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# Africa Business Forum 2025

## From potential to prosperity: activating Africa's regional value chains

Round table 1: Catalysing greater financing and investment for regional value chains in Africa

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Addis Ababa | Economic Commission for Africa | Africa Hall

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### Issues note

#### I. Introduction

1. Real gross domestic product (GDP) growth in Africa is forecast to strengthen further to 4.3 per cent in 2025. Remarkably, 10 African countries will rank among the world's 20 fastest-growing economies – a trend that has been maintained for over a decade.<sup>1</sup>
2. The fortitude shown by Africa amid global challenges offers a promising foundation for financing regional value chains, yet significant hurdles persist. Despite being the world's second-fastest-growing region in aggregate terms, Africa ranks last in per capita terms.<sup>2</sup> This pace falls short of driving essential investments in infrastructure, industrial capacity, skills, and research and development, which are necessary ingredients for reliable and competitive value chain systems. Conversely, the large African population, which is projected to reach 2.5 billion by 2050 – constituting nearly 25 per cent of the global working-age population<sup>3</sup> – presents a unique opportunity to harness the demographic dividend. Leveraging regional value chains will help to turn this large population into an asset rather than a liability by generating good-quality and diversified jobs.
3. Against this backdrop, round table 1 will provide an opportunity to explore critical questions about bridging the financing gap, de-risking investments and repositioning Africa beyond cost competitiveness to strengthen regional value chains.

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<sup>1</sup> African Development Bank, *African Economic Outlook 2024: Driving Africa's Transformation – the Reform of the Global Financial Architecture* (Abidjan, African Development Bank, 2024).

<sup>2</sup> Ibid.

<sup>3</sup> Saurabh Sinha and Melat Getachew, "As Africa's population crosses 1.5 billion, the demographic window is opening; getting the dividend requires more time and stronger effort", Economic Commission for Africa, 12 July 2024.



## II. Navigating the financing gap

4. Africa has limited fiscal space to finance regional value chains, with debt service costs projected to reach \$74 billion in 2024, a sharp increase from \$17 billion in 2010.<sup>4</sup> To accelerate structural transformation – defined as shifting workers from low-productivity sectors to high-productivity sectors, a process that is closely tied to value chain development – the continent must bridge an annual financing gap of \$402.2 billion. This represents 13.7 per cent of projected African GDP for 2024. Road links dominate this gap, accounting for 72.9 per cent, followed by education (10.4 per cent), energy (9.9 per cent) and productivity (6.8 per cent).<sup>5</sup>
5. Africa has significant untapped opportunities to mobilize its own resources, in particular by deepening financial markets and promoting greater financial inclusion. Such efforts as formalizing economic activities and expanding the use of digital platforms beyond mobile banking can unlock substantial potential. Remittances hold promise as the continent’s largest and most stable external funding source.<sup>6</sup> For instance, remittances to Kenya surpassed \$4 billion in 2023,<sup>7</sup> far outpacing the \$1.6 billion earned from that country’s top exports (coffee, tea and spices).<sup>8</sup> Private-sector innovations, such as M-PESA’s partnerships with PayPal and Western Union, slashed remittance costs to just 1.7 per cent per \$200 transaction. Furthermore, such public-private initiatives as M-Akiba empower Kenyans to invest in government bonds, thereby leveraging homegrown funds to finance development.<sup>9</sup>

## III. De-risking investment in Africa

6. In addition, African domestic resource mobilization efforts must be accompanied by international efforts. Rechannelling \$100 billion in special drawing rights to multilateral development banks could unlock \$46.2 billion annually. Multilateral development bank reforms backed by the Group of 20 could add \$5.2 billion per year. The International Monetary Fund’s lending into arrears policy could recover \$44 billion in debt arrears, and fairer global credit ratings could save \$74 billion annually in interest payments. Combined, the \$169.4 billion generated yearly could fill 42 per cent of the \$402.2 billion financing gap.<sup>10</sup>
7. Foreign direct investment in Africa has stalled at \$40–50 billion annually for years, even before the coronavirus disease (COVID-19) pandemic, revealing a persistent gap between potential and realized investment. Major challenges include macroeconomic volatility, market fragmentation and weak local supply chains. In addition, opaque or sudden policy changes act as a tax on investment.<sup>11</sup> The case of Uganda shows that policy consistency and political stability often matter more

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<sup>4</sup> African Development Bank, *African Economic Outlook 2024*.

<sup>5</sup> Ibid.

<sup>6</sup> Ibid.

<sup>7</sup> Nick Mwangi, “Kenyan diaspora remittances hit record high of Ksh670 billion in 2023”, Nairobi Wire, 23 January 2024.

<sup>8</sup> Daniel Workman, “Kenya’s top 10 exports”, World’s Top Exports.

<sup>9</sup> African Development Bank, *African Economic Outlook 2024*.

<sup>10</sup> Ibid.

<sup>11</sup> Dani Rodrik, “Policy uncertainty and private investment in developing countries”, *Journal of Development Economics*, vol. 36, No. 2 (October 1991).

than incentives when attracting foreign direct investment.<sup>12</sup> Another barrier is the inflated risk premium imposed by global credit rating agencies in the absence of targeted and updated information on feasible investment opportunities, which drives up the costs of lending in Africa. The risks are often overstated: a study of 8,000 project loans found that African infrastructure projects had one of the lowest default rates of any region, at 1.9 per cent, outperforming Eastern Europe (12.4 per cent), Latin America (10.1 per cent), North America (6.6 per cent) and Asia and Western Europe (both standing at 4.6 per cent).<sup>13</sup>

8. In the light of these circumstances, de-risking strategies must address the unique challenges, inflated risk perceptions and information asymmetries in Africa. Important actions include strengthening political risk insurance through partnerships with multilateral agencies, scaling up blended finance to attract private capital in high-potential regional value chain sectors, building African capital markets and credit rating systems and engaging in targeted investment promotion.
9. Ultimately, operationalizing the Agreement Establishing the African Continental Free Trade Area could be a game-changer in de-risking investment in African regional value chains. By eliminating most tariffs, which average 6.9 per cent, and reducing 14.3 per cent of non-tariff barrier costs,<sup>14</sup> the Agreement significantly lowers transaction costs and fosters an integrated trading environment. In an era of rising global uncertainty and escalating trade protectionism, harmonized continental regulations will further enhance the stability and resilience of value chains.

#### **IV. Repositioning Africa beyond cost competitiveness**

10. While African labour costs appear to be low, limited productivity offsets this advantage. On average, African firms' labour costs per worker are 60 per cent of the costs of comparable firms outside the continent. When adjusted for GDP per capita, however, this dynamic flips dramatically, with African firms' labour costs per worker reaching 190 per cent of those of their peers – meaning that they pay more for labour relative to their economic output.<sup>15</sup> A regional value chain locational strategy cannot, therefore, be based solely on cheap labour, but instead needs to be grounded in the continent's real competitive advantages.
11. Labour productivity has shown progress in Africa but remains sluggish, growing at an average of 1.26 per cent annually between 1990 and 2021. Moreover, this growth has been uneven across sectors. The African agriculture sector stands out among high-potential regional value chain sectors, employing 42 per cent of the workforce, yet suffering from the lowest labour productivity, which is 60 per cent below the average for all sectors. In contrast, mining, utilities and financial services, employing just 3 per cent of workers, are over 10 times more productive.

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<sup>12</sup> Marios Obwona, "Determinants of FDI and their impact on economic growth in Uganda", *African Development Review*, vol. 13, No. 1 (June 2001).

<sup>13</sup> Kevin Kelhoffer, "Examining infrastructure as an asset class", Moody's Analytics, 5 May 2020.

<sup>14</sup> Economic Commission for Africa, "AfCFTA: what you need to know – frequently asked questions & answers", Issue 1 (March 2023).

<sup>15</sup> Alan Gelb and others, "Can Africa be a manufacturing destination? Labor costs in comparative perspective", Center for Global Development Working Paper, No. 466 (2017).

This productivity gap leaves most African workers trapped in low-productivity sectors, which in turn deters the production transformation that the continent is seeking.<sup>16</sup>

12. To address this productivity gap and move beyond the low-cost-labour narrative, Africa must reposition itself with a broader range of pull factors to attract investment. African countries must invest in upskilling through policies that target technical and vocational education and training and education in science, technology, engineering and mathematics. For resource-rich countries, this includes training geologists, agronomists and other experts to unlock the potential of minerals and arable land for structural transformation. Within the framework of the Agreement, the continent can reposition itself by fostering economies of scale and scope, standardizing production, and enabling larger markets through the development of vertical and horizontal cross-industry linkages.

## V. Guiding questions

13. The following questions will guide discussions during the round table:
  - (a) What specific financing mechanisms and partnerships can private sector actors and Governments adopt to bridge the African financing gap for regional value chains? How can international institutions, including multilateral development banks, complement these efforts?
  - (b) Which practical de-risking measures, such as policy consistency, risk-sharing models or improved credit rating systems, can attract private investment and promote the development of high-potential regional value chain sectors within the framework of the Agreement?
  - (c) What are the main productivity gaps faced by businesses operating in African high-potential regional value chain sectors? How can Africa reap the full benefits of its demographic dividend in a digital era with decreasing reliance on human labour?
  - (d) How can public and private investments in education, in particular in technical and vocational education and training along with education in science, technology, engineering and mathematics, align with long-term goals for regional value chains, enhance productivity and create competitive advantages beyond labour cost considerations?

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<sup>16</sup> African Development Bank, *African Economic Outlook 2024*.