THE ACCOUNTANCY PROFESSION ENABLING AFRICA'S TRANSFORMATION

SEIZING AFRICA'S POTENTIAL

> The prospects of Africa are directly related to the contribution of the accountancy profession.

Accountancy and finance professionals in the public and private sectors are critical in enabling sustainable economic development in Africa. Those on boards, as CFOs and business advisers in companies and in public sector organizations can help navigate challenges including the effects of climate change, lack of energy access and regional integration, inequality, low growth and public debt.

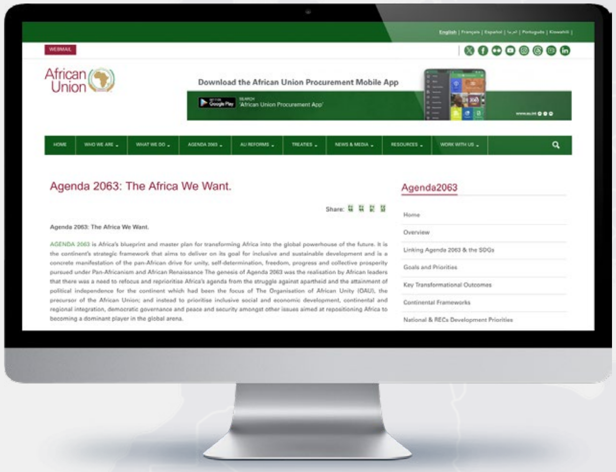
Africa is unique in its economic focus on basic materials and production, rapid urbanization, young populations and natural resources. Given the continent's positive demographics and wealth of natural resources, Africa is well positioned for growth and transformation. However, greater regional integration and significant financing are needed to achieve the Africa Union's Agenda 2063, and to elevate the continent's role in the global economy. According to the African Development Bank (AfDB), infrastructure requirements, including support of Africa's climate change adaptation and mitigation, are estimated to cost between USD 68 and 108 billion annually. Africa's ability to grow sustainably depends on mobilizing private sector capital flows in addition to public sector capital, diversifying capital-raising strategies and enabling the bankability of projects through de-risking and raising confidence for investors.

As trusted advisers, professional accountants can support governments and businesses to access funding, and to secure alternative sources of finance, including through innovative public-private partnerships and delivering information to enable informed decision making.

At IFAC's Professional Accountants in Business (PAIB) Advisory Group meeting in South Africa in March 2024, regional experts discussed how accountancy and finance professionals empower Africa's growth through regional integration and mobilizing sustainable development financing and private capital. The panel was led by the PAIB Advisory Group Chair, **Sanjay Rughani**.

Panelists

- **Landry Singé**, Senior Fellow Global Economy and Development Program, Brookings Institution
- **Wale Shonibare**, Director, Energy, Financial Solutions, Policy and Regulation, African Development Bank
- **Josephine Okui Ossiya**, CEO, Capital Markets Authority Uganda, & PAIB Advisory Group member
- **Allen Asiimwe**, Chief of Programmes and Deputy CEO, TradeMark Africa
- **Angge Roncal Bazan**, ESG Investment Specialist – ESG Development & Advocacy, Amundi Asset Management
- **Bruce Thomas**, Finance Executive: Reporting, Nedbank
- **Chemutai Murgor**, CFO Kenya, Standard Chartered Bank
- **Cobus Grove**, Specialist, Investec Bank Ltd South Africa and UK
- **Ravi Poyyapakkam**, Director, BPSOU, Budget, Performance Review & Strategic Planning



The demographic and economic opportunity

- 2.1 billion people will live in Africa in 2040, an increase from 1.4 billion in 2020. By 2030, about 40% of the youth population globally will be African. 59% of the population will live in urban areas by 2050, and by 2030 there will be 17 cities with more than 5 million inhabitants and 5 with more than 10 million inhabitants.
- The continent has 12 of the 20 fastest-growing economies and will become the World's second fastest-growing region.

2.1 BILLION PEOPLE WILL LIVE IN AFRICA IN 2040,

AN INCREASE FROM 1.4 BILLION IN 2020.

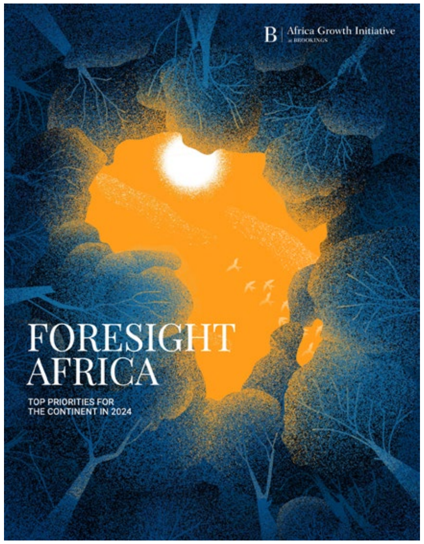
THE CONTINENT HAS **12** OF THE **20** FASTEST-GROWING ECONOMIES.

A just transition

- Agenda 2063 is the blueprint and roadmap for transforming Africa to deliver inclusive and sustainable development. It identifies the goals and priorities to boost economic growth and sustainable development including climate resilience, peace and security, regional integration, digital transformation, financing for development and enhancing human capital in the context of a just transition.
- A just transition requires taking into account both environmental impact and social and economic development needs. Africa generates around 4% of global emissions with 68% of its emissions driven by four countries: South Africa, Egypt, Algeria and Nigeria. Africa is disproportionately impacted by the physical risks of climate change which drives social and economic challenges. Lack of energy access is a key challenge to be addressed (around 43% of the population, or 600 million people, lack access to electricity and demand for affordable energy is expected to grow rapidly).

Opportunities in regional integration and finance

- Connectivity and regional integration across the African continent are important goals for sustainable economic growth and can be enabled by improving intra-continental trade, technology, and infrastructure.
- Significant increases in infrastructure investment are needed to boost trade and climate mitigation and adaptation at the same time as dealing with sovereign debt distress made worse through soaring inflation.



Foresight Africa 2024, Top Priorities for the continent in 2024, Brookings Institution, highlights the following top priorities for Africa in 2024

- Development financing
- Climate change
- Entrepreneurship and structural transformation
- Trade and regional integration
- Digital economy
- Gender
- Governance

African economies can deliver comprehensive economic programs by designing country-led green, sustainable growth strategies. However, for these policies to be successful they need the right policy environment and adequate financing from both domestic and external sources

TRADE – AFRICAN CONTINENTAL FREE TRADE AREA

The AfCFTA agreement signed by 54 African countries aims to create one African market for goods and services to drive intra-continental trade to boost economic integration and industrial development. The World Bank estimates that with the right actions the AfCFTA could raise Africa's exports to the rest of the world by 32% by 2035, and catalyze foreign direct investment.

The economic development of Africa depends much on export-driven growth in key products such as coffee, cotton, textiles and raw materials. Enabling greater continental imports will help the development of regional value chains, particularly in new competitive sectors such as raw materials for battery production.

AfCFTA provides enormous potential but with significant risks including rising emissions and the impact of regulatory developments in overseas markets such as the EU's Carbon Border Adjustment Mechanism. The current rate of increase in domestic and international trade in goods risks significantly increasing Africa's contribution to global emissions.

Consequently, there is a need to reduce carbon footprint and invest in emissions reduction. The tightening regulations in export markets need to be navigated with better risk management and solutions to limit emissions growth and drive efficiency. The rise in intra-continental trade is currently outstripping investments and capacity to drive efficiency in trade and reduce blockages and barriers.

In a strategic business partnering role, accountancy and financial professionals have a key advisory role to help companies take advantage of the significant growth potential of increased trade, while navigating the risks. This particularly involves advising small and medium-sized businesses and entrepreneurs on how to adapt and tap into trade growth and increase production capacity and productivity.

Journey to AU2063: professional accountants empowering the AfCFTA agreement identifies how the profession can make a significant contribution to overcoming barriers to trade as the super-connector of key players in the AfCFTA:

- Professional services harmonization (quality enablers)
- Institutional ecosystem harmonization (oversight providers)
- Business ecosystem harmonization (trade actors)
- Finance ecosystem harmonization (bridge builders)
- Policy and political ecosystem harmonization (ratifiers)

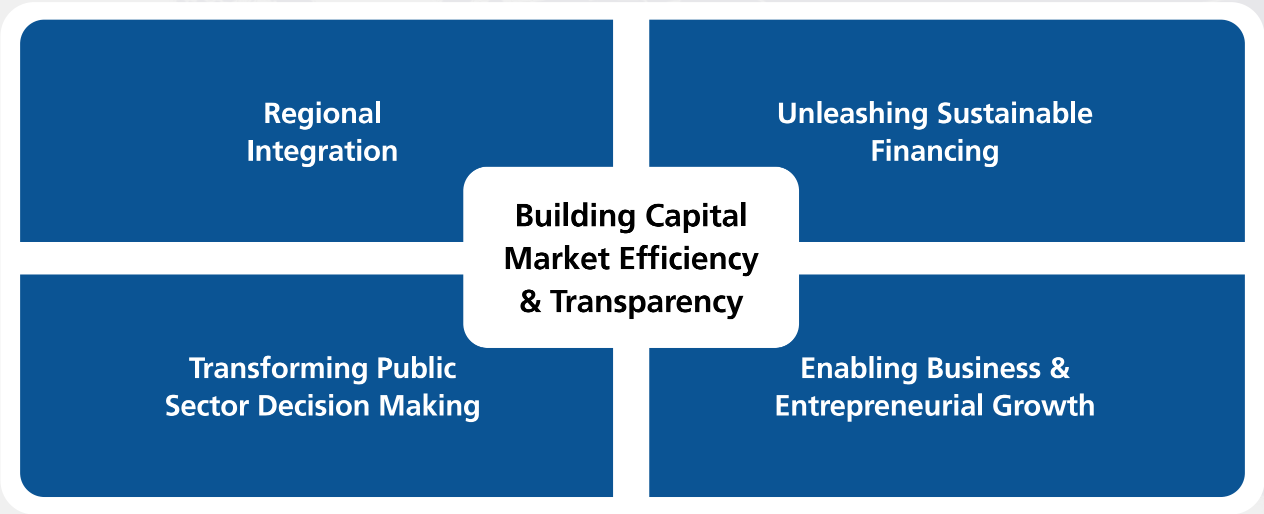
ENERGY TRANSITION AND ELECTRIFICATION

- The energy sector is a key area for development. Economic growth is dependent on energy and a shift to electrification.
- A 100% increase in electricity demand is forecasted by 2040, and a 150% increase in energy production is required to reach universal access by 2030.
- Meeting the current energy deficit and maintaining grid infrastructure is projected to cost approximately USD86 billion per year. In 2022, only around 3% of global energy investments were in Africa, with Sub-Saharan Africa receiving only around 2% of global climate finance in 2021 and 2022.
- Governments' ambitions to reach universal access by 2030 require a threefold increase in power sector investment, mostly in low-carbon generation and grid networks.
- The private sector has a key role in channeling climate finance into Africa with a greater focus on climate adaptation and low-carbon infrastructure to drive climate resiliency and enhance GDP concurrently with other goals such as driving productivity and inclusivity.
- Financing needs to align with the continent's needs and take advantage of its natural endowments in natural gas and renewable energy. Natural gas will serve as an important bridge to decarbonization with gas infrastructure being retrofitted in the future for hydrogen and green ammonia.

The AfDB provides support including financial and policy-based solutions to its regional member countries and private sector clients, and has committed over USD 20 billion to Africa's energy sector since 2000 (over USD17 billion to the public sector and USD4 billion to the private sector). The AfDB has also launched the African Green Bank Initiative to reduce financing costs and mobilize private sector investments in climate action in Africa.

Its activities depend on the accountancy profession bridging the financing gap through a pipeline of bankable projects enabled by accountants' expertise in areas including risk management and due diligence, incorporating all relevant sustainability aspects in planning and financial decisions, assessing and communicating trade-offs and investment time horizons in transition planning, and implementing standards and regulation to ensure transparency and confidence.

WHERE ACCOUNTANTS AND THE PROFESSION INFLUENCE

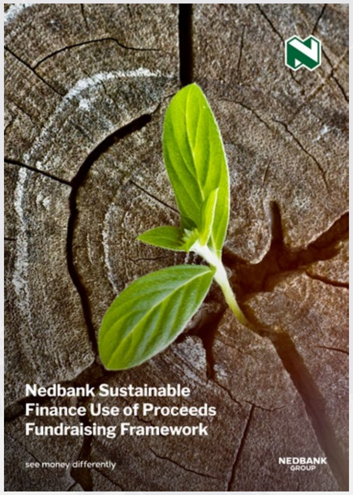


BUILDING CAPITAL MARKET EFFICIENCY AND TRANSPARENCY

Reporting: Robust and connected financial and sustainability reporting using International Financial Reporting Standards and IFRS Sustainability Disclosure Standards provide consistent and comparable information on sustainability risks and opportunities that could reasonably be expected to affect the prospects of a company. Together with high-quality assurance of sustainability disclosures and professional ethics, confidence in reporting opens access to financing and increases private sector participation.

Taxonomies and investment frameworks: Consistency and alignment of taxonomies and investment frameworks are crucial in helping financial institutions and companies to mobilize capital to investment activities that drive sustainable growth and enable investors to benchmark performance and make consistent capital allocation decisions. The global situation with taxonomies is fragmented leading to a lack of comparability across regions and sectors. At a regional level, consolidation is occurring such as with the EU Taxonomy and ASEAN Taxonomy for Sustainable Finance. In an Africa first, South Africa issued its Green Finance Taxonomy, which is highly aligned with the EU Taxonomy. Adapting taxonomies and Nationally Determined Contributions to a local and organizational context enables domestic and regional priorities to be incorporated as a foundation for scaling up and targeting sustainable finance. At a corporate level, banks and companies issuing sustainable financial instruments are developing corporate-level sustainability financing frameworks to communicate to stakeholders and investors priorities for issuing sustainable debt. For example, Nedbank developed its own internationally aligned Sustainable Finance Use of Proceeds Fundraising Framework.

NEDBANK GROUP



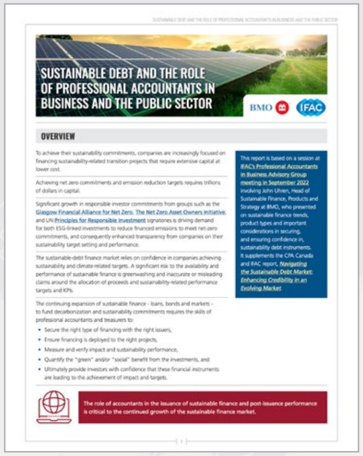
High-quality information and analysis: The analytical and technical skills of accountancy and finance professionals enable businesses to seize opportunities, develop board and management governance accountability, and improve business cases and feasibility studies, financial management, and risk mitigation strategies including modelling climate risk and financial implications, and implementing robust practices in measurement and reporting of sustainability and financial performance at a project level.

REGIONAL INTEGRATION DRIVES EFFICIENCY AND GROWTH

- Overcoming barriers to driving intra-African trade in goods and services. This will allow the private sector to take advantage of new growth opportunities and participate in regional value chains in key sectors such as agriculture, transport and logistics and pharmaceutical (see PAFA/ACCA report for specific recommendations).
- Advocating for capital markets and financial system integration to enable efficient sustainable finance and capital raising. Capital markets play a critical role in attracting investment, but the low capitalization of Africa's stock markets poses a barrier.
- Unlocking investment in power grid infrastructure across the continent to boost regional interconnectivity and low-carbon energy access. This needs to be addressed by navigating project finance constraints and reducing investment risk.
- Harmonization of standards and regulations including accounting standards and trading laws to drive transparency and facilitate the creation of regional value chains.
- Connecting the profession and its membership across the continent to create mutual recognition and cross-border opportunities for professional accountants and advisory services. In collaboration with Regional Economic Communities, PAFA is developing a Mutual Recognition Agreement Framework for the accountancy profession.

UNLEASHING SUSTAINABLE FINANCING – PRIVATE SECTOR PARTICIPATION IS URGENTLY NEEDED

- Delivering bankable projects through commercial viability, and risk-sharing strategies. Attracting private capital financing requires lower risk profiles and suitable risk-adjusted returns.
- Enabling risk sharing through blended finance arrangements. Bringing together private capital such as from banks together with financing and guarantees from multilateral development banks and governments helps de-risk investments and channel finance to middle and low-income countries.
- Building trust between multilateral development partners, such as the World Bank and AfDB, and governments, to bring about innovative models of public-private partnerships and encourage foreign and domestic investment (see CFO Lessons from the Bujagali Hydroelectric Power Project). Partnerships and co-ownership models between multilateral development banks, development finance institutions, institutional investors and banks will be key to scaling up private sector participation for significant infrastructure projects.
- Raising awareness of investable opportunities and providing expertise to enable the deployment of sustainable finance instruments such as sustainable bonds, and ongoing monitoring and reporting on their performance (see *Sustainable Debt and the Role of Professional Accountants in Business and the Public Sector*).


SUSTAINABLE DEBT AND THE ROLE OF PROFESSIONAL ACCOUNTANTS IN BUSINESS AND THE PUBLIC SECTOR

OVERVIEW

- Enhancing transparency with high-quality information and mandatory disclosure of sustainability risks and opportunities and financial implications to enable robust risk pricing.

ENABLING BUSINESS AND ENTREPRENEURIAL GROWTH

- Identifying technology solutions to reduce the cost of operations and enhance the ease of doing business e.g., to smooth the flow of trade and data, modernize payment systems (e.g., the Pan-African Payment and Settlement System). Innovation is also expected to shape green finance from digitized monitoring of green financial products, such as green bonds, to the development of tokenized financial instruments, blockchain and artificial intelligence.
- Navigating risks including extra-territorial regulatory developments such as carbon border taxes that require the traceability of emissions and emissions reduction initiatives.
- Measuring and quantifying emissions and other environmental and economic impacts to deliver growth opportunities concurrently with lowering emissions such as shifting modes of transport from air to sea freight.
- Advising on financing models, particularly for SMEs, and helping to expand access to financing from banks and other sources to start and grow companies.

TRANSFORMING PUBLIC SECTOR DECISION MAKING

- Improving public financial management in Africa is an essential step needed in addressing sovereign debt sustainability and revenue leakage from waste and corruption through robust public sector accrual-based accounting and financial management to reduce financial deficits in the coming years. Accounting and analysis based on national balance sheets enable better informed decisions to manage debt and national assets that are the foundation for policymaking and analysis of trade-offs between debt sustainability and development objectives. Debt relief programs will also require a track record of financial and economic policy reforms, a robust understanding of the financial implications of government policies and political actions and mechanisms for accounting for debt guarantees to bolster confidence.
- Suitable training, qualifications and strong professional and ethical standards are key to strengthening public sector governance and financial management. Strong CFOs and finance functions are needed to effectively manage public finances and provide confidence on the policies and investment needed to address sustainability goals and challenges (IFAC and the ACCA, *A Global Guide for Professionalisation in Public Sector Finance*)
- Monitoring progress and outcomes of sustainable financing and investment activities by accounting and reporting on sustainability impacts and natural resources is crucial for transparency on and accountability for the long-term impacts of government decisions. Sustainability reporting in the public sector is gaining momentum, with IPSASB taking the lead in developing sustainability reporting standards, starting with a public sector specific Climate-related Disclosures standard.

CFO LESSONS FROM THE BUJAGALI HYDROELECTRIC POWER PROJECT

A public private partnership with Government of Uganda

Several financial institutions contributed to the capital for building the Bujagali power station. The original lenders included IFC; AfDB; FMO; European Investment Bank (EIB); KfW; PROPARCO; French Development Agency (AFD), IDA lenders (Nedbank, Absa, Standard Chartered Bank and BNP Fortis) and DEG. The shared financing arrangement led to a lower cost of equity and risk sharing, in addition to a Government guarantee. In 2018, the loans were refinanced by IFC, AfDB, BII and PROPARCO.

Mobilizing capital and de-risking was achieved by

- Engaging the government on the importance and business case for the project: to enhance energy access and reliability by eliminating load-shedding.
- Linking the project and investments to relevant SDGs including affordable and clean energy, education, health and well-being in the community, clean water and sanitation.
- Advising on innovative financing arrangements including public-private partnerships, private equity and risk sharing among different capital providers to crowd in private sector financing and achieve an optimal debt/equity mix (USD 700m debt and USD 200m equity).
- Implementing strong governance and compliance to ensure accountability to lenders and adherence to financing agreements.
- Effective and ongoing risk management and internal management control to ensure achievement of objectives.
- Enhancing the capability of finance staff to measure and collect data on project impacts, disaggregate data and connect it to financial information and report on it to investors and other stakeholders.
- Raising awareness of power purchasing agreements and mechanisms for risk sharing through partnerships.
- Creating partnerships also with technology providers and others to provide expertise. For example, working with environmental experts to conduct feasibility studies, protect local ecosystems and minimize risks related to tourism.

ABOUT IFAC

IFAC is the global organization for the accountancy profession dedicated to serving the public interest by strengthening the profession and contributing to the development of strong international economies. IFAC is comprised of 180 members and associates in more than 135 jurisdictions, representing millions of professional accountants in public practice, education, government service, industry, and commerce.

ABOUT PAFA

PAFA is an IFAC Network Partner, representing the accountancy profession in Africa. PAFA has 56 member organisations in 45 countries in Africa and five international affiliates. PAFA's vision is sustainable value creation for the citizens of Africa by strengthening the capacity and influence of the accountancy profession to enhance trade, the quality of services, and trust in institutions.