. Africa also experienced growth spikes in 18 countries and 12 had seen failed take offs including Algeria, Cameroon, Congo, Côte d’Ivoire, Equatorial Guinea, Ethiopia, Gabon, Malawi, Nigeria, Sierra Leone, Zambia, and Zimbabwe. Africa’s growth performance is even less stellar in per capita terms relative to other regions of the world.
8. The impact of the global shocks induced by the COVID-19 Pandemic, geopolitical tensions and climate change continue to affect Africa’s growth trajectory. Africa’s gross domestic product (GDP) growth is expected to average 3.8% and 4.2% in 2024 and 2025, respectively. Despite this regain and positive trend, growth remains below the pre-pandemic average of 5 % and the targeted 7 to 10 percent level required to achieve Agenda 2030 and Agenda 2063.
9. In Africa, unemployment is increasing faster than growth. The spread between unemployment and GDP rates averages around 3.04% between 2018 and 2024. This spread shows a surplus of unemployment which is not covered by GDP growth in Africa. Recent data show a surge in effective unemployment in Africa with a historic peak of 7.2% in 2021, a year with a high peak in GDP (4.8).

Fiscal instability and debt

10. African countries have relatively low levels of tax revenue compared to other regions in the world. According to Revenue Statistics in Africa, the unweighted average tax-to-GDP¹ ratio of the 33 African countries was 15.6% in 2021 and, recorded no change since 2020. In comparison, the average tax-to-GDP ratios in Asia and the Pacific, Latin America and the Caribbean, and the OECD were 19.8%, 21.7% and 34.1% respectively in 2021. This

¹ The tax-to-GDP ratio is measured as tax revenues (including compulsory social security contributions paid to general government) as a proportion of gross domestic product (GDP).

limits their ability to finance essential public services, such as education, health and infrastructure.

11. To accelerate growth and cope with an unfavorable environment, most governments have increased their fiscal spending in a context of declining revenues. Deteriorating financial conditions, reduced fiscal space and lower external demand have led to increased and unsustainable debt levels. According to the AfDB 2023, Africa's average debt-to-GDP ratio will remain high at 66 percent in 2023 and stabilize at 65 percent due to growing financing needs associated with rising food and energy import bills, high debt service costs due to interest rate hikes, exchange rate depreciations, and rollover risks. In addition, many countries' difficulties in accessing international capital markets, combined with limited revenue mobilization, have led to issue local currency debt, which increased substantially from 35 percent of GDP on average in 2019 to 42 percent in 2021. Domestic debt restructuring, therefore, should be part of the negotiations for the resolution of public debt crises in countries facing heightened risks.

The increase of Illicit Financial Flows (IFFs)

12. Despite the high-level commitment taken since the adoption of the Assembly Special Declaration on IFFs (Doc. Assembly/AU/17(XXIV) in January 2015, recent estimates suggest that illicit financial flows have grown from the original estimate of US\$50 billion annually to pick at around USD 89 billion annually since 2020. This represents 3.7% of Africa's GDP. The loss in IFFs represents approximately 95 per cent of the USD 93 billion historic replenishment of the International Development Association (IDA), which is part of the World Bank to provide concessional loans to developing countries. In the same vein, tax incentives contribute to a further US \$220 billion loss. Addressing these issues requires concerted efforts to promote fiscal transparency, enhance efficiency, and ensure accountability in tax administration.

Delays in the implementation of the regional integration agenda

13. The Abuja Treaty 6-stage phased approach towards the creation of an African Economic Community was originally supposed to be completed in the year 2000. Despite the huge continental appetite for regional integration as a source of economic growth and shared prosperity, the slow progress recorded in various continental critical programmes highlights the need for coordinated efforts to move this important agenda forward. Beyond the African Continental Free Trade Area (AfCFTA), significant implementation efforts are required to create a continental customs union, a common market, and a monetary and economic union towards the African Economic Community (AEC). At the center of this drive is the need to adhere and implement the African Monetary Cooperation Program (AMCP) on the macroeconomic convergence criteria towards the African Central Bank, the creation of the African Investment Bank (AIB), the African Monetary Fund (AMF) and the Pan-African Stock Exchanges. These institutions are of critical importance as they form the African Financial Architecture essential for sustainable financing of the continent.

Impact of external shocks on macroeconomic policies in Africa

14. The continent's medium-term growth outlook faces several downside risks, including unexpected adverse developments in the global economy, external shocks due to changes in weather conditions, and political instability, insecurity and potential civil unrest in some

countries. Despite the growing optimism and resilience, Africa continues to be confronted by multiple external crises. The impact of COVID-19, Russia-Ukraine war, the recent development between Israel and Palestine and climate change have all exposed the continued vulnerability of the continent to exogenous shocks. These and other factors have constrained the region's ability to sustain the growth momentum of the 2000s.

15. To translate rapid economic growth into sustained and inclusive development, Africa must follow through on development strategies that foster economic diversification, create jobs, reduce inequality and poverty and boost access to basic social services. It can only do this through the structural transformation of its economies, which requires a healthy population with high-quality and relevant skills to facilitate productive transformation through industrialisation.

III- Rationale and opportunities for enhanced policy coordination in Africa

A- Rationale for enhanced macroeconomic and sectoral policies coordination in Africa

16. Economic development as a whole is not the purvey of just one government department but requires coordination and cooperation across a range of government departments. Economic development policies are likely to be ineffective in the absence of coordinated and complementary policies and institutions that support this overarching objective. Examples of these complementary policies in Africa include macroeconomic support, development of productive capabilities and competitiveness, strengthening infrastructure, developments in technology and innovation, climate change, financing industrialization, regional integration and policies towards the development of growth poles and diffusion of development strategy.
17. Well-designed macroeconomic and sectoral policies are needed to facilitate inclusive growth and sustainable development. Coordination calls for a careful weighing of the impact of related measures such as exchange rate, monetary and fiscal policies and policies that influence the development of infrastructure and the investment climate which can either support or impede economic transformation and growth. Development planning a deliberate governmental attempt to coordinate economic decision making over the long run and to influence the level of growth of a nation's principal socioeconomic variables to achieve a predetermined set of development objectives.
18. Considering the current level of economic growth and the expectations to attend 7 to 10 percent growth in the decades towards 2063, the weak institutions, infrastructural deficit, limited technological advancement and limited skills for a knowledge economy call African countries to formulate coordinated policies to help firms and industries increase their domestic and global competitiveness and create and upgrade production capabilities, in order to encourage investment, increase output, and lead to greater sustainable and skilled employment. Fostering Africa's competitiveness will require a mix of macroeconomic policies and strategies that enhance productivity, address binding skills and infrastructure constraints, entice resource allocation and are supported by a conducive trade environment at the AfCFTA level and internationally.

19. While the responsibility for economic development rests primarily with national governments, regional integration has enormous potential to improve a country's outcomes. The regional level can be used much more systematically to develop and promote coordinated pro-development macroeconomic policies. The development of a robust continental market under the AfCFTA is critical to unlocking Africa's manufacturing potential and supporting the growth of globally competitive firms. A key element of a regional strategy is focusing on regional value chains with a view to create growth poles. The objective of growth pole strategy is not to address market failures but to capitalize on already existing resources (such as infrastructure, technology, external economies, skilled labour force, markets, sound investment and business climate) in an economy.

- **Pro-employment macroeconomic and sectoral policies**

20. The employment problem in Africa can only be comprehensively addressed by reassessing how we think about macroeconomic policy and combining macroeconomic, labour market, and sectoral policies within an integrated employment policy framework. African Union Heads of State and Government have always given high priority to employment creation within the continent. This commitment was expressed at the AU Summit in Ouagadougou on Employment and Poverty Alleviation in Africa in 2004 and reaffirmed at the Ouagadougou +10 Summit in 2015, where key strategies were proposed, chief among these was the need to realize policy coherence through the development and implementation of pro-employment macro-economic and sectoral development policies as well as employment and labour market policies to promote broad based inclusive growth and poverty eradication through enhancing their employment and productivity-growth outcomes. Therefore, as comprehensive policies, they account for the link of employment policies with macroeconomic and sectoral policies.

B- Opportunities for macroeconomic and sectoral policies coordination in Africa

21. Despite Africa's continued resilience to shocks, its inability to sustain a long-term period of high 7 to 10 percent economic to achieve the vision and aspirations of Agenda 2063 underscores that a number of challenges remain and need to be addressed through better coordinated macroeconomic and sectoral policies. Africa's fiscal space remains very limited as countries have not yet reached the level of tax-to-GDP ratio expected to sustainably finance continental development. In addition, the current levels of domestic and external debt continue to undermine investment efforts in critical transformative sectors in agriculture, industry and services. The limited implementation of Agenda 2063 and SDGs indicators as well as the limited impact of growth on livelihoods and access to social services has also contributed to growing gender, income and rural-urban inequalities. Furthermore, Africa's steady economic growth has not necessarily been associated with strengthened capacity to adapt to the environmental hazards associated with climate change. Recurrent droughts are becoming increasingly common in several parts of Africa, with extremely negative impacts on livelihoods, agricultural output and overall economic growth.

IV- Policy priorities for enhanced macroeconomic and sectoral policies coordination towards inclusive growth and sustainable development

22. Considering the above developments, Experts and Ministers will reflect on the following policy priorities to enhance macroeconomic and sectoral policy coordination in Africa with a view to achieving inclusive growth and sustainable development.

Coordination between fiscal and monetary policies

23. Considering the need for effective coordination of fiscal and monetary policies given the independence of both authorities to implement their objectives, African Union Member States are encouraged to:

- (i) Ensure that the primary objective of monetary and fiscal policies should aim to achieve inclusive growth and sustainable economic development while maintaining price stability.
- (ii) Make the necessary coordinated arrangements that assure that the decisions taken by monetary and fiscal authorities are not contradictory but reinforcing.
- (iii) Introduce appropriate recommendations and policies to increase monetary policy independence considering the role of Central Banks to reduce fiscal dominance over the monetary authority, to assure the political autonomy of the Central Banks and, guarantee independence of central banks in conducting monetary policy with the aim of maintaining price stability.
- (iv) Adopt sustainable fiscal policies to enhance macroeconomic stability, proper taxing system and regulatory framework of the financial sector through appropriate programmes to favor structural reforms.
- (v) Adopt and implement anti-inflation monetary policy, supported by prudent fiscal policy, to achieve lower inflation at minimum cost to the economy.
- (vi) Implement specific institutional arrangements to avoid conflicts between monetary and fiscal policies through policies aimed at eliminating their inconsistencies.
- (vii) Establish separate debt management offices with separate objectives, instruments and functions to sustainably manage the government's debt portfolio.
- (viii) Set up a coordination committee which assist reaching a consensus on how debt and monetary management should be conducted.
- (ix) Carefully evaluate the introduction of tax incentives for a fixed period to stimulate investment, a campaign to boost small and medium firm development, a strengthening of competition policy and the development of industrial cluster support programmes, amongst other initiatives.
- (x) An exchange rate policy consistent with improved international competitiveness, responsible monetary policies and targeted industrial incentives characterise the new policy environment.
- (xi) Adopt and implement pro-employment macroeconomic and sectoral policies that support decent job creation through appropriate skills development strategies aimed at increasing the employability of youth.

- (xii) Adopt and implement employment and training policies to enhance the growth potential of industry, extend job opportunities to the unemployed and contribute over time to the redistribution of income.
- (xiii) Scale up domestic revenue mobilization to restore fiscal sustainability and finance inclusive growth and sustainable development.
- (xiv) Design and implement strategic industrial policies to accelerate economic diversification in Africa would limit the effects of recurrent headwinds and global shocks.
- (xv) Boosting regional trade would enhance Africa's resilience to spillovers from global economic slowdown and reduce persistent trade deficits.

V- Seventh STC on Finance, Monetary Affairs, Economic Planning and Integration

24. The above analysis supports the need for a high-level policy dialogue aimed at strengthening macroeconomic and sectoral policies coordination in Africa with a view to achieving inclusive growth and sustainable development as enshrined in Agenda 2063. It is in this context that the Seventh AU African Ministers Specialised Technical Committee on Finance, Monetary Affairs, Economic Planning and Integration is being organized under the theme "Enhancing Macroeconomic and sectoral policies coordination in Africa: challenges, opportunities and policy priorities for inclusive growth and sustainable development". The Conference will be hosted by the Government of the Republic of Tunisia from 03 to 07 July 2024 in Tunis.

(a) Objectives of the 7th STC

25. Specific Objectives of the 7th STC are to:

- Ensure a common understanding by policymakers about the need for a reinforced coordination between macroeconomic and sectoral policies with a view to achieving inclusive growth and sustainable development in Africa in the decades towards Agenda 2063;
- Provide a platform for policymakers to articulate concrete proposals to deepen and strengthen implementation of coordinated macroeconomic and sectoral policy frameworks for Africa's prosperity and transformation;
- Frame concrete policy options and actions for enhanced macroeconomic and sectoral policy coordination with a view to generate decent employment opportunities and foster resilience to current and future shocks.

(b) Format of the 7th STC

26. The 7th STC will discuss various economic, financial and development issues for Africa and provide guidance for the work of the African Union Commission, Regional Economic Communities and other Pan-African Institutions in support of Member States efforts in achieving inclusive growth and Sustainable Development. Among the key features of the 7th STC are high-level policy dialogue, panel sessions, round-table discussions and side events

on various development topics. A number of innovations have been introduced for the 2024 STC to ensure proactive engagements.

27. Plenary sessions will comprise discussions on the theme of the STC followed by focused discussions on key statutory issues.
28. Experts and Ministerial policy dialogue on the theme of the STC: “Enhancing Macroeconomic and sectoral policies coordination in Africa: challenges, opportunities and policy priorities for inclusive growth and sustainable development”.
29. The Experts and Ministerial policy dialogue on the theme of the STC will brainstorm on how to ensure that Africa’s builds coherent and coordinated macroeconomic and sectoral policies to achieve inclusive growth and sustainable development of Agenda 2063. Specific issues to be discussed will include the design and implementation of effective structural transformation strategies and policies that support job creation; enhance productive capacities and address economic and financial vulnerabilities to facilitate the transition to a green economy.

(c) Expected outcomes of the 7th STC

30. It is expected that the 7th STC on Finance, Monetary Affairs, Economic Planning and Integration will result in the following outcomes:
 - Well-articulated documentation of progress in the implementation of the recommendations of past STCs;
 - Enhanced understanding of the need for stronger coordination of macroeconomic and sectoral policies coordination for coherent institutional and policy frameworks necessary to effectively pursue inclusive growth and sustainable development in Africa;
 - Strategic Ministerial recommendations and actions for enhanced macroeconomic and sectoral policies coordination to achieve inclusive growth and sustainable development in Africa;
 - A Ministerial Declaration articulating the coordinated macroeconomic and sectoral policy options and actions required at national, regional and continental levels to implement coherent policies with a view to achieving inclusive growth and sustainable development in Africa.

(d) Documentation

31. In addition to this concept note, an Issues Paper on the 7th STC theme and technical background documents on the sub themes for the plenary sessions and on statutory issues, roundtables and side events will inform the discussions of the STC.

(e) Participation

32. Participants and delegates to the 7th STC will include Ministers and representatives from member States, Regional Economic Communities, United Nations agencies, pan-African financial institutions, African academic and research institutions, development partners and

other intergovernmental organizations. Invitations will be extended to other partners such as non-governmental organizations and the private sector.

(f) Contacts

33. For more information about the Conference and the meeting of the Committee of Experts, kindly contact:

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