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**STATEMENT BY**

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**COMMISSIONER FOR ECONOMIC AFFAIRS**

**AFRICAN UNION**

**AT THE**

**2011 MAKING FINANCE WORK FOR AFRICA PARTNERSHIP FORUM**

**ADDIS ABABA, ETHIOPIA**

**15-16 SEPTEMBER 2011**

**Mr. Stefan Nalletamby, Making Finance Work for Africa (MFW4A)  
Partnership Coordinator**

**Mrs. Jennifer Kargbo, Deputy Executive Secretary, United Nations  
Economic Commission for Africa (UNECA)**

**Members of the Diplomatic Corps here present**

**Distinguished Guests, Ladies and Gentlemen**

On behalf of the African Union Commission (AUC) and indeed on my own behalf, I wish to thank *Making Finance Work for Africa (MFW4A) Secretariat* for having associated the AUC in the organization of this very important Forum. We are honoured to be part of this event, which, among others, provides a unique opportunity for policy makers, private sector actors and technical assistance providers to network with their peers, share experiences, exchange best practices and present innovative approaches to African finance.

**Distinguished Guests, Ladies and Gentlemen**

Until the advent of the global economic and financial crisis, Africa had been on a relatively impressive growth trajectory, recording an average growth rate of about 6% per annum. This was no surprise, in view of the efforts across the continent to bring about rapid socio-economic development through a series of reforms aimed at improving macroeconomic management, strengthening institutions and improving the investment climate, among others. African economies have been generally resilient to the crisis, despite the negative effects of reduced demand for products and a decline in the level of remittances, just to mention a few.

However, it is pleasing to note that African economies are getting back on the track of strong growth. But the current debt crisis facing the developed world at the moment is another cause for concern, considering its potential to trigger another economic recession whose impact would be felt globally. The current unemployment problem in the developed world is also likely to dampen demand for Africa's exports and slow down growth.

The lessons from the economic and financial crisis are many. At the global level, lessons include the need for more effective coordination of responses in view of the interconnectedness of our economies and the need for a comprehensive reform of the international financial architecture. Even though some steps have been taken to address the current imbalance, more needs to be done to give the developing parts of the world, including Africa, more voice. More leadership is also needed to progress on the currently stalled Doha Round of trade talks. At the continental level, Africa has come to the realization that it has no choice but to expedite the ongoing regional and continental integration process.

### **Distinguished Guests, Ladies and Gentlemen**

According to the report released recently by Ernest & Young, “ FDI flows have increased strongly in the past decade, investor perceptions of Africa are ever improving and the outlook is positive, with capital inflows forecast to reach US\$150bn by 2015” . Indeed, the region continues to be attractive given that it has some of the fastest economic growth rates in the world, it enjoys the highest returns on investment in the world, and it is making strong and steady progress towards economic and political reforms. Thus, much more could be done to realize the enormous potential that Africa has to offer.

To do business, there is need for markets that will attract much needed capital. The fiscal reform agenda and debt management efforts that African countries have been able to pursue have shown the emergence, expansion, and, in some cases, even led to the deepening of local bond markets. Perhaps more importantly for debt management, African countries have been progressively becoming more transparent and predictable in the manner in which they issue debt and report on it. Further, primary dealers’ systems have now been adopted by many African countries to provide the much needed liquidity and more and more securities are now being listed. The challenge, however, is for African

countries to ensure that their macro-economic and foreign exchange policies are robust enough to attract capital flows.

### **Distinguished Guests, Ladies and Gentlemen**

Some lessons can also be drawn from the current debt crisis in the Euro-Zone and its threat to the continued existence of the Euro. As Africa embarks on its monetary integration agenda, the need to harmonise and coordinate fiscal policy, in addition to monetary policy harmonization, is extremely important. The need for strong institutions to address issues of imbalance and effective monitoring of convergence and economic consolidation performance is also critical. In light of the Euro-Zone experience, Africa has the benefit of emulating the good practices while avoiding the pitfalls of monetary unions.

It is worthy of mention that regional and continental integration continues to gain momentum in Africa. Integration is expected to create benefits such as larger markets through free movement of people, goods, services and capital; greater scope for trade and increased investment; development of regional capital markets; and greater cooperation in addressing peace and security issues. Progress in implementing Africa's integration agenda is, therefore, important for increased intra-African trade, which currently remains very low (at about 10% compared to about 60% in the European Union).

The low level of intra-African trade remains a major concern to Africa, explaining why African Union Heads of State and Government have decided to have as the theme for their next Summit to be held here in Addis Ababa in January/February 2012 "Boosting Intra-African Trade". In this regard, I am pleased to note that one of the working sessions of this Forum will be on *Financial Integration as a Catalyst for Greater Intra-Regional and African Trade*. I look forward to the outcome of that session which could serve as a valuable input to the Summit deliberations.

## **Distinguished Guests, Ladies and Gentlemen**

The lack of adequate financing continues to be one of the biggest impediments to Africa's integration and development agenda. Theoretical and empirical research has shown a strong positive relationship between sound financial systems and economic development. The financial system is crucial for the mobilization of savings, enhancing the efficiency of investments, reducing the cost of intermediation and maintaining macroeconomic stability.

In recognition of the aforementioned, African countries have been implementing financial sector reforms since the 1980s. However, the impact of these reforms, in terms of financial sector deepening, remains minimal. For instance, interest rates on borrowing and long term finance for investment remain high and in short supply, respectively, in most African countries. This continues to hamper Africa's efforts to promote sustainable economic growth and development and reduce poverty. Significant steps, therefore, are required to improve financial policies, the financial infrastructure (legal and regulatory systems and payment systems) and financial institutions in Africa.

It is clear that the ongoing process of regional and continental integration cannot yield the desired impact if the problem of the financial sector is not addressed adequately. In this regard, the AU Commission continues to work steadfastly with Member States in the establishment of the three Financial Institutions as provided for in Article 19 of the Constitutive Act of the AU, namely, the African Investment Bank, the African Monetary Fund and the African Central Bank. Some progress is being made, albeit slow.

In addition, the African Union Commission will also continue to assist Member States and the Regional Economic Communities (RECs) in the area of financial

sector deepening. Areas of focus shall include the elaboration of financial sector development strategies, implementation of the AU's micro-finance policy and action plan, establishment of a pan-African stock exchange, implementation of banking and financial standards, and capacity building in the financial sector. We hope we can count on the support of our pan-African sister institutions, the United Nations Economic Commission for Africa and the African Development Bank, and Partners such as MFW4A. It is important that MFW4A collaborates with the African Union Commission given its critical role in enhancing access to finance in Africa. In the past, the AUC and MFW4A have worked together in the area of microfinance leading to the adoption by the African Union Heads of State and Government of a Policy Framework and Action Plan for the Development of Microfinance in Africa.

In the context of addressing the key question of financing vis-à-vis its impact on Africa's ongoing development and poverty reduction efforts, I am pleased that the publication entitled *"Financing Africa: Through the Crisis and Beyond"* will be launched at this Forum. This will surely contribute to the efforts of African policy makers to capture opportunities and overcome the challenges faced by Africa's financial sector. We eagerly look forward to its launch.

**Distinguished Guests, Ladies and Gentlemen,**

In conclusion, I wish to reiterate that the African Union attaches great importance to the promotion of sustainable socio-economic growth and development and attainment of the Millennium Development Goals (MDGs). In this respect, Africa will continue to implement its regional and continental integration agenda, in addition to efforts at country level. I acknowledge the work of each and every one of you is supporting African Union efforts and look forward to strengthening our collaboration with you.

I thank you for your kind attention and wish *Making Finance Work for Africa 2011 Partnership Forum* successful deliberations.

