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Under the supervision of
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Preface

The 2024 Annual Report on the African Economy is dedicated to monetary and financial issues on the Continent. There are three reasons for this choice.

African economies are exposed to macro-financial instabilities partly generated by global monetary and financial turbulence.

The Continent's currencies and financial systems are engaged in very different dynamics, where routine methods and daring, if not risky, practices coexist.

The question of the architecture of the international financial system is on the agenda. It aims to bring international financial instability under control by improving market transparency, monitoring - without curbing - the destabilizing thrust of financial innovation, regulating the burgeoning competition between traditional currencies and virtual currencies, promoting financial «justice» in international flows and transfers, and fostering greater responsibility on the part of both private and public players in preventing and managing turbulence so that it does not degenerate into a systemic crisis.

This threefold observation developed **in the introductory Panorama** justifies the PCNS's choice to devote this new version of the Economic Report to African finance themes, divided between the three sections that structure the Report's organization.

Part 1 outlines the macro-economic framework of the African economy.

The first chapter on macro-financial conditions in Africa highlights that, in 2023, the African economy showed notable resilience in a complex global context. While some signs of recovery are visible for 2024, growth forecasts remain uneven across the Continent. Orthodox macroeconomic management continues to play a crucial role. Fiscal consolidation efforts have stabilized public finances. However, high inflation rates remain a primary concern, while the challenges of climate impacts, geopolitical tensions, and economic vulnerabilities require continued vigilance to maintain a sustainable and inclusive growth trajectory.

The second chapter examines the complex relationship between exchange rate regimes and macroeconomic adjustment in African countries. The optimal exchange rate regime for African countries depends on a complex interplay of factors. With many African economies facing currency depreciation due to US monetary tightening, policymakers face a significant challenge: striking a balance between foreign exchange market interventions to mitigate depreciation and maintaining a sustainable public debt burden. The proposed approach provides an interpretive framework for assessing different regimes' shock-absorbing and adjustment-facilitating capacities.

Financing is a significant concern for the Continent. **The chapter on the contribution of Moroccan banks to financing development in Africa** shows that the problematic macroeconomic situation facing African economies poses substantial challenges to preserving the financial solidity of these banks. Moroccan banks' exposure to cross-border risk seems to be under control at this stage, but one of the major threats is the African Continent's exposure to cybercrime. The main operational risk to our business is cybercrime. This risk is further amplified by the embryonic nature of the legal framework governing this risk. The non-compliance of these countries with international standards on money laundering and the financing of terrorism exposes them to several risks that can indirectly impact Moroccan banks in these countries.

Implementing financial inclusion strategies in Africa has made great strides in recent years. The **two contributions on financial inclusion** explore the obstacles to this inclusion (prohibitive costs, lack of funds, and insufficient infrastructure). The first contribution provides a better understanding of the factors driving digital financial inclusion in Africa and the role of access to education and technological infrastructure in this process. The second contribution takes stock of financial inclusion in Africa, focusing on three key dimensions: access to financial services, their use, and quality. It proposes ways of improving financial inclusion in African countries, including developing mobile banking, adopting and regulating digital currencies, and financial education.

The **country focus** paper focuses on **South Africa**. Often presented as a model of economic and social success, the country is consuming its symbolic capital without transforming its material resources to benefit its population. Its growth profile is regressing, mutating it from an emerging country to one of crony capitalism and widening social inequalities. The momentum of the aftermath of the abolition of apartheid in 1992 has lost momentum over the past three decades. South Africa's image has been further damaged by the controversial use of its economic and political influence in relations with its African partners.

Part 2: The second part of the report is devoted to the joint currency projects of four regional economic communities (ECOWAS, EAC, ECCAS, SADC), examining their relevance and the prerequisites for their implementation. The process of financial integration in the other RECs is more pragmatic, and progress is slow. It is hampered by the lack of depth in the financial systems of member countries in one Regional Economic Community (IGAD), by the extreme diversity of economies in another (COMESA), or by political and institutional blockages in a community that nevertheless has more solid financial systems and which are converging towards international norms and standards (UMA). Despite their differences, these experiences are all being disrupted by the emergence, if not the dazzling development, of financial innovations that overturn the classic economic model of financial systems, injecting more novelty into products, media, and financing methods. African central banks must constantly produce new regulations to stabilize financial practices and transactions and ensure that households, businesses, and other players are less exposed to risks of all kinds.

The East African Community (EAC) faces trade barriers that weaken trade within the regional grouping. The use of sovereign currencies is an obstacle to these flows due to the high transaction costs associated with the exchange of currencies. The study shows that adopting a common currency would lead to more intense trade within the Community. A monetary union with a common policy could serve as a trade and financial integration vehicle if an appropriate institutional policy framework is adopted to guarantee transparency by reducing commercial and non-commercial barriers.

In the **Economic Community of Central African States (ECCAS), the**

question of a common currency is part of the debate on reforming the CFA franc. Supporters of a monetary union point to its many potential advantages: increased bilateral trade and investment and reduced uncertainty linked to exchange rate fluctuations… But the prospects are not without challenges. Convergence of economies and economic policies must be an essential prerequisite for the success of such an initiative. In addition, the loss of monetary sovereignty may be perceived as a limitation of countries' economic policies. At the same time, the question of governance within the Union may be a source of tension and potential conflict. Given these challenges, the contribution discusses the feasibility options for a single currency in this area. A static option, making the transition to a single currency conditional on member states' compliance with specific micro and macroeconomic criteria. A dynamic perspective would enable member countries to form an optimal monetary zone. This path, which is considered suitable, is nonetheless fraught with several challenges.

Driven to strengthen economic integration and create a space for increased regional development, ECOWAS member countries have agreed on a roadmap to achieve a rapid transition to a monetary union. **This chapter examines the challenges undermining monetary Union in ECOWAS** and charts a course to overcome shortcomings. Progress towards meeting the required convergence criteria has not reached the level needed to absorb the associated risks. With ECOWAS countries still failing to meet the prerequisites for a rapid transition to a monetary union, achieving the project appears to be a long-term rather than an achievable short-term goal.

The chapter on SADC examines the group's monetary integration project. It seeks to answer a central question: is SADC progressing as planned towards achieving monetary integration in the region? The tensions caused by the polycrisis have led member states to diverge rather than converge on macroeconomic variables. Inadequate infrastructure continues to hamper intra-regional trade. Political instability in some member states undermines investor confidence, stifles growth, and disrupts regional integration efforts. Another challenge is the overlapping membership of countries in several regional economic and trade blocs, often resulting in conflicting commitments. At this stage, a commitment to a common currency seems premature.

In a troubled economic environment, financial systems in the Maghreb are looking for a new way forward. Their contribution to resilience to shocks is no longer sufficient to finance the economic and social transformations required by the transition to green and inclusive economies. The digital revolution offers opportunities to negotiate a shift from traditional financing to innovative, more adapted approaches. However, technological developments also expose financial systems to new risks. Cyber-security has become a significant challenge for Maghreb Central Banks. Against this backdrop, regulators and competent authorities are called upon to strengthen their concerted efforts to reconcile the advantages of financial innovations with controlling the risks they entail.

The wide disparities between COMESA member states represent a significant obstacle, in the medium term, to achieving Regional Financial Integration (RFI) for all members. Some countries (Burundi, Ethiopia) have less sophisticated financial systems and less developed regulatory and supervisory frameworks. Chronic political difficulties hold back other members (Democratic Republic of Congo, Sudan, and Zimbabwe). Multiple memberships of various regional groups also complicate integration: conflicts can arise from membership of multiple groups. Thus, the adoption of the variable-speed strategy by member states, within the framework of specific objectives, may prove more appropriate, as it can accelerate financial integration in ready and equipped countries while helping others to bring their systems up to standard.

A comparative analysis of financial development in the IGAD region clearly shows that, on average, the region is lagging behind when it comes to financial development. Factors that could explain the weak development of the financial sector include the weakness of member countries' economies and the limited backward and forward linkages between the real and financial sectors, as well as the lack of basic infrastructure. Frequent conflicts and limited resources explain the underdevelopment of commercial banking. The financial needs of the region's economies are enormous. The emergence of development banks in the regional bloc could encourage the inflow of additional sources of financing to commercial banks. Such an initiative could foster regional integration by creating alliances between banks and other financial institutions in other regional economic communities.

The chapter on the CFA franc zone explores the future of the zone in light of recent developments, including the failure to launch the common currency of ECOWAS in 2020 and the withdrawal of Burkina Faso, Mali and Niger from ECOWAS. Although the author discusses the pros and cons of leaving the currency zone, he argues that the position to be taken must be based on an objective assessment, not an emotional narrative. He warns that the political will to exit the CFA franc zone must be based on an appreciation of macroeconomic fundamentals.

The last article in this second part takes stock of convergence in the various African RECs. It provides information on the difficulties faced by African RECs and approaches to solutions for accelerating macroeconomic convergence in Africa. **The challenges to macro-economic convergence in Africa are manifold** and include the multiplicity and overlap of RECs, infrastructure development, security and conflict issues, weak institutional frameworks, and insufficient financial resources. Added to this are the external shocks and geopolitical tensions facing African countries, which further reduce their ability to meet macroeconomic convergence criteria, particularly fiscal convergence. Given the central role of the RECs in continental integration in Africa, coordination between the African Continental Free Trade Area (AfCFTA) and the RECs is essential to overcome the challenges of integration.

Part 3 is devoted to the issue of financing development in Africa on a continental scale.

The need for financing for African countries is of crucial importance. Faced with persistent economic, social, environmental, and political challenges, African countries are under increasing pressure to mobilize financial resources to stimulate economic growth, reduce poverty, improve living conditions, and promote sustainable development. **The chapter on meeting financing needs** explores in depth the issues and challenges associated with the financing needs of African countries. By overcoming the challenges of corruption, debt, brain drain, and low private investment while promoting innovative solutions and strategic partnerships, Africa can realize its immense economic and human potential and pave the way for a prosperous and sustainable future for its citizens. In addition, the article examines potential solutions and opportunities that could help overcome these challenges. By adopting an integrated and collaborative approach to mobilizing financial resources, Africa can realize its economic, social, and environmental potential.

The impacts of global warming combined with the major and rapid economic transformations that Africa must undertake make **the question of climate financing crucial**. The article on climate financing shows that current financial flows to African countries are insufficient, and the overall architecture of this financing is complex. The principle of «common but differentiated responsibilities» and climate justice recommends that advanced countries support developing countries in their efforts to achieve sustainable development. The challenges specific to Africa in the context of international negotiations on climate financing recommend prioritizing African needs, emphasizing adaptation and the crucial role of public finance in this area, recognizing the role of subsidies and concessional instruments, facilitating access to financing through UNFCCC financial mechanisms; and integrating the role of central banks, commercial banks, institutional investors and innovative sources of financing to accelerate climate action.

Infrastructure financing in Africa is a major challenge to the continent's sustainable economic development. The chapter dealing with this issue estimates that annual investment needs vary between 130 and 170 billion USD. This financing gap has considerable repercussions on economic growth, the achievement of the SDGs, and the well-being of African populations. Progress in reducing this deficit remains limited, largely due to budgetary constraints and the structural inadequacy of funding for infrastructure projects. Investing in productive infrastructure in Africa would have multiplier effects on national economies, reducing logistics costs and facilitating intra-African trade, thus contributing to the realization of the AfCFTA.

The vital importance of financial support for African agriculture is regularly reaffirmed. The contribution to financing agriculture shows that, despite this reiterated interest, access to credit for small and medium-sized farms in most countries remains a major unresolved problem. A variety of public financing tools and instruments have been implemented, with different trajectories and results depending on the country and the political, social, and economic context (state budgets, special funds funded by public resources or partners). Public agricultural development banks offer advantageous resources, but their inefficiency, fragility, repeated deficits and lack of management transparency have been criticized. Other schemes, such as agricultural insurance, have helped to cover risks, but access to credit remains complex. A few innovations have helped, through digitalization, channel transfers to unbanked smallholders. **These new financing mechanisms are designed to strengthen national food production capacities and links with regional markets**.

The Pan-African Payment and Settlement System (PAPSS) was launched in collaboration with the African Union (AU), Afreximbank, and AfCFTA in 2022 to meet these needs and make AfCFTA a reality. This chapter presents the current state of cross-border payments in Africa and then shows how an efficient and transparent payments ecosystem can enable effective implementation of the AfCFTA by reducing costs, increasing transaction speed, and mitigating risks. It suggests ways to improve existing cross-border payment solutions in Africa: harmonizing regulations, adoption by central banks and by different market players, enabling different players to trade without the intermediary of correspondent banks, leveraging digital transformation, platforms for digital financial services, etc.

The chapter on credit rating in Africa discusses the AU's initiative to support the creation of a rating agency specifically for Africans. The rating system is dominated by three international agencies - Moody's, S&P, and Fitch. Credit ratings first appeared in Africa in the early 1990s. Since then, the number of rated African countries has grown steadily. To date, 32 African countries have a sovereign rating from at least one of the three major rating agencies. Studies have shown that international rating agencies are biased against African countries, and it has been assumed that credit rating analysts have preconceived opinions about rated entities, which ultimately affect the underlying credit ratings. The results of these studies imply that there is a rating bias based on the pre-existing opinions of rating analysts. Is there an analyst bias against Africa? Does this perception justify the idea put forward by the AU and supported by some African countries of creating an African Rating Agency?

The chapter on the AU's financial reform forcefully underlines the fact that the pan-African organization's strategies, programs, and operations are stymied by the limits of its self-financing. Since its creation, the AU's financial structure has been heavily dependent on funding from international partners (external donors), which many believe weakens the Union's autonomy and ability to act independently to pursue its own agenda. While the successful implementation of financial reforms offers opportunities to increase sustainable revenue generation, improve financial management practices, strengthen regional integration, and reduce donor dependency, it also poses certain challenges arising from entrenched bureaucracy, a lack of political will in some cases, and a lack of enforcement mechanisms to ensure compliance by member states.

The Economic Report on Africa focuses on cross-border integration approaches. In this year's version, it focuses on two corridors.

In the Sahel, landlockedness is manifested in the distance from active areas within the national territory and coastlines, compounded by the extensive travel distances needed to reach them. Landlockedness, whether internal or external, refers to the shortcomings of land transport systems. The improvement of transport infrastructures and services, under the aegis of national policies, therefore, remains essential if regional economic potential is to be exploited to the full. However, this is not a sufficient condition. There are several ports serving landlocked countries in the Sahel. Thanks to these ports, several corridors have contributed to the opening of inland countries. Each corridor thus presents a sum of opportunities and constraints to be considered in relation to each of the selected landlocked markets. The major challenge for competing port access corridors is not only to equip them with quality infrastructure but also to maintain this quality over time. The Sahel needs land-use planning policies that go beyond equipment and turn corridors into vectors of development.

The corridor linking Morocco, Mauritania, and Senegal represents a strategic area of vital importance, offering the three countries located along the Atlantic coast the opportunity to consolidate the dynamics of important economic complementarities. These interactions involve not only inter-state relations but also exchanges between companies and individuals. However, significant obstacles persist and hinder trade between these three countries, limiting the full activation of the economic corridor. These challenges include insufficient infrastructure and regulatory and administrative barriers. Overcoming these obstacles would enable the establishment of a true trade and transportation corridor, opening up new economic prospects. The key issue, therefore, lies in activating the levers that allow for the full exploitation of the corridor's potential and transforming this transit route into a truly integrated development space.

The report's Epilogue deals with ethics in the use of Artificial Intelligence. Artificial intelligence (AI), and generative AI in particular, are seen as having the potential to increase human well-being, boost most sectors of the world's economies, and improve the quality of customer service. In addition to the many perceived benefits, AI faces a number of challenges arising from the digital divide and inequalities in accessibility to ICT infrastructure and facilities. AI is expected to have a substantial transformative influence on society at the social, economic, and cultural levels. For it to benefit Africa, it must be developed and implemented with a thorough understanding of local contexts. This implies that AI solutions are not only technically sound but also culturally aligned, inclusive, and led by Africans, for Africans.

In conclusion, this report would not have been possible without the contributions of the authors and the full, effective, and stimulating involvement of two members of the coordinating committee, Ms. Majda Belkheiri and Mr. Mohamed Brick. We would like to thank them sincerely for their total commitment. It goes without saying that the support of PCNS's technical departments was a major factor in the production of a report that met the required quality standards. May they find our expression of consideration in these lines.

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About Policy Center for the New South

The Policy Center for the New South (PCNS) is a Moroccan think tank aiming to contribute to the improvement of economic and social public policies that challenge Morocco and the rest of Africa as integral parts of the global South.

The PCNS pleads for an open, accountable, and enterprising «new South» that defines its own narratives and mental maps around the Mediterranean and South Atlantic basins, as part of a forward-looking relationship with the rest of the world. Through its analytical endeavours, the think tank aims to support the development of public policies in Africa and to give the floor to experts from the South. This stance is focused on dialogue and partnership and aims to cultivate African expertise and excellence needed for the accurate analysis of African and global challenges and the suggestion of appropriate solutions.

As such, the PCNS brings together researchers, publishes their work and capitalizes on a network of renowned partners, representative of different regions of the world. The PCNS hosts a series of gatherings of different formats and scales throughout the year, the most important being the annual international conferences the "Atlantic Dialogues", the "African Peace and Security Annual Conference» (APSACO), and the "Africa Economic Symposium" (AES).

Finally, the think tank is developing a community of young leaders through the Atlantic Dialogues Emerging Leaders program (ADEL) a space for cooperation and networking between a new generation of decision-makers from the government, business, and civil society sectors. Through this initiative, which already counts more than 420 members, the Policy Center for the New South contributes to intergenerational dialogue and the emergence of tomorrow's leaders.

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