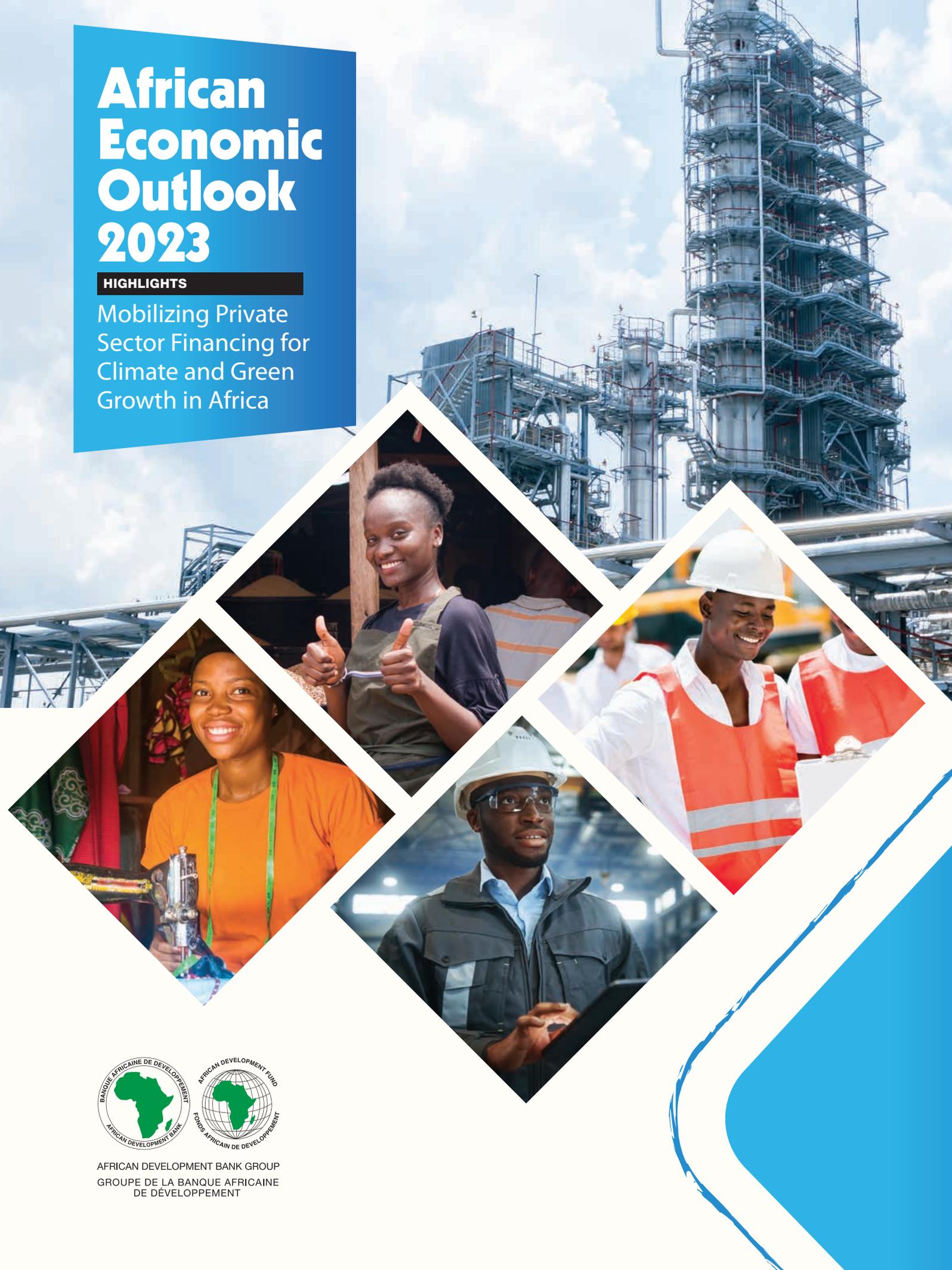


# African Economic Outlook 2023

## HIGHLIGHTS

Mobilizing Private  
Sector Financing for  
Climate and Green  
Growth in Africa



AFRICAN DEVELOPMENT BANK GROUP  
GROUPE DE LA BANQUE AFRICAINE  
DE DEVELOPPEMENT

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# FOREWORD

**A**frican economies have consolidated their recovery from the debilitating impact of COVID-19 while navigating an uncertain global environment characterized by the tightening of global financial conditions, spillover effects of Russia's invasion of Ukraine,<sup>1</sup> subdued global growth, and persistent climatic threats.

These multiple and dynamic shocks have weighed on Africa's growth momentum, with growth in real gross domestic product (GDP) estimated at 3.8 percent in 2022, down from 4.8 percent in 2021. The GDP growth in 2022 is above the global average of 3.4 percent, and all but two African countries posted positive growth rates. Despite significant headwinds, Africa has also shown remarkable resilience, evident in the projected consolidation of economic growth in the medium term. The outlook remains positive and stable, with a projected rebound to 4 percent in 2023 and further consolidation to 4.3 percent in 2024. Our projections show that 18 African countries will experience growth rates surpassing 5 percent in 2023, a number expected to increase to 22 in 2024.

This continued resilience will be reinforced by expected improvements in global economic conditions, fueled by China's reopening and a downward adjustment of interest rates as the effects of monetary policy tightening on inflation start to bear fruit. The projected rebound in growth will depend on underlying economic characteristics. For example, growth in oil-exporting countries is expected to benefit from oil prices, which, despite the recent decline, remain elevated. Non-resource-intensive economies will gain from their more diverse economic structures, highlighting the importance of diversification in withstanding shocks.

However, like elsewhere in the world, higher food and energy prices fueled strong inflationary pressures in 2022. As a result, inflation remained elevated across the continent and reached double digits in 18 African countries, putting additional pressure on public budgets as governments stepped up social spending to cushion vulnerable populations from the impacts of higher prices. In the face of these socioeconomic challenges, the Bank has demonstrated its unwavering commitment to building a resilient and prosperous Africa. Through its \$1.5 billion African Food Crisis Response and Emergency Facility, it provided much-needed support to bolster local food production and enhance food security across the continent.

Even so, Africa faces several downside risks to its growth prospects that call for cautious optimism. The tightening of global financial conditions and appreciation of the United States dollar have exacerbated debt service costs and could increase the risk of debt distress, especially for countries with severely constrained fiscal positions. The prolonging of Russia's invasion of Ukraine remains a major global risk that heightens uncertainty and could aggravate

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<sup>1</sup> Agreed wording 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."

Africa's food insecurity situation and living costs more generally. This is in addition to climate change, which continues to threaten lives, livelihoods, and economic activities.

Against this backdrop, the *2023 African Economic Outlook* (AEO) explores the potential roles of the private sector in financing Africa's climate action and green growth ambitions as well as the benefits of Africa's enormous and untapped natural capital as a complementary source of financing. These two potential financing sources are important given the already strained public finances in most African countries and the scale of resources needed for climate action and green growth. Between \$2.6 trillion and \$2.8 trillion is needed by 2030 to implement Africa's climate commitments as expressed in countries' recently submitted Nationally Determined Contributions (NDCs). When adding United Nations estimates of \$1.3 trillion needed annually to achieve the Sustainable Development Goals (SDGs), the magnitude of Africa's sustainable development financing requirements becomes starkly apparent. The report thus makes a strong case for private sector financing by identifying investment opportunities across different sectors, presenting a taxonomy of barriers and risks to attract private investments in climate and green growth, and discussing innovative financing instruments, and policy and regulatory instruments to attract private sector financing.

Taking stock of Africa's huge natural wealth, estimated at \$6.2 trillion in 2018, the report discusses the complementary role of natural capital in financing climate action and green transitions and proposes concrete actions to improve the governance of Africa's natural wealth and increase local content and value addition for extractive resources. It also recognizes the emergence of new technologies such as manufacturing of electric vehicles and how Africa can leverage its critical minerals to become the next hub for global green development.

As Africa's premiere development finance institution, the Bank has been very active in attracting private financing for climate action and green growth in Africa and in supporting Regional Member Countries (RMCs) to improve the governance of their natural resources. We have spearheaded important initiatives and instituted several innovative financing mechanisms to scale up climate co-financing

across the continent. For instance, we have used a climate safeguard screening system to ensure that all our projects are aligned with the goals of the Paris Agreement. Last year, under the ADF-16, we established a \$429 million Climate Action Window, which will allow us to mobilize up to \$13 billion for climate adaptation for 37 low-income and fragile states, the worst impacted by climate change. Through our African Natural Resources Management and Investment Centre and in conjunction with the African Legal Support Facility, we have been building the capacity of African governments to better manage their resources for inclusive and sustained growth. We also provide RMCs with advisory services and technical assistance for effective contract negotiations and improved and transparent management of renewable and non-renewable natural resources.

However, the Bank cannot be in the oven and at the mill at the same time. That is why the report is calling for an urgent action from all stakeholders. African countries will need to put in place all the necessary legal and fiscal apparatus not only to address structural barriers to private investments in climate actions and green transitions but also to improve the management of their natural resources and to create incentives for local beneficiation, processing, and value addition. Multilateral Development Banks (MDBs) and other Development Financial Institutions (DFIs) will also need to be reformed if they are to remain relevant to the new reality underpinned by the growing socioeconomic challenges confronting African countries. As key players in unlocking development and international finance, MDBs need to become less risk averse by cautiously reducing their capital adequacy ratios, moving away from project-based finance to financing a system-wide sustainable transition, and being given stronger and more coherent mandates from their shareholders to deliver transformative climate action and green growth outcomes.

Let us therefore join forces to support African countries address the existential threat of climate change and achieve sustainable and inclusive development.

**Dr. Akinwumi A. Adesina**

President, African Development Bank Group

# HIGHLIGHTS

## CHAPTER 1 AFRICA'S ECONOMIC PERFORMANCE AND OUTLOOK

### **African economies remain resilient amidst multiple shocks with average growth projected to stabilize at 4.1 percent in 2023–24, higher than the estimated 3.8 percent in 2022**

Africa's growth in real gross domestic product (GDP) was estimated at 3.8 percent in 2022, down from 4.8 percent in 2021 but above the global average of 3.4 percent. The growth slowdown was attributed mainly to the tightening global financial conditions, and supply chain disruptions exacerbated by Russia's invasion of Ukraine,<sup>1</sup> subduing global growth. Growth was also impaired by the residual effects of the COVID-19 pandemic and the growing impact of climate change and extreme weather events. While the deceleration was broad-based, with 31 of the 54 African countries posting weaker growth rates in 2022 relative to 2021, the continent performed better than most world regions in 2022, with the continent's resilience projected to put five of the six pre-pandemic top performing economies—Benin, Côte d'Ivoire, Ethiopia, Rwanda, and Tanzania—back in the league of the world's 10 fastest-growing economies in 2023–24.

Growth is projected to rebound to 4 percent in 2023 and consolidate at 4.3 percent in 2024, underpinning Africa's continued resilience to shocks (figure 1 and appendix table A1.1). The forecast for 2023 has been maintained as predicted in the January 2023 edition of *Africa's Macroeconomic Performance and Outlook* (MEO) published by the African Development Bank Group. However, due to expected slight improvements in medium-term global and regional economic conditions—mainly underpinned by China's re-opening and slower pace of interest rate adjustments—the forecast for 2024 has been revised up by 0.4 percentage points relative to the January 2023 MEO projection. Despite this, climate change, elevated global inflation, and persistent fragilities in supply chains will remain on the watchlist as potential factors for possible slowdowns of growth in the continent.

1 Agreed wording 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."

Growth is projected to rebound to 4 percent in 2023 and consolidate at 4.3 percent in 2024, underpinning Africa's continued resilience to shocks

### The medium-term growth outlook is heterogeneous across Africa's regions

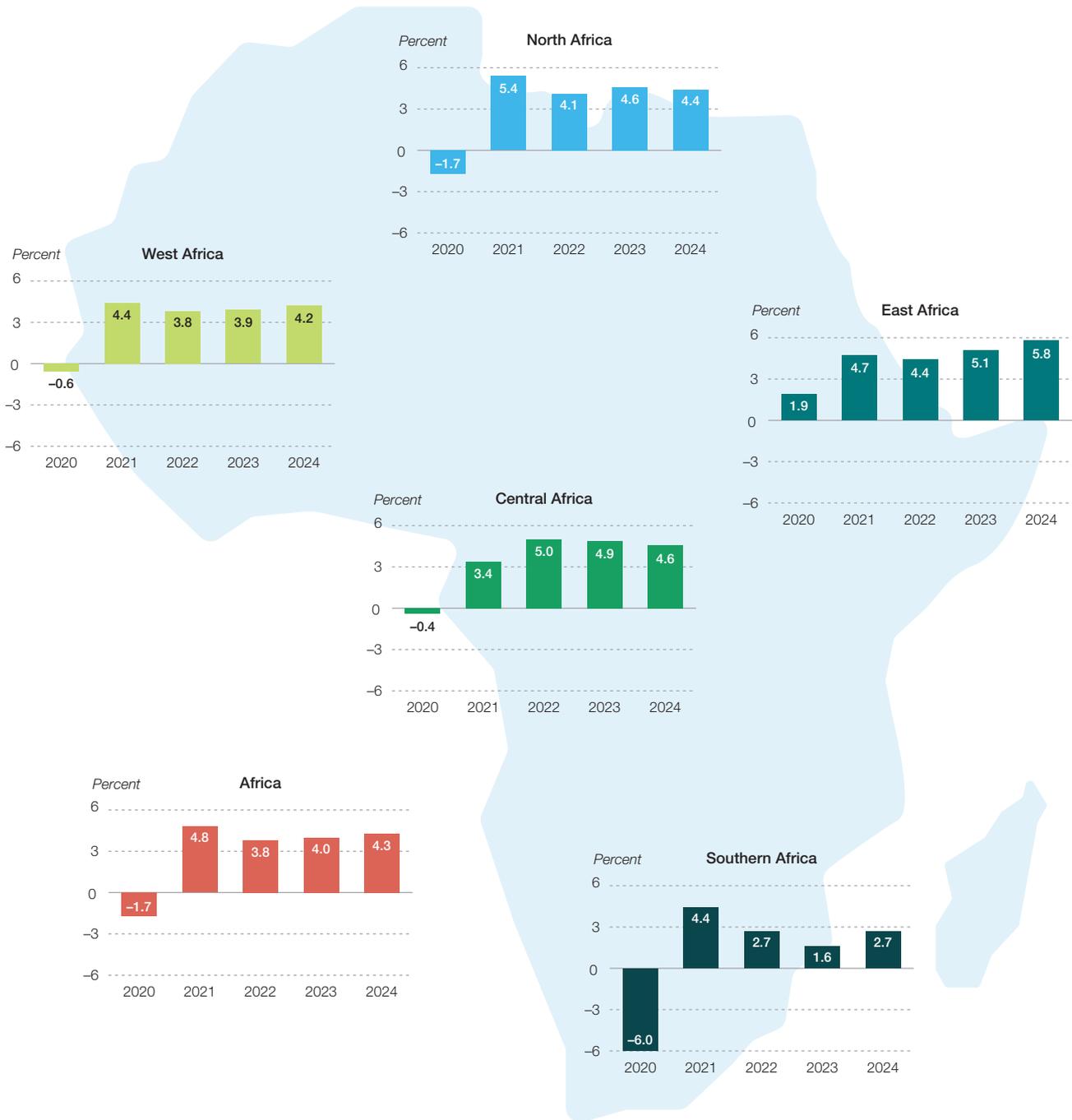
- The growth momentum in **Central Africa** is projected to decline from an estimated 5.0 percent in 2022 to 4.9 percent in 2023 and 4.6 percent in 2024. The slowdown reflects a downward trend in commodity prices from their peak in 2022. Central Africa comprises mostly commodity exporters, and fluctuations in commodity prices indicate the risks associated with commodity export dependence across these countries.
- Growth in **East Africa** is projected to strengthen from an estimated 4.4 percent in 2022 to 5.1 percent in 2023 and 5.8 percent in 2024. With the exception of South Sudan, growth in all countries in this region are estimated to increase in 2023, with seven of them achieving 5 percent GDP growth or higher, driven by fairly diversified production structures and a decline in commodity prices. Many countries in East Africa are commodity importers, and lower prices would benefit their GDP growth. However, pockets of drought and insecurity remain and may pose a challenge to achieving the projected higher growth.
- In **North Africa**, growth is projected to rise from an estimated 4.1 percent in 2022 to 4.6 percent in 2023 and 4.4 percent in 2024. The increase in 2023 will come largely from the strong recoveries in Morocco and Libya, the former from devastating drought, the latter from fluctuating oil production.
- Growth in **Southern Africa** is projected to decelerate by 1.1 percentage points, from an estimated 2.7 percent in 2022 to 1.6 percent in 2023. But with the right policy interventions, growth could recover to 2.7 percent in 2024. The projected sharp decline in 2023 largely reflects continued growth weakness in South Africa, the region's largest economy and trading partner, from an estimated 2.0 percent in 2022 to 0.2 percent in 2023, as it grapples with the impact of high interest rates and persistent power outages on economic activity.
- Growth in **West Africa**, despite macro-economic challenges in some of the region's large economies, is projected to rise from an

estimated 3.8 percent in 2022 to 3.9 percent in 2023 and 4.2 percent in 2024. This favorable outlook reflects higher growth in the region's small economies. Of the nine countries with projected growth rates of 5 percent or higher in 2023, eight are small economies, accounting for 15 percent of the region's GDP and 22 percent of the projected growth.

### The growth outlook also varies according to economic groupings reflecting diverse exposure to underlying economic uncertainties

- Growth in **tourism-dependent economies** is projected to decline from an estimated 8.4 percent in 2022 to 4.9 percent in 2023 and 4.4 percent in 2024, reflecting an abating base effect and growth slowdowns in important tourist source markets, especially Europe and North America.
- Despite the decline, oil prices have remained above the five-year trend, boosting growth in **oil-exporting countries** since the recession at the peak of COVID-19. Growth in this group, estimated at 4.0 percent in 2022, is projected to strengthen to an average of 4.2 percent in 2023 and 2024. The oil output effect, notably in Libya and Nigeria, could also shore up economic growth as production improves following efforts to tackle insecurity.
- Growth in **other resource-intensive economies** is, however, projected to decline from an estimated 3.0 percent in 2022 to 2.4 percent in 2023, with a recovery to 3.5 percent in 2024. The growth deceleration in 2023 is largely attributed to limited diversification and the lower prices of key commodities, notably minerals, amid weak global growth.
- **Non-resource-intensive economies**, largely countries with more diversified economic structures, are likely to sustain their resilience. Average growth for the group is projected to accelerate to 5.0 percent in 2023 and 5.6 percent in 2024 from an estimated 4.4 percent in 2022. This group recovered the strongest from the effects of COVID-19. The projected higher growth underscores the importance of economic diversification to weather the effects of exogenous shocks.

**FIGURE 1** Growth performance and outlook, by region, 2020–24



Source: African Development Bank statistics.

**Sustained tightening of global financial conditions has put pressure on African national currencies.** National currencies in Africa’s net commodity exporters lost substantial value in 2022, mainly due to monetary policy tightening

in the United States, which propped up the US dollar and historical domestic macroeconomic imbalances. Zimbabwe’s dollar, Ghana’s cedi, and Sierra Leone’s leone were among Africa’s most devalued currencies against the US dollar in

2022, with respective depreciation rates of around 323.4 percent, 42.5 percent, and 34.0 percent. Although most African currencies weakened, others appreciated or remained stable. Countries with appreciating currencies included Angola (27.1 percent), Seychelles (15.6 percent), and Zambia (15.3 percent). Depreciation rates could ease in 2023 and 2024, but continued strengthening of the US dollar will keep African currencies under pressure. Currency weaknesses in some of Africa's more globally integrated economies (Kenya, Nigeria, and South Africa) are expected to persist in 2023, largely due to potential capital outflows as investors search for safe assets in advanced economies.

**Africa's average consumer price inflation is projected to increase from an estimated 14.2 percent in 2022 to 15.1 percent in 2023, and to decline to 9.5 percent in 2024.** The projected increase in 2023 mirrors structural weaknesses in most African countries: supply constraints to offset the effects of elevated food prices, dependence on energy imports, even in key oil producers such as Nigeria, and exchange rate passthrough effects from the stronger US dollar. The resulting increase in the cost of living could further intensify price-induced social unrest events across the continent. Other contributors include the lingering impact of supply chain disruptions, excess demand fueled by massive government spending in the aftermath of the pandemic, and spillover effects of Russia's invasion of Ukraine. The return to single-digit inflation in 2024 after four years of sustained build-up in inflationary pressures reflects the benefits of monetary policy tightening and countries' efforts to tackle structural impediments to domestic food supplies. The number of countries with at least double-digit inflation in 2024 is projected to halve from 16 in 2023, down from the 18 in 2022. Countries with inflation-targeting frameworks have been more successful in taming inflation relative to non-targeting peers. The former group's average inflation, at 10.9 percent in 2022, was half the rate for non-targeters (23.1 percent), and the trend is expected to persist in 2024. The inflation rate for inflation targeters is projected to hit single digits of 7.9 percent, against 13.6 percent

for non-targeters in 2024. Figure 2 presents the detailed outlook for countries' key macro-economic indicators in 2023–24.

**Fiscal performance improved in 2022, reflecting reversals of pandemic-induced expansionary spending across the continent.** The overall fiscal deficit is estimated to have narrowed to 4 percent of GDP in 2022 from 4.9 percent in 2021. The fiscal deficit in 2022 also shows a 0.4 percentage point improvement from the earlier estimate of 4.4 percent of GDP reported in the 2023 MEO. This is the second consecutive year of improved fiscal position after the sharp deterioration to 6.8 percent of GDP in 2020 due to large fiscal support to alleviate the socioeconomic impacts of the pandemic. The sustained improvement was broad-based, and Africa's average fiscal deficit is projected to stabilize at 4.1 percent of GDP in 2023 and could narrow to 3.8 percent in 2024, below the pre-pandemic 4 percent in 2019.

**Improvement in the current account positions in oil-exporting countries was insufficient to mitigate weaknesses in other economies.** Net oil exporters recorded a current account surplus of 1.4 percent of GDP in 2022, benefiting from higher oil prices, which helped reverse a deficit of 1.1 percent the previous year. However, the current account in non-resource and other resource-intensive countries deteriorated further, eroding the gains from their oil-exporting peers. The deficit in non-resource-intensive economies rose from an estimated 5.4 percent of GDP in 2021 to 7.6 percent in 2022 and 2.8 percent of GDP in other resource economies, against a surplus of 0.5 percent the previous year. Despite an improvement in tourism-dependent economies from 21.5 percent in 2021, the current account deficit remained elevated at 14.4 percent of GDP in 2022, reinforcing the deterioration in other resource economies and non-resource dependent counterparts. As a result, Africa's average current account deficit widened to 2.1 percent of GDP in 2022 from 1.7 percent in 2021.

Continued implementation of corrective measures to restore external balances and increased export revenues could prop up the current

Africa's average consumer price inflation is projected to increase from an estimated 14.2 percent in 2022 to 15.1 percent in 2023, and to decline to 9.5 percent in 2024

**FIGURE 2** Outlook for key macroeconomic indicators, average, 2023–24

	GDP growth	Inflation	Current account balance	Fiscal balance		GDP growth	Inflation	Current account balance	Fiscal balance
Algeria	2.7	7.2	2.7	-4.8	Lesotho	2.3	6.0	-5.5	-5.3
Angola	3.7	11.4	4.1	-0.1	Liberia	4.5	7.4	-16.4	-4.0
Benin	6.1	2.5	-3.9	-4.3	Libya	13.0	4.6	23.7	20.5
Botswana	3.9	7.0	3.4	1.5	Madagascar	4.6	8.9	-5.5	-3.3
Burkina Faso	3.8	4.9	-3.0	-5.6	Malawi	2.7	19.1	-12.0	-7.8
Burundi	4.6	9.7	-9.2	-4.2	Mali	5.2	2.5	-6.7	-4.4
Cabo Verde	6.0	7.1	-6.2	-4.0	Mauritania	5.1	8.5	-9.8	-1.7
Cameroon	4.3	4.6	-3.0	-0.7	Mauritius	4.6	6.3	-6.4	-5.1
Central African Rep.	2.4	6.2	-11.4	-4.0	Morocco	3.4	4.5	-4.2	-4.3
Chad	3.7	3.3	-2.8	5.7	Mozambique	6.6	8.2	-25.0	-3.8
Comoros	3.7	2.6	-4.7	-2.7	Namibia	2.8	5.2	-4.3	-5.2
Congo Dem. Rep.	7.6	9.9	-4.0	-2.4	Niger	9.4	2.5	-14.0	-4.9
Congo Rep.	4.3	2.9	6.2	6.0	Nigeria	3.3	16.6	-0.2	-4.8
Côte d'Ivoire	7.1	3.2	-6.0	-4.7	Rwanda	7.8	6.5	-11.0	-7.4
Djibouti	5.9	3.0	22.2	-2.1	São Tomé & Príncipe	1.8	11.5	-15.0	-5.0
Egypt	4.8	14.0	-3.0	-5.4	Senegal	7.7	3.0	-11.3	-5.2
Equatorial Guinea	-3.9	3.1	-8.6	-3.2	Seychelles	4.7	4.3	-5.1	-1.0
Eritrea	2.9	5.6	10.5	-1.6	Sierra Leone	4.0	24.0	-7.7	-2.8
Eswatini	4.2	5.3	0.9	-4.1	Somalia	3.2	4.1	-14.6	-1.1
Ethiopia	6.0	24.1	-3.7	-2.8	South Africa	0.8	5.2	-2.3	-6.5
Gabon	2.8	3.3	-2.0	1.4	South Sudan	2.1	13.7	6.8	4.9
Gambia, The	5.4	10.4	-11.2	-2.2	Sudan	2.9	79.4	-2.4	-1.4
Ghana	2.4	32.5	-2.7	-9.0	Tanzania	5.8	4.3	-4.6	-3.5
Guinea	5.6	10.6	-5.6	-2.7	Togo	6.4	3.2	-6.2	-5.9
Guinea-Bissau	4.9	4.3	-4.4	-4.4	Tunisia	2.3	8.0	-5.9	-5.0
Kenya	5.8	7.3	-5.1	-5.8	Uganda	6.6	6.3	-8.9	-4.2
					Zambia	4.1	7.8	-0.5	-7.7
					Zimbabwe	3.2	84.2	0.6	0.1

Note: This heatmap plots the countries' outlook for selected key macroeconomic indicators. Countries are green for good performers, yellow for fair performers, and red for weak performers. Real GDP growth above 6 percent green, 4–6 percent yellow, and below 4 percent red. Inflation below 5 percent is green, 5–9.9 percent yellow, and above 10 percent red. Current account surplus is green, deficits below 5 percent yellow, and above 5 percent red. Fiscal surpluses and deficits below 3 percent are green, 3–5 percent yellow, and above 5 percent red. Source: AfDB staff calculations.

account, with the deficit projected to stabilize at around 2.3 percent in 2023–24, an improvement of more than 1.5 percentage points from the pre-pandemic 3.8 percent. Corrective measures to restore external balance include fiscal consolidation and monetary policy actions to curb domestic inflation and reverse capital outflows, reduce dependence on imported products, and enhance African countries' external competitiveness.

**Public debt is projected to remain high, with lingering vulnerabilities.** Although the median public debt in Africa is estimated to have declined to 65 percent of GDP in 2022 from 68 percent in 2021 thanks to debt relief initiatives in some countries, it will remain above the pre-pandemic level of 61 percent of GDP. Moreover, this debt-GDP ratio is expected to increase to 66 percent in 2023 and then to stabilize at around 65 percent in

2024 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 them 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 main downside risks to the outlook

#### *Main headwinds include:*

- Subdued global growth, which, if it weakens further, could affect demand for Africa's exports.
- The associated persistence of tight global financial conditions, which could exacerbate the cost of debt service and drive more countries into debt distress or a high risk of debt distress.
- Losses and damages due to frequent extreme weather events with potential to translate into a fiscal crisis as countries expand public spending to rebuild damaged infrastructure and protect affected households.
- Sustained geopolitical tensions including a prolonged Russia's invasion of Ukraine remains a major source of global risk and heightened uncertainty. Further escalation could affect commodity prices and dampen medium-term growth prospects and endanger the resilience of Africa's economic recovery.
- Unresolved internal conflicts in some countries are diverting resources from growth-enhancing public investments and activities toward military spending.
- Political risks due to upcoming national elections in some countries could affect investors' confidence and cause disruptive capital outflows and depress investment.

#### *Main tailwinds include:*

- A faster than expected rebound in China's growth, which could spill over and accelerate

growth in the rest of Asia and the global economy, increasing demand for Africa's exports, boosting growth.

- Improved effectiveness of monetary policy in tackling inflation in Africa and globally would mean a faster exit from the cycle of aggressive policy tightening toward more support for the economy and livelihoods.
- Reduced pace of tight monetary policy could also halt appreciation of the US dollar, providing a respite for African currencies.
- Ongoing efforts by the global coalition on climate change to mobilize resources to combat the effects of climate change could lessen physical impacts and create fiscal space to invest in greening Africa's economies.

### A mix of short term and medium to long term policies is needed to accelerate and sustain the momentum of Africa's economic growth

#### *In the short term:*

- A clearly communicated anti-inflation monetary policy, supported by prudent fiscal policy, will achieve lower inflation faster at minimum cost to the economy.
- Macroprudential policies such as capital and liquidity buffers to supplement monetary policy actions will be necessary to address financial stability risks and maintain price stability.
- Coordinated debt treatment strategy between official and private creditors is key to avoiding debt crisis given tight global financial conditions and a bunching of debt service payments.

#### *Over the medium to long term:*

- Scaling up domestic revenue mobilization is critical to restore fiscal sustainability and finance inclusive growth and sustainable development.
- Enacting strategic industrial policies to accelerate economic diversification in Africa would limit the effects of recurrent headwinds and global shocks.
- Boosting regional trade would enhance Africa's resilience to spillovers from global economic slowdown and reduce persistent trade deficits.

In the short term, a clearly communicated anti-inflation monetary policy, supported by prudent fiscal policy, will achieve lower inflation faster at minimum cost to the economy

- Reforming the global financial and debt architecture would reduce the cost, time, and legal complications associated with debt restructuring for African countries.
- Governance reforms should strengthen public financial management to deal with increased debt and tight fiscal space.

## CHAPTER 2 PRIVATE SECTOR FINANCING FOR CLIMATE ACTION AND GREEN GROWTH IN AFRICA

**Sustainable development, economic growth, and climate action are critical for Africa, and concurrently achieving these priorities requires commitments to green growth pathways.** Since the beginning of the 21st century, Africa’s population has almost doubled and its GDP quadrupled. However, Africa currently contributes only about 4 percent of global GHG emissions, much less than China (30.9 percent), the United States (13.5 percent), European Union (7.5 percent), or India (7.3 percent). The continent has also been severely affected by recent global events and risks, including the COVID-19 pandemic, and the disruptive effects of Russia’s invasion of Ukraine. So, although Africa has committed to addressing climate change, significant environmental and social issues and inequalities remain that can be addressed only by promoting green growth.

**Africa has a great potential to pursue green growth and climate objectives to accelerate economic growth.**

- First, it has some of the world’s fastest-growing economies and its real GDP growth is projected to surpass the global average in 2023–24, even as headwinds persist. Embedding climate change in policy frameworks could catapult the continent to a higher and greener growth trajectory over the next decades.
- Second, the continent has an important human capital base, with its population projected to increase to 2.4 billion by 2050. As most of the current population is young, compared with other regions’ aging population, Africa is

the current and future frontier market in green growth opportunities.

- Third, Africa hosts 25 percent of the world’s natural biodiversity and 30 percent of the world’s mineral resources, most of which will be essential for a green transition.
- Fourth, Africa has a large renewable energy potential—including wind, solar, hydropower and geothermal—and the world’s highest solar energy potential.
- Last, African countries have the greatest potential for investments in green infrastructure and technology due to their low levels of development, low legacy high-emissions infrastructure, and low frequency of infrastructure and project finance default rates, estimated at 5.5 percent.

**Despite all the above potential and the urgency of green transitions, Africa’s progress toward green growth has been slow.** Between 2010 and 2021, Africa was among the least performing regions in achieving green growth targets, lagging Europe, North America, East Asia and Pacific, and Latin America and the Caribbean but above South Asia and the Middle East. In particular, the continent has underperformed on the promotion of green economic opportunities, such as green trade, green innovation, and green investment. The continent’s share of exports of environmental goods to total exports—a proxy for green trade—was the world’s lowest, at 1.5 percent on average over 2010–20, well below an average of at least 3 percent in other world regions. Underperformance is similar in green employment, measured by the share of green jobs in total manufacturing employment, which averaged 2.5 percent in Africa between 2010 and 2018, less than half the average of 5.5 percent for the rest of the world. Despite progress on efficient and sustainable resource use, and on the promotion of social inclusion, the continent has not yet been able to catch up with other world regions on green growth.

**The participation of the private sector in financing climate action and green growth is crucial to address climate challenges and to fast-track progress on green growth.** Public climate finance alone is insufficient to materialize

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Although Africa has committed to addressing climate change, significant environmental and social issues and inequalities remain that can be addressed only by promoting green growth

Between \$2.6 trillion and \$2.8 trillion—or \$234.5–\$250 billion a year—is needed by 2030 to implement the continent’s climate action ambitions

Africa’s green growth agenda. The United Nations estimates that about \$1.3 trillion will be required annually to meet Africa’s financing needs for Sustainable Development Goals (SDGs) by 2030. To move from billions to trillions of climate finance, and given already strained public resources, bolstering resource mobilization from the private sector becomes imperative.

In addition, it is in the private sector’s best interest to invest in climate action and green growth sectors, thanks to the enormous opportunities for high returns they offer. For example, there are climate investment opportunities of about \$1 trillion through 2030 in energy-efficient buildings, low-carbon transport, and renewable energies in Africa. And investing \$1.8 trillion between 2020 and 2030 in climate adaptation and resilience could generate private sector investors \$7.1 trillion in net benefits globally. The electric vehicle (EV) market also offers a trillion-dollar market opportunities for private investors. Africa is at the center of this supply chain given its substantial endowments in lithium, cobalt, nickel, manganese, graphite, iron, and phosphate, critical minerals in the production of lithium-ion batteries used in EV and electricity storage.

**However, private climate finance flows in Africa have fallen short of the continent’s needs.** Between \$2.6 trillion and \$2.8 trillion is needed by 2030 to implement the continent’s climate action ambitions as expressed in Nationally Determined Contributions (NDCs) submitted by April 2023. Put annually, this comes to between \$234.5 billion and \$250 billion. However, of the \$29.5 billion in total climate finance flows in Africa in 2019–20, private finance of \$4.2 billion was on average more than six times lower than public finance (\$25.3 billion), the lowest proportion among the world’s main regions. Given the current level of private finance flows, Africa’s private climate finance gap is thus estimated to reach about \$213.4 billion a year (about 6.9 percent of Africa’s projected GDP of \$3.1 trillion in 2023) on average through 2030, assuming that the private sector covers the entire shortfall in climate finance needs. To close this gap by 2030, private climate finance in Africa would therefore need to increase by about 36 percent a year.

**However, important barriers on the supply and demand sides continue to inhibit the full potential of private investments in climate action and green growth sectors in Africa.** The absence of clear and robust green growth policies and long-term strategies (LTSs) in many countries increase their investment risk profile and deter private actors from investing in green growth sectors. To date, only seven African countries have LTSs, and only 18 countries put in place policies and regulations specifically designed to attract private participation in green growth projects. Due to low technical, human, and institutional capacity in managing critical phases of climate and green growth project cycles, few projects get past the feasibility or planning stage. In addition, the lack of investment-ready project pipelines for climate action and green growth and the high levels of public debt limit the capacity of most countries to crowd in additional private sector finance. On the supply side, international private investors perceive African markets as high risk, leading to high costs of capital and high required rates of return. The high perceived risks result in African countries being awarded largely subjective poor credit ratings in international capital markets, in most cases below the investment grade. And some private actors, particularly those that recently committed to greening their investments, have limited experience in African markets, so they base their investment decisions on asymmetric or limited information about the performance of investments in different African markets.

**Despite existing barriers, many investment opportunities in climate action and green growth abound and could be leveraged to unlock private sector financing.** Sectors that rely on climate-smart and low-carbon technologies—such as renewable energies and electric vehicles, energy-efficient buildings, climate-resilient infrastructure, improved dryland agricultural crop production, and resilient water resources—represent trillion-dollar market opportunities to the private sector in Africa. Africa’s ICT market, expected to have grown from \$95.4 billion in 2020 to \$104.2 billion by 2023, offers good investment potential in green technologies, such as robotic trees, parasitic drones, clean-air buses, and air separation plants. Agriculture and

agribusiness sectors, with increased demand for climate-smart agricultural technologies—such as smart and renewable energy-powered irrigation, biocontrol products and precision applicators, climate-resilient livestock feed, and smart systems for pest or weed control—has the potential to become a \$1 trillion market by 2030.

**Several transformative policy actions can turn all this potential into concrete investment opportunities and mobilize private sector financing for green growth in Africa.** Developing regulations, standards, and policies—in close collaboration with multilateral development banks (MDBs) and development finance institutions (DFIs)—for climate and green growth investments can guide potential investors. Increasing the use of blended finance instruments can de-risk investments in climate and green growth sectors. Expanding the use of sustainable financing instruments such as green bonds and loans can help crowd in private investments. Strengthening domestic financial institutions, tapping into the expanding global and domestic private equity and venture capital appetite for African markets, and cautiously engaging with the emerging carbon markets and debt-for-climate swaps and climate-linked debt, are also options to raise more private climate finance for the continent.

**To help mobilize more private financing for climate and green growth in Africa, MDBs and DFIs need to be reformed.** Only around one-third of private finance mobilized by these institutions targeted climate action in 2018–20. As key players in unlocking development and international public finance, MDBs and DFIs should become less risk averse by cautiously reducing their capital adequacy ratios, establishing tailor-made capital and liquidity frameworks and reassessing existing regulatory capital and other prudential norms. They should move away from project-based finance to finance a system-wide sustainable transition. They should build internal capacity to integrate low-carbon, climate-resilient perspectives into policymaking. And their shareholder governments should give them stronger and more coherent mandates to deliver transformative climate action and green growth outcomes.

## Policy recommendations

- *African countries should develop and cost LTSs to provide strong signals to domestic and international stakeholders on their green growth and climate change priorities.* They should translate these strategies into sectoral strategies, plans, and regulations. The strategies should be comprehensive and cover all sectors and be fully mainstreamed into the whole economy, not developed and implemented in silos.
- *They also need to strengthen governance and accountability systems to ensure that the proceeds from private finance generate the expected and maximum impact for green growth.* Impact monitoring and evaluation frameworks should have clear metrics and transparency and accountability systems for institutions managing this finance. These enabling policy and regulatory reforms will create incentives for the private sector to invest in both adaptation and mitigation.
- *They should establish national standardized blended finance vehicles that offer attractive returns.* They should use these vehicles effectively by ensuring that financial allocations demonstrate additionality and proportionality. The potential impact of these investments should inform the allocation of finance for blending, particularly by ensuring a balance between infrastructure financing and social development and environmental management projects.
- *MDB and DFIs need to support African countries' efforts to address debt sustainability and create an enabling environment for climate investment.* They need to expand the issuance of concessional finance for green growth and climate change projects without pushing countries into further debt. They should also enhance the roll-out of sustainable debt mechanisms to countries at risk of debt distress, for instance through domestic capital markets based on local currencies.
- *These institutions should lead global efforts to support African countries in creating a conducive environment for climate investment and in advancing their transition to a low-carbon pathway.* This will require constant interactions and complementary engagements of all stakeholders to objectively assess countries' climate

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African countries should develop and cost long-term strategies to provide strong signals to domestic and international stakeholders on their green growth and climate change priorities

Africa is endowed with 30 percent of the world's mineral resources and 65 percent of the world's uncultivated arable land, the world's most productive forests both in timber and carbon retention resources, and ample solar, wind, and hydropower. However, the returns from these resources have persistently been below their potential

and investment risk profile over time, develop mechanisms and tools to address them, and identify opportunities to enhance resilience.

- *Rating agencies need to expand their framework to better reflect the real potential for the African market.* This could involve reforming rating procedures to ensure that risk or credit ratings include the true potential of the African green growth markets. The increasing calls for the reform of the rating agencies and the ongoing progress toward the establishment of an African Rating Agency are steps in the right direction.
- *Developed country governments, which make up a majority of the shareholders of MDBs and DFIs, should champion discussions and actions that enable these institutions to reduce their aversion to risk.* This can be done by allocating more callable capital to MDBs, lowering MDB capital adequacy ratios, and reducing the profitability targets of DFIs.

### CHAPTER 3 NATURAL CAPITAL FOR CLIMATE FINANCE AND GREEN GROWTH IN AFRICA

**Africa is abundantly endowed with renewable and non-renewable natural resources.** It is endowed with 30 percent of the world's mineral resources and 65 percent of the world's uncultivated arable land, the world's most productive forests both in timber and carbon retention resources, and ample solar, wind, and hydropower. However, the returns from these resources have persistently been below their potential. Thus, while the share of Africa's resources in the world is considerable, the value of these resources, reflecting their use, is small or not measured appropriately. The trend over the past quarter century shows a decline in the value of natural capital per capita—a strong indication that development has not been sustainable. Considering the significant climate change challenge that Africa faces and the gaps in climate finance, it is imperative that Africa—a continent well-endowed with enormous natural resources—leverage its natural capital to finance its green transition.

**Natural wealth is the part of nature that generates well-being for people.** The Convention on Biological Diversity broadly defines natural wealth as the stock of natural assets, which include air, soil, water, geology, and all living things. Natural capital is part of a country's wealth, which includes other forms of capital—human, social, and physical. Reliable, comprehensive, and harmonized data on natural capital is, however, generally lacking due in part to the difficulty and complexity of precisely quantifying and valuing natural wealth on Earth. Concerted global efforts spearheaded by the United Nations and partner organizations are underway to integrate natural capital and ecosystem services in standard system of National Accounts through new frameworks such as the System of Environmental Economic Accounting (SEEA) and the SEEA Ecosystem Accounting. But challenges remain.

**Africa's natural capital was estimated at \$6.2 trillion in 2018, though the actual value of this capital could be much higher if reliable data were available on recent mineral and other extractive resource discoveries.** Due to challenges of measurement and valuation, the estimated values of natural capital do not consider several resources, including ecosystem services in the form of land-based sequestered carbon stocks, solar, wind, and biodiversity—and the ecosystem services they provide. Africa's predominant types of measured natural capital are renewables, primarily land, forest, cropland, pasture, and protected areas. But due to population growth and other factors, natural capital per capita in Africa fell from \$4,374 in 1995 to \$2,877 in 2018. This is concerning since a large part of the population depends on natural resources for livelihoods, so the result is increasing inequality and vulnerabilities, including to climate risks.

**There is a vast potential to increase the productivity of renewable natural capital while sustaining it.** With the right human capital and industrial policies, physical assets and ecosystems could provide a higher value of output without compromising environmental quality. In this regard, the application of circular economy principles—recycling and recovering materials

when possible—has the potential to increase the productivity of natural capital. And the efficiency of sequestering carbon in terrestrial ecosystems can be further increased.

**Africa possesses significant mineral resources that are key to the global transition to a net-zero carbon future, including bauxite, cobalt, graphite, lithium, manganese, and vanadium.**

More than half of African countries have at least one of the critical metals and minerals needed for the energy transition, placing the continent in a strategic position to influence the global net zero transition. But Africa participates only in the small value components of the total global value chain, accounting for only about 10 percent of the total global value of such minerals, primarily exporting raw materials with little or no local value addition. That makes it important for African countries to break the vicious cycle stemming from excessive dependence on the export of natural resources by creating more value on the continent, strengthening productive capabilities, and expanding exports and intra-African trade through the African Continental Free Trade Area (AfCFTA). Africa's estimated 600 trillion cubic feet of natural gas reserves, estimated at \$210 billion in 2018, could also be used to fast-track the continent's energy access.

**The extractive sector contributes to public and private finance in many African countries, with some countries heavily reliant on these resources for public revenue.**

Africa's extractive resources will contribute more than \$30 billion annually to government revenue by 2040. The continent's value of non-renewable natural capital was estimated at \$2.4 trillion in 2018, with mineral and fossil fuel wealth estimated to be \$215 billion and \$1.06 trillion, respectively. For natural resource wealth to drive sustainable economic development, African countries must ensure they receive a fair share of resource rents and effectively manage revenues generated from such resources. Tax policies should be designed to internalize environmental opportunity costs associated with the exploitation of non-renewable resources, but the negotiated royalty taxes are low in many African countries. So, African governments should deploy

different fiscal instruments to obtain a fair share of revenues from non-renewable resources.

**Renewable resources replenish themselves over time and can generate benefits in perpetuity if the extraction rate does not exceed the reproduction rate.**

If the resources are extracted sustainably, their flow generates revenue streams and is not considered capital-depleting. For instance, Africa's annual captured fish production is estimated at 10 million tons—about 7 million tons from marine fisheries and 3 million tons from inland fisheries. Mangroves, as a coastal ecosystem in tropical and subtropical regions, provide several economic and ecosystem benefits, including carbon sequestration, flood protection, biodiversity conservation, and timber and non-timber forest benefits. The continent's forest cover is estimated at about 637 million hectares, or 23 percent of the continent's land area. In addition, wooded landscapes and trees outside forests are estimated at 350 million hectares, or 13 percent of the land area. There is also enormous potential for ecotourism to leverage natural resources and wildlife. Tourism is a powerful source of economic growth and job creation, with a strong environmental and gender dimension. Protecting biodiversity and forests through a multifaceted approach involving government policies, community engagement, and public education and awareness is thus imperative.

**International multilateral agreements can provide opportunities for African countries to tap into new resources and markets.**

A global low-carbon transition to net-zero greenhouse gas emissions by 2050 presents considerable resource-based opportunities. Africa is already much closer to net-zero than other world regions, and thus could further build on this advantage to attract funding from, for example, increased sequestration of carbon in forests. There are opportunities for trade in carbon credits under the Paris Agreement as prices on emission reductions in compliance markets are much higher than in voluntary markets. The wedge between compliance and voluntary markets is widening. For instance, the difference between the European Union (EU)-Emissions Trading System and

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African countries must break the vicious cycle stemming from excessive dependence on the export of natural resources by creating more value on the continent, strengthening productive capabilities, and expanding exports and intra-African trade through the African Continental Free Trade Area

Africa has also lost more than \$1 trillion in illicit flows over the last 50 years and is likely to continue to lose about \$89 billion a year if corrective action is not taken

voluntary carbon markets for Africa in 2017 was just \$3.41 per metric ton of emission, but widened to \$52 per metric ton in 2021. The potential annual cost reductions through trade in carbon credits instead of each country implementing its NDCs on its own could total about \$250 billion in 2030 and rise to \$1 trillion in 2050.

**Another opportunity is the EU Carbon Border Adjustment Mechanism, which aims to support the low-carbon transition by cutting emissions by 55 percent by 2030 and to net-zero by 2050.**

It allows trade in carbon emission permits in goods that are produced emitting carbon dioxide (CO<sub>2</sub>). Africa has the potential to benefit from this mechanism due to its enormous carbon sequestration potential. Greening initiatives such as the Great Green Wall Initiative, which also provide funding opportunities for carbon sequestration through tree plantation, could further solidify these benefits from carbon trades. Recently, COP 27 in Sharm El-Sheikh, Egypt, reached a landmark agreement on creating a Loss and Damage Fund for vulnerable countries with aims to provide financial assistance to developing countries most affected by the adverse effects—losses and damages—of climate change. Similarly, the Convention on Biological Diversity (CBD) agreement provides environmental protection opportunities for African countries through the Global Environment Facility. Other opportunities include the proliferation of voluntary carbon markets and the Adaptation Benefit Mechanism, an innovative mechanism managed by the African Development Bank to mobilize new and additional public and private sector finance for enhanced climate change adaptation action.

**African countries need to build institutional capacity.**

The meager benefits for Africa from past international agreements have been partly attributed to the limited capacity to negotiate better positions, underpinned by the limited capacity to take stock of its resources and to identify and communicate gaps for assistance. Most African countries also fail to negotiate for optimal benefits from their natural resources with private investors, partly due to the challenge of conducting surveys to ascertain the value of resource reserves.

**To fully harness their natural resource potential for climate finance and green growth, African countries should improve the governance of their natural resources.**

In many resource-rich countries, including those in Africa, resource rents have resulted in fierce contests between ruling elite factions in the process of creating, capturing, allocating, and distributing the rents. The resource curse has been manifested in most African countries, casting a negative socioeconomic and political outcome from mismanagement of rents from extractive sectors. Africa has also lost more than \$1 trillion in illicit flows over the last 50 years, and it is likely that Africa will still lose about \$89 billion annually, if corrective action is not taken. Illicit financial flows typically originate from corporate resource leakages, organized crimes, corruption, and bribery. Drivers of illicit financial flows include high tax rates on natural resources, low institutional capabilities, political instability, and poor regulatory quality.

Policy and governance options to increase the contribution of natural capital to green growth transitions in Africa include separating policy and regulatory functions in cases where various government institutions and departments have conflicting mandates. They also include improving natural capital and sovereign credit risk factors to earn a better rating. The rich natural capital on the continent stands as a barometer of the confidence and creditworthiness of governments. Finally, policymakers should have the right local content policy to add value and invest in building local capacity and improve regional integration to enhance trade and cooperation in tackling cross-border challenges, such as the smuggling of nature-based products.

**Policy recommendations**

- *The global community should honor pledges and commitments in international agreements such as the agreement on a Loss and Damage Fund, the post-2020 Global Biodiversity Framework, and the Paris climate agreement.* Developed countries also need to establish a global fund for nature that incorporates and incentivizes the preservation of nature and sustainable natural resource management. This

includes funding the Global Biodiversity Framework and raising its ambition to meet the financial requirement of \$200 billion a year by 2030.

- *Increase collaboration and coordination among stakeholders—including international and regional multilateral organizations, national governments, and the private sector—to invest in sustainable management of Africa’s natural resources.* To improve the governance of natural resources, there must be deliberate efforts to safeguard biodiversity and ensure that resource extraction is done sustainably and equitably, inclusive of communities, indigenous people, and human rights, especially in ecologically sensitive areas where threats to biodiversity and habitat destruction are very high.
- *Develop long-term policy options to establish markets for innovative financing mechanisms.* Consider bio-credits, sustainable bonds, carbon bonds, resource-backed loans, Certified Adaptation Benefits, debt-for-nature swaps, and natural capital funds. However, it is crucial to consider the nature and origin of the entities financing the debt-for-nature swaps, as some may have interests other than strict development or environmental conservation. These can be done both in the voluntary and intergovernmental sectors but should avoid depletion of renewable natural resources and promote responsible extraction and use of non-renewable natural resources.
- *Promote a circular economy in nature-sensitive investments to responsibly guide the environmental, social, and governance aspects of natural capital.* Increase material reuse and recycling in non-renewables (such as green minerals) and renewables (sustainable fishing and forestry management). This can provide significant win-win opportunities for investment in nature-based solutions and the overall protection of biodiversity.
- *African countries need a strong and sustained commitment to carry out public policy reforms to ensure that natural resource wealth drives sustainable economic development.* This will trigger actions to resolve the myriad of other management and governance issues, including internalizing environmental opportunity costs associated with exploiting natural resources

and investing in natural capital. The actions include developing Natural Capital Investment Plans as complements to National Biodiversity Action Plans; mainstreaming natural capital in development planning and finance; integrating natural capital accounting in the national systems of accounts; developing specific fiscal instruments to improve renegotiation of royalty rates and windfall taxes, to generate more revenue from Africa’s natural resources. Other actions are reforming state-owned enterprises to promote beneficial ownership and working with global credit rating institutions to feature natural capital more prominently in credit ratings for fairer ratings so that African countries can have improved access to international capital markets. Developing strategies that will also give African countries the impetus to process at least 50 percent of their primary commodities into consumable goods by 2030. The implementation of this set of recommendations could fast-track development in Africa because no country can develop by exporting raw materials.

- *Re-basing countries’ GDP in the light of the positive externalities associated with the carbon sequestration value of forest ecosystems could further expand the economic base, and will align it with the inclusive growth agenda.* The benefits of carbon sequestration to overall GDP and as value for the purpose of credit rating is an area where risk rating agencies and African scholars could explore more using growing opportunities of big data and innovative models that will incorporate the pricing of these positive externalities as global public goods.
- *Africa’s natural capital accounts need to be developed, transparent, and open to the public to build investor confidence in the role of natural capital in financing inclusive economic growth.* This would be a first step toward generating appropriate macroeconomic management and sustainability indicators as part of the regular system of national accounts. It could also help generate geological and geospatial data by investing part of natural resource rents to support regional exploration, carry out required environmental assessments, and strengthen negotiation power with investors.

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- *Africa's endowment in green development minerals needed in the battery value chain will require a regional approach, cooperation, and capacity building to ensure effective value addition.* In addition, producing lithium-ion batteries from Africa's substantial mineral resources will be necessary to decarbonize the supply chains while creating decent and quality employment opportunities on the continent. However, such investments need conducive and stable policies and institutions to foster regional collaborations.
- *Multilateral development partners could support African countries by supporting the design of appropriate fiscal instruments and policies to extract revenues from resources and ecosystem services, invest in human capital, and build capacity in international negotiations.* To increase international financing for climate adaptation, mitigation, and nature, MDBs should play a role in de-risking climate and nature-related investments, as is done in the Adaptation Benefits Mechanism.



Africa's real GDP growth is projected to rebound to 4.0 percent in 2023 after slowing down to 3.8 percent in 2022. The projected recovery will be underpinned by expected improvements in global economic conditions with China's reopening and slower pace of interest rate adjustments.

The outlook is, however, subject to significant downside risks, including subdued global growth weighing on Africa's exports, persistently tight global financial conditions exacerbating debt servicing costs, significant losses and damages due to frequent extreme weather events accentuating fiscal pressures, Russia's prolonged invasion of Ukraine, increasing global uncertainty and continuing disruptions to global supply chains. Other factors include elevated geopolitical risks due to upcoming national elections in some countries.

The dynamics of Africa's macroeconomic fundamentals remain mixed. Inflation has risen in many countries and is projected to increase further in 2023, to 15.1 percent. In contrast, fiscal performance has improved, reversing the effects of pandemic-induced expansionary spending across the continent. Current account positions improved in oil-exporting countries, but this was not enough to mitigate weaknesses in other economies.

Navigating the headwinds that threaten Africa's recovery will require a combination of policies to rein in inflation while accelerating growth's momentum. In the short term, strong anti-inflationary monetary policy supported by greater fiscal discipline and macroprudential policies will be essential. In the medium and long terms, countries have to scale up domestic revenue mobilization, define a coordinated debt-restructuring strategy, and promote economic diversification.

This year's report, *Mobilizing Private Sector Financing for Climate and Green Growth in Africa*, outlines options to fast-track private investments in climate action and green growth in Africa and to prudently harness the continent's natural capital as a complementary financing source to drive the continent's inclusive and sustainable development.

The Bank's new research on Africa's climate finance needs estimates that private sector financing will need to grow annually by 36 percent until 2030 to close the continent's climate finance gap, evaluated on average at \$213.4 billion per year. Unlocking private climate financing will require addressing demand- and supply-side barriers while developing innovative financing instruments to tap into the continent's enormous investment opportunities in climate and green growth.

The report finally highlights the important role of Africa's huge natural capital, valued at \$6.2 trillion in 2018, in bridging the prevailing climate finance gap and promoting green growth transitions. Through sustainable management, Africa's abundant natural capital can be transformed into financial assets to complement financing for climate adaptation and mitigation, as well as into investments that support green growth transitions. This will require the deployment of appropriate policies and instruments, including fiscal instruments, to better understand the true value of Africa's natural capital, strengthen local content and value addition, build institutional capacity to address gaps in governance that have prevented the continent from realizing the full potential of its natural endowments, and create regional value chains and markets to benefit from cross-regional synergies.

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