LAUNCH OF THE AFRICA ECONOMIC OUTLOOK REPORT, 2022
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Prof. Kevin Chika Urama, FAAS
Acting Chief Economist / Vice President for Economic Governance and Knowledge Management, African Development Bank Group.

INTRODUCTION/PROTOCOLS:

1. Your Excellency – Dr. Akinwumi Adesina, President of the African Development Bank Group; Your Excellency Ms Mia Mottley, Prime Minister of Barbados; Your Excellency Ken Ofori Atta – Minister of Finance of the Republic of Ghana and Chair of the boards of Governors, African Development Bank Group; Your Excellency Ms Meryame Kitir, Belgian Minister for Development Cooperation / AfDB Governor for Belgium; Your Excellency Dr. Barbel Kofler, Parliamentary Secretary in the Federal Ministry for Economic Cooperation and Development (BMZ)/AfDB Governor for Germany; His Excellency Mr. Ernesto Max Tonela, Minister of Finance / AfDB Governor for Mozambique; His Excellency Mr. Enoch Godongwana, Minister of Finance /AfDB Governor for South Africa; Dear Governors of the African Development Bank Group, Your Excellencies, Distinguished Guests, Ladies and Gentlemen. Please allow me to stand on established protocols

2. I am delighted to present to you today, the key findings of the African Development Bank’s African Economic Outlook 2022 report. The report’s title is: Supporting Climate Resilience and a Just Energy Transition in Africa.

3. Climate change is the most pressing existential threat to Africa’s development. Finding policies that can help countries to adapt to climate change effects and reduce green house gas emissions that cause climate change, while continuing to grow economies, is among the most enduring policy challenges of our time. Achieving this goal would mean achieving inclusive growth – one that triangulates the three pillars of sustainable development: the economic, social, and environmental.

4. The African Economic Outlook report 2022 examines how this can be done in Africa. The report has three chapters:

   b. Chapter 2 examines the interactions between climate resilience and a just energy transition in Africa, and
   c. Chapter 3 reviews the strategies and instruments for financing climate resilience and a just energy transition in Africa.
CHAPTER 1: AFRICA’S ECONOMIC PERFORMANCE AND OUTLOOK

5. Like other regions, Africa was heavily impacted by the covid-19 pandemic in 2020. The continent's economies have however remained resilient.

6. Following a contraction of 1.6% in 2020, Africa’s real gross domestic product grew by 6.9% in 2021.
   
a. This recovery was supported by improvement in global trade, commodity prices; private consumption and investment; rebound in services and industrial activity; among others.
   
b. Fiscal stimulus packages and other policy interventions by countries also helped spur credit growth and mitigate the impact of the Covid-19 pandemic in 2021.
   
c. Let me use this opportunity to thank our Leaders, Heads of States, Ministries of Finance, Central Banks, the African Union Commission, the Africa CDC, the African Development Bank Group and Africa’s Development Partners for the rapid response policies implemented to contain the covid-19 impacts on African citizens.

7. Looking ahead: Africa’s average growth rate is projected to decelerate to 4.1% in 2022 and 2023. This is due to uncertainties associated with low COVID-19 vaccination rates, rising costs of climate change effects, and volatilities in the global financial markets caused by the Russia–Ukraine conflict.

8. There are significant variations in growth recovery and prospects for each region and country grouping in Africa.
   
a. North Africa recorded the highest growth rate, estimated at 11.7% in 2021 following a 1.3% contraction in 2020. This is expected to decelerate to 4.5% in 2022.
   
b. Western, Central, and Eastern Africa regions have all returned to positive growth in 2021, with stable outlooks in 2022 and 2023.
      
i. Western Africa grew by 4.3% in 2021 from a 0.6% contraction in 2020 and is expected to stabilize above 4% in 2022 and 2023. Growth in west Africa was driven largely by Nigeria, the region’s largest economy.
      
ii. Eastern Africa region grew by 4.8% in 2021 from 1.5% in 2020 and is expected to stabilize at 4.7% in 2022. The region has been the most resilient for reasons outlined in the report.
      
iii. Central Africa region grew by 3.4% in 2021 from a 0.5% contraction in 2020; and is projected to stabilize at around 4.7% in 2022 due to expected increased exports of oil and non-oil primary commodities.
c. Southern Africa region, which was hit the hardest by the covid-19 pandemic with a 6% contraction in 2020, had a healthy 4.2% growth in 2021. This is projected to decelerate to 2.5% in 2022, as the effects of fiscal stimulus wades.

9. In terms of economic characteristics, tourism-dependent economies recorded the largest recovery, from a 12.7% contraction in 2020 to a growth rate of 4.4% in 2021, with a stable outlook in 2022 and 2023. The recovery is largely due to successful COVID-19 vaccination programs and easing in travel restrictions globally.

a. Oil-exporting countries recorded high growth rates estimated at 8.1% in 2021, reflecting strong recovery in Algeria and Nigeria, and improved base effect in Libya (177.3% growth in 2021).

b. Growth in non-resource-intensive economies, estimated at 5.8% in 2021 was aided by increased industrial and agricultural output, sustained government spending on infrastructure projects and, continued growth in tourism and inter-regional trade.

c. Average growth in the middle-income African countries has largely mirrored the average growth on the continent.

d. Other resource-intensive economies, mostly dependent on metals and minerals, are estimated to have grown by 4.5% in 2021, and projected to grow by 3.3% in 2022.

10. Further details on the key drivers of growth and the variations observed by regions and economic characteristics are provided in the report.

On Macroeconomic fundamentals and challenges:

11. Overall, macroeconomic fundamentals - including fiscal and current account balances-improved in most countries in 2021. But considerable challenges remain.

12. Specifically, sovereign debt remains a threat to sustainable recovery despite recent debt relief initiatives.

a. Estimated at 71.4% of GDP in 2020, Africa’s sovereign debt is projected to stabilize around 70% of GDP in 2022, remaining higher than its pre-pandemic levels in the short-to-medium term.

b. The Debt Service Suspension Initiative led to an estimated savings of about $13 billion. In addition, the IMF’s issuance of $33.2 billion in Special Drawing Rights (SDRs) to African countries helped alleviate liquidity pressures in 2021.

c. But these temporary debt relief initiatives have not stemmed rising debt vulnerabilities in African countries. In February 2022, 23 African countries were in or at considerable risk of debt distress. Sixteen were at high risk and seven were already in distress.

d. In addition, the post-pandemic fiscal consolidation, monetary policy tightening in advanced economies, and recent appreciation of the US dollar have led to higher import prices. These factors have also led to more costly external debt servicing, and greater risk of financial instability in African countries.
13. Currently, rising consumer price inflation and pass-through effects of exchange rate depreciations present major headwinds for the fiscal position of countries in the short to medium terms. This is especially the case for net commodity importing countries.

On Financing Economic Recovery and Poverty Reduction Targets:

14. The report estimates that African countries need about $432 billion to address the socio-economic impacts of the covid-19 pandemic and to support economic recovery in 2022 and 2023; and more than a decade to catch-up on pre-Covid-19 poverty targets.

15. The Covid-19 pandemic pushed about 29 million Africans into extreme poverty in 2021, relative to pre-pandemic projections, with an additional 30 million people expected to slide into extreme poverty in 2022 and 2023.

16. If the Russia-Ukraine war persists, an additional 1.8 million African could slide into extreme poverty in 2022, with an additional 2.1 million expected in 2023.

CHAPTER 2: CLIMATE RESILIENCE AND A JUST ENERGY TRANSITION IN AFRICA

17. In this chapter, the report examines the subjects of climate resilience and a just energy transition, and their implications for inclusive growth and sustainable development in Africa.

18. First, we examined Climate Vulnerability, Readiness & Resilience in countries:

19. Africa is the second most climate vulnerable region of the world.

20. The continent also shows the least climate readiness.

21. Africa is also the least climate-resilient region of the world.

22. The Northern and Southern Africa regions were the least vulnerable and showed higher climate readiness than other regions of the continent. They also leveraged more climate finance and investments than other regions, and have different economic structures compared to other regions. This suggests that climate vulnerability and access to climate finance have some correlation with economic structure of countries.

On Socioeconomic Impacts of Climate Change

23. The report estimates that from the year 1986 – 2015, Africa lost between 5% and 15% of its GDP per capita growth, due to climate change.
24. This is in addition to increasing mortality, climate-induced conflicts and human displacements, migration, among other impacts observed across the continent.

25. Significant targeted investments are required to build climate resilience in Africa, but the benefits and co-benefits of climate resilience are many times higher than the costs. This is, in my view, the key reason for Africa to massively invest in building climate resilience.

Climate Justice, Just Transitions and the Sustainable Development Goals (SDGs):

26. Universal access to energy services is a key Sustainable Development Goal. It is also a key factor in achieving other SDGs, including climate goals.

27. Energy consumption is highly correlated with GDP growth. So, restraining country access to energy means restraining social and economic progress of countries.

28. In Africa, low per capita electricity consumption (550 kWh) compared to other regions, significantly constrains economic production and structural transformation in African economies.

29. As show in the report, energy transitions evolve gradually over time, often over several decades, defined by technologies, market incentives, policy shifts, and consumer behavior.

30. Natural gas has served as a transition fuel during the period, allowing countries to gradually reduce coal in the energy mix cost-effectively.

31. The share of renewable energy in the global energy mix has increased since 1980s, but it remains a small share of the mix in all regions - the highest in the European Union where it reached 23% by 2019.

32. Africa’s energy mix has a lower carbon intensity compared to other regions. The share of coal in the mix has declined progressively from 54% to 29% between 1985 and 2020, respectively. Similar transitions are observed in the United States and the European Union. In other regions, the share of coal in the energy mix remains very high.

33. Just energy transitions require common but differentiated responsibility for climate adaptation and mitigation:

   a. About 85% of the “global carbon budget” is already used up. The report examined contributions to climate forcing emissions by all regions of the world and how the remaining carbon budget of the world could be equitably allocated to reach net zero emission targets by 2050.

   b. Africa’s historical share of global emissions is below 3%, with an average carbon footprint per capita of 0.95 tCO2eq. This is well below the 2.0 tCO2eq required to
achieve net-zero transitions target. This means that Africa still has some headroom within the global carbon budget.

34. The report estimates that if historical emissions are considered, Africa’s carbon credit—calculated with the current social cost of carbon—could reach up to $4.8 trillion by 2050. Paid annually, this could reach $173 billion per year from 2022 to 2050.

35. This is almost 10 times higher than the $18.3 billion per year in global climate finance Africa received from 2016 to 2019.

36. A Just Energy Transition therefore requires that African countries harness opportunities in the fast-expanding global green growth technologies and markets.

   a. Africa has unique competitive advantages in several green growth sectors: materials, components, products, and services, which it needs to harness to benefit from the green transition.

   b. Renewables and decentralized energy systems are critical for rapid energy access and need to be co-designed with grid expansion.

37. Global policy shifts, technology and market trends suggest that continued investments in fossil energy have significant asset stranding risks in the coming decades.

38. Therefore, while Africa must maintain a balanced energy mix to manage short-term energy security, rapid investments to harness the significant opportunities in the green growth sectors will be critical for the continent’s competitiveness in the medium to long term.

39. Africa’s resource potentials present unique opportunities for the continent to lead in several green development sectors.

CHAPTER 3: FINANCING CLIMATE RESILIENCE AND JUST ENERGY TRANSITION IN AFRICA: STRATEGIES AND INSTRUMENTS

40. The report finds that the structure, flow, and scale of the current global climate finance mirrors the current global finance architecture, making it difficult for the most vulnerable African countries to effectively harness climate resilience opportunities.

41. First, the structure is complicated and loosely defined, with multiple, and rapidly evolving sources, instruments, channels, and financing mechanisms.

   a. Several development finance instruments are therefore increasingly deployed as climate finance in Africa.

   b. For example, debt instruments constituted two-thirds of all climate finance to African countries in the 2011–2019 period. Some 33% of this was non-concessional.
c. This raises concerns about further increasing debt vulnerability in Africa and potential trade-offs with other SDG financing commitments and mechanisms.

d. There is a compelling need for clearer definition, better coordination, and harmonization of climate finance requirements.

e. Climate finance commitments should be new and additional. They should not replace existing SDG commitments, including those for poverty eradication.

42. Second, current climate finance flow is misaligned with climate vulnerabilities and climate risks.

a. The report finds that climate finance is often mobilized for more resilient and less vulnerable countries.

b. In addition, several factors limit climate finance flows to Africa. They include - underdeveloped financial sector, organizational silos, competing mandates, and weak capacity for project development.

c. This perverse association between climate finance and countries’ climate resilience and vulnerability leads to misallocation of resources.

43. Third, the current scale of climate finance is misaligned with nationally determined contributions and SDG financing requirements in Africa

a. To adequately implement its NDCs, Africa will need a cumulative climate finance of up to $1.6 trillion between 2020 and 2030. This translates into an average of USD 128 billion annually during the period.

b. Currently, Africa receives about $18.3 billion per year in global climate finance.

c. This leaves an average climate financing gap of $108 billion per year during the period.

d. With current trends, Africa’s conditional nationally determined contributions will not be delivered. The implications of not achieving the NDCs in Africa for global sustainability is obvious – the global climate goals will not be achieved.

POLICY RECOMMENDATIONS:

To respond to the quadruple challenges, national governments, development finance institutions and the international community need to consider several policy options:

For National governments:

44. Policy coordination is required: Countries need to coordinate monetary and fiscal policies to contain inflation while safeguarding economic recovery and protecting the vulnerable. Policy measures to reduce imported inflation should be encouraged.

45. Strengthen regional value chains: Africa needs to build and strengthen regional value chains in key sectors to reduce external dependence. Following the covid-19 pandemic and the spillover effects of the Russia-Ukraine conflict, this recommendation requires no explanation.
46. **Invest in green technologies**: Scale investments in renewable energy and green technologies while maintaining a balanced energy mix to support industrialization and structural transformation. The green transition presents an opportunity for Africa to recalibrate how it engages with industrial transformations. With the dominance of green development minerals in Africa, the continent has an opportunity to lead in the development and deployment of green technologies rather than operating at the low levels of the value chain which locks countries to low incomes.

47. **Build institutional capacity for green transitions**: Invest in institutional capacity development for green transitions, along with regulatory and other policy reforms that foster energy efficiency and creates jobs for youth and women in key sectors.

48. **Innovative Financing and Financial Stability Mechanisms**: Expand and deepen the utilization of innovative financing instruments such as green bonds and loans, sustainability or sustainability-linked bonds and loans, debt-for-climate swaps, blended finance, more efficient and better-priced carbon markets, realignment of perverse subsidies and other progressive tax instruments. Develop financial stability mechanisms to protect economies from future climate shocks.

**International Community:**

49. **Honour climate finance commitments**: Developed countries should honor their commitment to make available **$100 billion** annually to developing countries to support climate action, as new and additional resources. If one thinks of what is owed in carbon debts to Africa ($4.8 trillion), what is required to implement the Nationally Determined Contributions ($1.6 trillion by 2030), and what is currently received annually ($18.3 billion), it tells its own story. There is need to recall that 80 percent of the Nationally Determined Contributions agreed to by the African Governments as per the Paris Climate Accord in 2015 was dependent of external climate finance flow being received by countries. This means that African countries should receive at least $1.28 trillion in external climate finance to be able to meet the NDC targets. This is part of the common but differentiated responsibility for meeting the global climate goals, without which the NDCs will not be achieved in Africa.

50. **To address the looming debt crisis in Africa**, there is need to extend the Debt Service Suspension Initiative (DSSI) to give countries the temporary fiscal space to meet the persisting covid-19 recovery costs – including vaccination ($432 billion between 2020 – 22) and absorb the additional exogenous shocks caused by the Russia-Ukraine conflict; fast-track the implementation of the G-20 Common Framework by ensuring clarity in procedures and timelines; and for willing developing countries to re-allocate the resources they received from the IMF’s Special Drawing Rights (SDRs) to African countries to meet the urgent fiscal needs to address the quadruple challenges. Channeling such resources through the African Development Bank Group (AfDB) and the African Development Fund (ADF) will be highly beneficial to all parties. This will allow the
Bank to leverage additional resources – up to four times the resources received to fast-track development financing at concessional rates to countries.

51. Going forward there is need to revisit the global climate finance definition and architecture to align the structure, flow, and scale with the global climate financing needs of countries. The current definition encourages rebranding and risks negative trade-offs with other sustainable development goals including poverty reduction, universal access to energy services, etc.; the structure discredits the most vulnerable countries; the flow is in reverse with regard climate vulnerability and risks; and the scale is far below the amounts needed to achieve the NDCs.

Development Finance Institutions:

52. **More concessional financing required:** Increase concessional financing to support climate adaptation and a just energy transition in vulnerable countries. Modelled by the current global financing architecture, the current financing architecture precludes climate finance flows to the most vulnerable to climate shocks. Channeling some of the additional climate finance through the African Development Fund (ADF) offers opportunities for greater cost-efficiency and leverage. Therefore, a healthy replenishment of the African Development Fund (ADF) and allowing the Fund to leverage resources from the capital market is critical for the most fragile countries in Africa at this stage.

CONCLUSION:

53. Climate change is a global commons problem – one in which the actions of one agent will not lead to sustainable outcomes if all actors do not act together to proffer solutions. It demands global cooperation and adequate support for sustainable resolution.

54. Actions taken by one region to mitigate climate impacts will not achieve sustainable outcomes if all regions of the world do not do the same. The reason is simple. Greenhouse gases do not know geographical boundaries. They accumulate and mix freely in the atmosphere and their impacts occur everywhere irrespective of their origin. If Africa does not have sufficient resources to implement climate actions to reach net-zero emissions targets, climate actions taken by Europe or other regions of the world will not achieve sustainable outcomes. We cannot ask Africa to adapt to climate change without the resources (knowledge, technology, and fiscal space) to do so. Like Covid-19, if any region of the world fails to meet net-zero emission targets by 2050, the global sustainability targets will not be reached.

55. Just energy transitions demand that energy systems in Africa must be designed to be technologically adequate, cost optimal, and viable. They must deliver maximum value for all the sustainable development goals and Africa’s Agenda 2063. In this regard, Africa’s energy mix need to harness less-polluting sources of base-load energy capable of driving industrialization and structural transformation that support sustainable production and consumption. It is noted that economies decouple economic and social progress from environmental impacts (including greenhouse gas emissions) by improving technical
efficiency and cost effectiveness in economic production and consumption activities. At low levels of economic growth, poverty engenders environmental degradation – including CO₂ emission per capita of economic output, deforestation, etc. At very high levels of economic growth, surplus production and consumption create similar externalities. The latter is referred to as oxymoronic growth – growing at levels where there is diminishing marginal returns to economic output and consumption – hence creating more negative externalities to social and environmental progress.

56. Decentralized renewable energy systems are critical for rapid energy access in Africa. The economic imperatives for Africa to invest in green technology sectors is about market competitiveness in the emerging green economy. The huge resource potentials in several green development minerals in Africa positions the continent to be the leader in the new green economy. Countries need to explore policies that encourage investment flows and location of green technology industries in the zones of relevant resource deposits to create opportunities for job creation, knowledge and technology sharing, economic activities and reduced carbon and environmental footprints of green products. Several policy options that could be explored include local content policies (restricting export of primary commodities below a pre-defined level of value addition); franchising (encouraging global conglomerates to locate manufacturing industries in rural communities where the relevant raw materials are found); and other progressive tax incentives.

57. Significant climate financing, up to $1.6 trillion, is required to support climate resilience and just energy transitions in Africa. This is in addition to $432 billion required to address the socio-economic impacts of the pandemic and to support economic recovery in 2022 and 2023. To address the immediate fiscal need for covid-19 recovery and the inflationary impacts of the Russia-Ukraine conflict and avid debt defaults, there is urgent need for extension of the DSSI, fast-tracking the implementation of the Common Framework, and additional SDRs channeled through the African Development Bank Group for leveraging. To ensure that the most vulnerable countries in Africa (ADF countries) are not left behind, a healthy replenishment of the African Development Fund and allowing ADF to leverage its resources in the capital market to on-lend to countries are imperative.

58. The challenges are multiple, the risks are substantial, but lessons from the Covid-19 response show that the world has the capital and the policy tools to rapidly deploy them to meet global headwinds when the political will is there to do so.

59. Amidst the widening fiscal deficits, declining foreign direct investments (FDI), overseas development assistance (ODA), and portfolio investments in Africa; between January 2019 and September 2021, the fiscal measures implemented globally to tackle the effects of Covid-19 pandemic are estimated at around US$17 trillion, equivalent to about 19% of global GDP, and about 5 times Africa’s GDP.
Like covid-19, climate change is a global commons problem and the impacts on lives, livelihoods and global sustainability are much larger and more pervasive. A similar rapid global response plan, as accorded Covid-19 is required to address increasing climate change impacts in Africa and other developing countries. Climate change is no longer a low probability high risk event, it is now a daily reality for Africa who is already losing 5 – 15 percent of GDP growth and many lives and livelihoods to climate change.

Let me conclude with a question for each of us to ask ourselves: what can I do to prevent a climate catastrophe to save our common future?

Thank you.