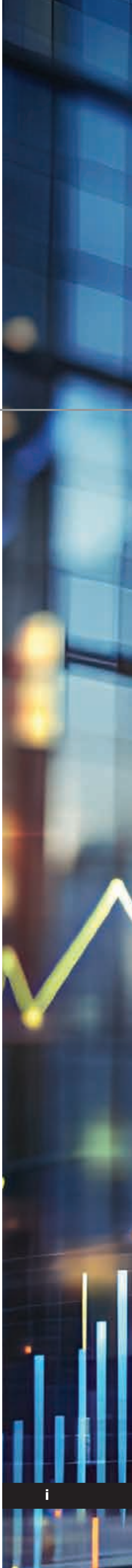
AFRICAN DEVELOPMENT BANK GROUP
GROUPE DE LA BANQUE AFRICAINE DE DÉVELOPPEMENT

Highlights

AFRICAN ECONOMIC OUTLOOK 2025

Making Africa's Capital Work Better for Africa's Development

CONTENTS



FOREWORD

The 2025 African Economic Outlook (AEO) report has been prepared against a backdrop of unprecedented global circumstances. April 2025 saw seismic shifts in trade policies of major economies with significant ramifications for the global trade order. Major development partners have announced significant aid cuts, triggered mainly by shifting domestic policy priorities. This action will undoubtedly create a funding squeeze for low-income countries, especially those in Africa, that heavily depend on international development assistance.

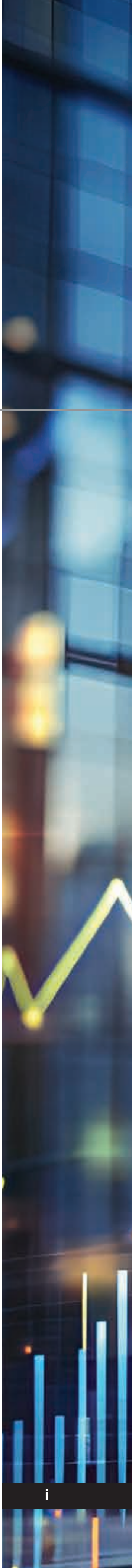
Amid recurring multiple shocks and tariff-induced global uncertainty, Africa's growth outlook relative to the forecast in the February 2025 Macroeconomic Performance and Outlook (MEO) report has been downgraded by 0.2 and 0.4 percentage points to 3.9 percent and 4.0 percent in 2025 and 2026, respectively. Yet, even after accounting for these factors, projected growth in 21 countries is expected to exceed 5 percent in 2025. This resilience is forged by hard-won gains from effective domestic reforms, relative diversification, and improved macroeconomic management over the past decade.

The current and evolving global dynamics underscore, more than ever before, that external dependency is not a good development strategy. It is possible for Africa to develop with pride if it could effectively mobilize and efficiently use its abundant capital potential. Africa is not poor—it is a continent rich in resources yet constrained by underutilized capital. For a continent endowed with natural wealth, dynamic enterprises, entrepreneurial talent, and a young and growing population, it is time for a paradigm shift and change in narrative. If Africa invests in itself, leverages its strengths, and governs its resources wisely, boundless possibilities lie ahead to decouple from external dependence and patronage and become a continent of transformed potential.

The 2025 AEO report is both a diagnosis and a roadmap. It demonstrates that with deep, properly sequenced reforms, Africa can mobilize an additional $1.43 trillion in domestic resources from its diverse forms of capital—fiscal, natural, financial, business, and human—to accelerate inclusive and sustainable growth. This exceeds Africa's estimated $1.3 trillion annual financing gap to achieve the Sustainable Development Goals by 2030. To achieve them, Africa must broaden its revenue base, curb resource leakages, formalize its vibrant informal sector, deepen domestic financial markets, and enhance the efficiency of public spending as well as tap into the transformative power of the diaspora.

Institutions, economic governance, and the rule of law are indispensable in ensuring that Africa's capital is managed prudently and equitably. Transparent public financial management, secured property rights, and predictable legal systems are foundational tenets to build investor confidence and citizens' trust. Strengthening these pillars will unlock long-term investment, reduce capital flight, and ensure that the returns from Africa's capital benefit all Africans.

Making Africa's capital work better for Africa's development is a governance and leadership imperative. It requires a commitment



to reforms that widen fiscal space, deepen private sector engagement, and empower the continent's greatest asset: its people.

The African Development Bank remains steadfast in its mission to support its Regional Member Countries in realizing their development potential. Through strategic investments, policy support, and innovative financing mechanisms, we are helping them catalyze the transformation of their capital into real, measurable, and lasting development outcomes.

Let us choose to make our capital work better for our people and end the paradox of capital abundance coexisting with persistent development gaps.

Dr. Akinwumi A. Adesina
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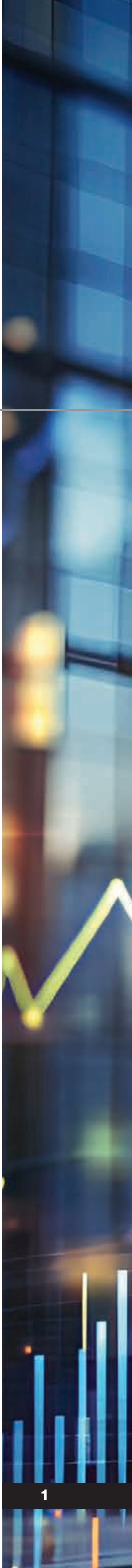
HIGHLIGHTS

AFRICA'S ECONOMIC PERFORMANCE AND OUTLOOK

Although Africa's economic performance improved in 2024, growth remains fragile amid multiple shocks and rising global uncertainty. Across the continent, growth in real gross domestic product (GDP) picked up marginally from 3.0 percent in 2023 to 3.3 percent in 2024, buoyed by strong government spending and private consumption. The growth uptick in 2024 was evident in 29 of 54 African countries. In addition, 10 African countries, including Angola, Ghana, Niger, and Uganda, saw growth increases of more than 1.0 percentage point from 2023 to 2024. However, this slight improvement was overshadowed by persistent inflationary pressures, currency depreciation, and high debt costs. Deepening geopolitical fragmentation, regional conflicts, and rising global uncertainty spurred by trade policy changes, further cloud the outlook for the short and medium terms. In addition, the continued impacts of climate change—combined with prolonged conflicts in the Sahel, the Horn of Africa, and the eastern Democratic Republic of Congo—have further deepened Africa's vulnerability, directly affecting economic activity in regions and indirectly spilling over to neighboring countries.

Since January 2025, the world has experienced additional shocks, exacerbating an already complex global macroeconomic landscape. These shocks include a plethora of new tariffs imposed by the United States and retaliatory measures announced and implemented by its trading partners. The fluidity of the situation and evolving uncertainty means that the growth impact will depend on the decision of the 90-day pause of "Liberation Day" tariffs announced by the United States on 2 April 2025. With the United States accounting for about 5 percent of Africa's total global merchandise trade (exports and imports), the announced average 10 percent tariff could add to the existing tariff regime on U.S. trade with Africa, outside those exempted under AGOA.[1] The pause has, however, done little to dampen the potential impacts as it deepened the growing uncertainties in trade policies between two of Africa's largest trading partners—the United States and China. Further, the tariffs have contributed to a notable decline in commodity prices and the value of financial assets.

Africa's growth is now projected to accelerate from 3.3 percent in 2024 to 3.9 percent in 2025, firming up further to 4.0 percent in 2026, but these projections represent downgrades of 0.2 and 0.4 percentage points from the 2025 MEO. The downward revision to Africa's real GDP growth outlook is largely due to the impact of subdued global economic activity, which is expected to affect African exports. But even after accounting for the tariff shock and the induced uncertainty, 21 African countries will see expansion in output exceeding 5 percent in 2025 and four of them (Ethiopia, Niger, Rwanda, and Senegal) could attain the minimum 7 percent growth threshold required to address poverty and achieve inclusive



growth and sustainable development. These positive trends demonstrate the continued resilience of some African economies even under recurrent and compounding shocks, as well as declining official development assistance (ODA) and other external financial flows. Importantly, Africa's projected growth rates in 2025 and 2026 will surpass the global average and that of other regions, except emerging and developing Asia. The International Monetary Fund (IMF) in April 2025 downgraded global growth to 2.8 percent in 2025 and 3.0 percent in 2026. While growth is projected to average about 1.0 percent in the Euro area and 2.2 percent in Latin America and the Caribbean, only emerging and developing Asia is projected to post significantly higher average growth of 4.6 percent in both years.

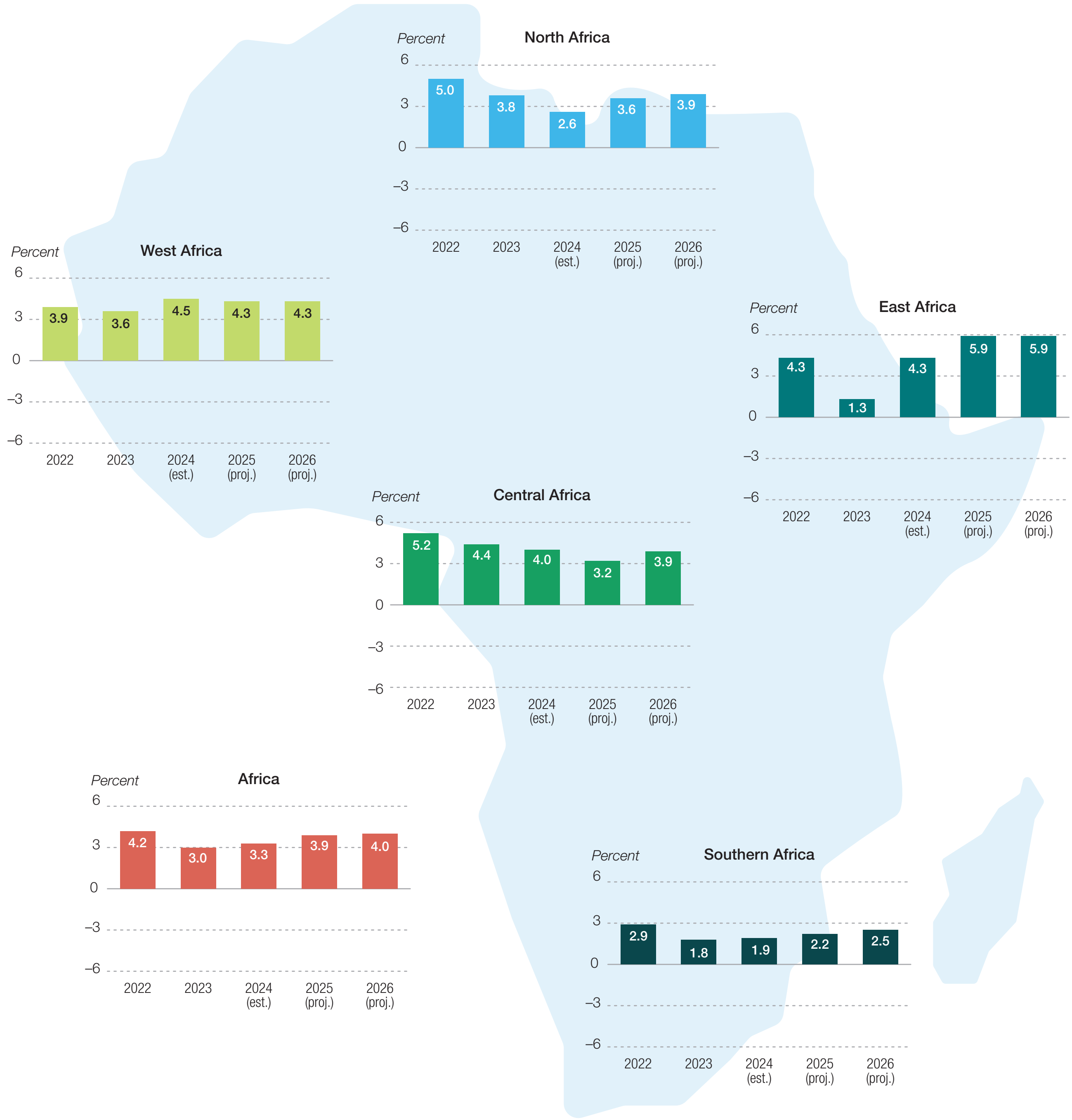
Africa's projected growth rates in 2025 and 2026 will surpass the global average and that of other regions, except emerging and developing Asia

Africa's estimated real GDP per capita growth rose marginally to 0.9 percent in 2024 from 0.7 percent in 2023. Even so, this was 0.5 percentage points lower than that for Latin America and the Caribbean, and 2.9 percentage points lower than that of Asia, the region with the highest growth rate in per capita income. Africa's real GDP per capita growth is projected at 1.5 percent in 2025 and could reach 1.7 percent in 2026. But relative to the February 2025 projections, these represent downgrades from 1.8 percent in 2025 and 2.2 percent in 2026, reflecting the global economic growth downgrade. The outlook for GDP per capita growth will also evolve in line with the severity of the unfolding shocks. Achieving high and resilient economic growth rates should thus remain a key policy priority of African countries to engender stronger economic growth and accelerated poverty reduction.

The tariff shock and its attendant uncertainty could have asymmetric impacts on countries and regions, depending on the strength of existing macroeconomic buffers and degree of integration into global trade. The economic performance and prospects thus mask cross-regional variations (figure 1):

- *Central Africa.* In 2024, real GDP growth for the region averaged 4.0 percent, a decline from 4.4 percent the previous year (see February 2025 MEO). It is projected to fall to 3.2 percent in 2025 and 3.9 percent in 2026, below the 2025 MEO forecast by 0.7 and 0.2 percentage points for 2025 and 2026, respectively. The downgrade for the region in 2025 is broad-based, across all countries. In addition to the trade uncertainty, growth in the Democratic Republic of Congo is also being hampered by the ongoing conflict in the eastern part of the country, and that of Equatorial Guinea, by the decline in hydrocarbon production and exports.
- *East Africa.* Growth in the region is projected to accelerate from 4.3 percent in 2024 to 5.9 percent in 2025 and 2026. Compared with the projection of 5.3 percent in the 2025 MEO, growth for the region is revised upward by 0.6 percentage points in 2025 and downward by 0.2 percentage points in 2026. This reflects resilience in Ethiopia, Rwanda, Djibouti, Uganda, and Tanzania, all expected to attain an average growth rate of 6 percent or higher in 2025–26, supported by continued public investments to deepen domestic value chains in the agriculture sector and domestic energy infrastructure. East Africa's resilience to shocks may be explained by the region being home to some of the most diversified economies in Africa, with a growing share of manufactured goods in intra-regional trade and relatively strong regional trade penetration. For instance, in 2023, the regional bloc's total trade grew by 13.1 percent to $12.1 billion, and the percentage share of intra-EAC trade to EAC total trade increasing to 15 percent.[2]
- *North Africa.* Following the moderate growth rate of 2.6 percent in 2024, the region is projected to grow by 3.6 percent in 2025 and 3.9 percent in 2026. But these forecasts reflect downward revisions of 0.2 percentage points each from the 2025 MEO projections for both years. Among the region's economies, the forecast in Egypt is revised downwards respectively, by 0.3 percentage points in 2025 and 0.5 percentage points in 2026; in Libya, it is downgraded by 0.6 and 0.2 percentage points for the same years. These downgrades are mainly due to a potential decline in export revenues.
- *Southern Africa.* Growth in the region, estimated at 1.9 percent in 2024, is projected to

FIGURE 1 Growth performance and outlook by region, 2022–26 (percent)



Source: African Development Bank staff calculations.

grow by 2.2 percent in 2025 and 2.5 percent the following year. Compared with the 2025 MEO, these forecasts represent 0.9 and 0.6 percentage points downgrades, respectively. Despite the low regional growth outlook, a few countries (eSwatini, Zambia, and Zimbabwe) are projected to grow by 6 percent or higher in 2025. Tariff uncertainty will have the largest growth impact in Botswana and Lesotho over the two-year forecast period.

Botswana has struggled to rekindle its growth as the price of diamonds has suffered from multiple global shocks, and current uncertainty could further depress them. For Lesotho, the tariffs will directly reduce its trade in apparel and other exports to the United States, which accounts for 45 percent of its exports. Growth in South Africa, the United States' largest trading partner in Africa, is projected at 0.8 percent in 2025 before recovering slightly to 1.2 percent in 2026. Its growth forecasts were revised down by 0.9 percentage points for 2025 and 0.6 percentage points in 2026 relative to the 2025 MEO projection. Coupled with projected trade disruptions, expected difficulties in budget execution due to low revenues and lingering structural bottlenecks could dampen South Africa's medium-term growth outlook.

- *West Africa.* Real GDP growth in the region, estimated at 4.5 percent in 2024, could decline slightly to 4.3 percent in 2025–26, 0.3 percentage points and 0.2 percentage points lower than the 2025 MEO forecasts. With the exception of Ghana, Sierra Leone and Nigeria, all countries are expected to grow by 5 percent or higher in 2025, thanks to full commencement of oil and gas production (in Senegal and Niger), and combined effects of strong domestic demand—sustained public and private investments—and increased value addition in key agricultural products (in Côte d'Ivoire, Gambia, Mali, and Togo). The shift in demand from Nigeria's trading partners, including the United States and China, coupled with global supply chain disruptions and increased volatility in financial markets, will further cloud its growth outlook, projected at 3.2 percent in 2025 and 3.1 percent in 2026. This represents a downward revision of 0.3 and 0.5 percentage points from 2025 MEO projections.

As outlined above, Africa's growth outlook is subject to considerable downside risks, though some countries could sustain higher growth. African countries could reverse the projected outlook by limiting the transmission of shocks and uncertainty on domestic economies. But this prospect is conditional on taming inflation, which itself is likely to be pushed by the tariff shock and uncertainty induced expectations of higher prices. Coordinated domestic policies can address structural weaknesses that constrain energy supply and increase supply–demand imbalances in food markets. And resolving Africa's high debt could aid growth, but this hinges on accelerating debt restructuring efforts and improving the mobilization of revenue and efficiency of public expenditure to enhance productivity. The ability of the world economy to weather the effects of heightened risks and shore up global demand could also support Africa's growth. Downside risks to the outlook include restricted trade, which could affect growth, directly through reduced business and economic activity and indirectly through financial and investment channels by reducing investors' risk appetite and leading to a reversal of capital flows. Africa's persistent inflation—reflecting deep-seated domestic supply bottlenecks and weakened monetary policy impact to rein in supply-driven inflationary pressures—could dampen the projected growth rebound. Persistence and further escalations in regional conflicts pose additional risks to Africa's flagging recovery.

Coordinated domestic policies can address structural weaknesses that constrain energy supply and increase supply–demand imbalances in food markets

Inflationary pressures have persisted, eroding the gains from higher growth. Inflation averaged 18.7 percent in 2024, above medium-term targets in many countries (figure 2). Africa's current high tide of inflation is fed mainly by domestic food supply shocks and pass-through effects of exchange rate depreciation. The number of countries with double-digit inflation rates stood at 15 in 2024. Africa's average inflation is projected to decline to 13.8 percent in 2025 and 9.9 percent in 2026, the first time it will hit single digits in the post-pandemic era. The projected decline is 0.4 and 1.1 percentage points below the forecast in the 2025 MEO. Projected inflation dynamics reflect favorable food supply, especially in countries that were hit the previous year by climatic shocks such as drought and flooding. It also depicts the decline in energy prices due to excess supply following the decision by OPEC+ (Organization of the Petroleum Exporting Countries plus selected nonmember countries) to increase production. Decoupling agricultural production from dependence on rainfall through sustainable water management,

FIGURE 2 Outlook for key macroeconomic indicators, average, 2025–26

Country	Real GDP growth	Inflation	Current account balance	Fiscal balance
Algeria	3.5	3.8	–1.6	–12.1
Angola	3.3	20.6	2.4	–1.9
Benin	6.6	1.7	–5.6	–2.8
Botswana	1.7	3.3	–7.4	–9.0
Burkina Faso	5.3	1.9	–5.1	–5.3
Burundi	3.8	35.0	–8.5	–4.8
Cabo Verde	5.1	1.6	–2.9	–2.1
Cameroon	3.9	3.7	–2.8	–0.4
Central African Rep.	2.3	2.1	–6.7	–2.5
Chad	2.3	3.8	–9.1	–1.4
Comoros	4.3	2.2	–4.6	–2.6
Congo	3.5	3.1	1.5	2.6
Congo Dem. Rep.	5.0	7.8	–4.4	–2.8
Côte d'Ivoire	6.3	2.6	–2.8	–3.0
Djibouti	6.4	2.2	20.7	0.0
Egypt	3.9	19.9	–5.3	–6.2
Equatorial Guinea	–1.9	2.5	–3.9	–1.4
Eritrea	3.3	5.0	13.0	–3.0
eSwatini	5.6	4.4	2.0	–2.1
Ethiopia	7.5	13.5	–1.5	–1.8
Gabon	2.2	2.0	1.7	–3.9
Gambia	5.4	7.9	–2.2	–1.5
Ghana	4.6	12.3	2.0	–3.3
Guinea	5.8	6.5	–9.2	–2.3
Guinea-Bissau	5.7	2.3	–4.3	–2.6
Kenya	4.9	4.2	–3.2	–4.5

Country	Real GDP growth	Inflation	Current account balance	Fiscal balance
Lesotho	0.8	4.9	–5.8	0.0
Liberia	5.3	7.8	–18.8	–3.0
Libya	4.9	3.6	6.7	4.7
Madagascar	3.9	6.9	–6.3	–3.9
Malawi	3.4	19.8	–17.4	–9.0
Mali	5.8	2.5	–4.5	–2.6
Mauritania	4.7	2.3	–7.9	–1.0
Mauritius	3.0	2.8	–4.8	–5.8
Morocco	3.8	2.1	–2.3	–3.4
Mozambique	3.1	5.0	–38.3	–4.9
Namibia	3.2	4.0	–16.0	–3.0
Niger	6.6	4.4	–5.4	–2.9
Nigeria	3.1	21.0	4.3	–4.1
Rwanda	7.7	4.8	–12.1	–4.7
São Tomé & Príncipe	3.6	8.2	–5.6	1.9
Senegal	8.7	2.3	–9.1	–7.4
Seychelles	3.6	2.3	–8.5	–1.1
Sierra Leone	4.6	17.4	–4.7	–3.5
Somalia	4.0	4.1	–7.9	–0.5
South Africa	1.0	4.6	–1.8	–4.8
South Sudan	8.1	36.7	–4.6	2.0
Sudan	0.4	73.3	–8.2	–3.7
Tanzania	5.9	3.3	–3.0	–3.0
Togo	5.8	2.3	–3.1	–3.3
Tunisia	2.1	6.3	–2.7	–5.1
Uganda	6.8	4.1	–6.6	–5.7
Zambia	6.1	9.9	–0.1	–3.6
Zimbabwe	5.0	16.6	1.6	–0.7

Note: GDP growth and inflation are in percent, while current account balance and fiscal balance are in percent of GDP. This heatmap plots the countries' outlook for selected key macroeconomic indicators. Countries are ranked in three criteria: "green" for good performers, "yellow" for fair performers and "red" for weak performers. Real GDP growth equal to or above 5 percent is colored green, 0–4.99 percent is colored yellow and negative is colored red. Inflation rates below 5 percent are colored green, 5–9.9 percent are colored yellow and double digits are colored red. Current account surplus is colored green, deficits below 5 percent are colored yellow and above 5 percent are colored red. Fiscal deficits below 3 percent are colored green, 3–5 percent are colored yellow and above 5 percent are colored red.
Source: African Development Bank staff calculations.

greater use of drought-resistant seeds, and support for resilient farming practices will reduce vulnerabilities to climate change and offer better prospects for lower inflation in the long term. In this regard, accelerated implementation of special agro-processing zones (SAPZs) program of the African Development Bank Group, which focuses on developing more resilient agricultural supply chains and integrating climate-smart agricultural techniques, bodes well for taming inflation in African countries.

Recent high inflation also reflects widening fiscal deficits across the continent. Following large stimulus packages by governments to mitigate the effects of Covid-19 on businesses and households, fiscal deficits soared. As the impact of the pandemic recedes and economies gradually recover, some countries have implemented fiscal consolidation measures to contain the rapid fiscal deterioration. Examples include Ghana, Ethiopia, and Zambia, which have undertaken austerity measures during debt restructuring process. While fiscal deficits are gradually returning to prepandemic levels, the pace remains slow, mainly due to high primary deficits. Africa's average fiscal deficit is estimated to have slightly widened from 4.4 percent of GDP in 2023 to 4.7 percent of GDP in 2024, mainly driven by an increase in the primary deficit from 1.6 percent of GDP to 2.2 percent of GDP. The widening primary deficit reflects a ramping up of public infrastructure investment in several countries. While Africa's average fiscal deficit is projected to narrow slightly to 4.5 percent of GDP in 2025–26 relative to 2024, this is 0.4 percentage points above the projected position in the 2025 MEO and is still above the conventional target of 3 percent of GDP for macroeconomic convergence. Looking ahead, African currencies could experience heightened depreciation pressures if there is no long-lasting positive resolution to the trade policy shifts at the end of the current moratorium.

In most African countries, exchange rate pressures eased to varying degrees in 2024

Exchange rate pressures are easing, but the dynamics are mixed. In most African countries, exchange rate pressures eased to varying degrees in 2024. Of the 28 countries that recorded a currency depreciation in 2023, 17 of them (more than 60 percent) reversed their losses or recorded slowdowns in rates of depreciation. For instance, the South African rand and Kenyan shilling reversed their losses in 2024, appreciating by 0.7 percent and 3.1 percent, respectively. The South African rand rallied, after the formation of the Government of National Unity. The Kenyan shilling benefited from improved market sentiment and portfolio inflows following successful redemption of Eurobonds maturing in June 2024. Except for the national currencies of Guinea, Mauritania, and Seychelles—which moved from appreciation to significant depreciation—most countries with stable or appreciating currencies in 2023 maintained this trend in 2024. This is particularly true for the CFA franc, the Cape Verdean escudo, the São Tomé and Príncipe dobra, and the Comoros franc, which all remained largely stable.

The average current account deficit is projected to widen from 1.8 percent of GDP in 2024 to 2.6 percent of GDP in 2025–26. The projected deterioration is 0.1 percentage point wider than the February 2025 MEO forecast. The projection is largely due to a widening of the trade deficit on account of anticipated lower export demand due to a weaker global economy. While imports might be constrained, as trade conditions stiffen on the back of high tariffs and associated uncertainty, the potential shrinkage in exports could propagate external imbalances, due to the direct impact of the tariffs, if they materialize. The impact could emanate from secondary effects, mainly through third parties with large trade exposures to countries heavily hit by the unfolding trade tensions and global uncertainty. For instance, given the likely impact of uncertainty over aggregate global demand, many countries in Africa dependent on trade are likely to record reduced export earnings.

Although external financial flows to Africa are estimated to have rebounded in 2023, the growing tide of aid cuts by major donors combined with the effect of the increase in global uncertainty is likely to depress the inflows in the short to medium term. Total external financial flows to Africa—foreign direct investment, portfolio investments, official development assistance, and remittances—grew by 7.3 percent to $204.6 billion in 2023 reversing a 13.2 percent decline the previous year. This figure represented about 7 percent of continental GDP for that year. Growth in external inflows was driven by a significant reduction in net portfolio outflows. In 2023, portfolio flows reversed, from net outflows of $23.1 billion to net inflows of $322.9 million, an improvement of more than 100 percent. However, foreign direct investment to Africa fell by 3.4 percent to $52.6 billion in 2023, reflecting global downward trends in developing countries.

Total official development assistance (ODA) to Africa also fell by almost 3 percent in 2023, its second successive decline since 2021, mainly reflecting the changing global aid landscape. In 2023, total ODA from Development Assistance Committee countries to Africa stood at

$35.9 billion, over 40 percent of it from the United States. Anticipated and announced aid cuts, led by the United States through USAID, could further reduce ODA flows to Africa by an estimated 7 percent in 2025 compared with 2023. Remittances, Africa's most stable source of external financial flows, contracted by 6.2 percent to $91.1 billion in 2023. This decline reversed a two-year increase after Covid-19 and could be due to valuation effects.

Public debt ratios are stabilizing but still above pre-pandemic levels of around 50 percent in 2015–19. African countries are seeing beneficial effects of fiscal consolidation efforts on debt. Following the Covid-19 shock, several African countries undertook policy measures—expenditure rationalization and shoring up revenue collection—to restore fiscal fitness. Consequently, the median debt-to-GDP ratio is estimated at around 65.5 percent in 2024 down from 66.3 percent in 2023. The debt ratio is projected to stabilize below 65 percent in 2025 and 2026. With a disproportionate share of commercial debt, much of it held in US dollar with the attendant high debt service costs, Africa's debt burden remains a major policy concern. Principal repayments alone on external debt could exceed $61 billion in 2025, representing around 69 percent of total debt service. This situation is likely to exacerbate liquidity pressures on the continent, mainly because the bulk of debt is owed to commercial lenders, which attracts higher interest charges. It has been estimated that African countries are paying 500 percent more in interest when borrowing on international capital markets compared with rates that could be achieved by borrowing from multilateral development finance institutions such as the World Bank or the African Development Bank. Domestic debt has also risen since 2010 from 32 percent of total public debt to 39 percent in 2023. Capitalizing African financial institutions and fostering capital market development will create opportunities for local currency debt markets and help reduce countries' exposure to external debt and foreign exchange risk. In its current form, however, domestic borrowing through the issuance of government securities bids up interest rates, crowding out banks' lending to the private sector as commercial banks opt to invest in less risky but higher-yielding treasury assets.

Despite the vulnerabilities, the risk of a systemic debt crisis in Africa appears broadly contained. With debt ratios declining and the restructuring efforts yielding some positive results, the number of countries exposed to risk of distress has stabilized. Since 2021, the number of countries in debt distress has remained stable between seven and nine through March 2025, and two countries—Gambia and Ghana—were upgraded from debt distress rating to high-risk debt distress rating.

While escalating trade wars illustrate the vulnerabilities inherent in over-reliance on foreign trade and global value chains, they also represent an opportunity for African countries to accelerate intraregional trade and economic diversification. To mitigate the impact, African countries should diversify their export markets—redirecting trade towards intraregional markets within Africa, and to other potential trade partners in Asia, Canada, Latin America, the Middle East, the European Union, and other European countries. The growing trade wars provide an incentive for African countries to fully implement the AfCFTA Agreement and operationalize other longstanding agreements to eliminate regional trade and nontrade barriers and accelerate economic diversification. African countries should therefore rethink their economic strategy and relationships with outside partners. They need to deepen economic diplomacy and implement protocols on the free movement of goods and people within the continent. This will require effective policy coordination among countries to accelerate the benefits of trade with nonregional partners while mitigating the risk of dumping—a scenario where Africa becomes a market for large volumes of imports diverted from other countries.

African countries are seeing beneficial effects of fiscal consolidation efforts on debt

In the short term, policy priorities should focus on restoring macroeconomic stability, but the design and impact will be country specific.

- *Coordinated monetary and fiscal policy management:* Inflation remains stubbornly high, and traditional monetary policy tools have proved ineffective to bring it down, especially in net food and energy importing countries. Yet monetary policy, complemented with fiscal prudence, can still produce lower inflation. In countries with well-developed financial systems and strong transmission mechanisms, monetary policy should remain contractionary, supported by strong commitment to central bank independence. In tandem, fiscal policy should support the most vulnerable populations. When tight monetary policy leads to pressures in the financial system, countries should deploy macro-prudential tools such as strong bank capital and liquidity ratios to address emerging financial risks.

The best way to get out of debt is to grow the economy, but fiscal restraint may be warranted in countries with limited fiscal space and high debt repayments

- *Fiscal prudence, debt productivity, governance, and institutional reforms should remain a necessity:* The best way to get out of debt is to grow the economy, but fiscal restraint may be warranted in countries with limited fiscal space and high debt repayments. Governments should avoid procyclical cuts to essential public services and investments in critical growth-promoting infrastructure. Establishing domestic fiscal rules and councils and strengthening existing debt management offices can help mitigate fiscal and debt distress. Such councils should have a clear mandate to provide informed policy advice to governments. In this regard, the African Debt Managers Initiative Network and the Debt Management Forum for Africa launched by the African Development Bank Group in 2024 provide useful platforms for peer learning and policy harmonization across countries. To strengthen the impact of these initiatives, there is an urgent need for scaling up concessional financing through expanded support from the international community, with multilateral and regional development banks potentially exploring options to further leverage their balance sheets to increase lending to regional member countries.
- *Adoption of flexible exchange rate regimes:* To deal with frequent shocks and resultant reversals in capital flows, countries could adopt a flexible exchange rate regime, which is known to be a shock-absorber, especially in the face of external shocks.[3] Similarly, African governments should remove sector-specific and other financial barriers to investment and exports to shore up foreign exchange earnings and reserves. This could help to stabilize the exchange rate. Moreover, foreign exchange intervention can be added to the mix of policy responses to avoid disruptive capital flows morphing into a financial crisis. Furthermore, countries with a credible and transparent inflation targeting regime could anchor inflation expectations and limit a build-up of high inflationary pressures.
- *Pre-emptive debt restructuring and reforms:* Current progress in Ghana and Zambia demonstrate that debt restructuring, if done promptly, could prevent countries falling into debt distress. Thus, pre-emptive debt restructuring under the G20 Common Framework can prevent more countries from falling into debt distress and potential default. While countries in debt distress need to take strategic crisis response and debt-restructuring actions, multilateral development banks and the broader international community must ensure fair, timely, accountable, transparent, and more coordinated conclusions of debt treatment to preserve the credibility of ongoing debt initiatives. The international financial architecture should be reformed to make it nimbler and fit for purpose in an evolving global economic landscape. However, countries have an important role to play to avoid falling into debt distress. Debt sustainability analyses and medium-term debt restructuring strategies must be part of a routine debt management toolkit for policymakers. Reactive policy responses tend to be lengthy and costly.
- *Decrease reliance on aid:* In view of current aid cuts and declining trends in development assistance, African governments must take deliberate steps to reduce the share of aid in national budgets to safeguard fiscal autonomy and policy flexibility. Key strategies include strengthening domestic revenue mobilization by modernizing tax systems and closing loopholes, combating illicit financial flows, enhancing the efficiency and transparency of public spending, and promoting investment-friendly policies to attract both local and foreign private

sector capital (see chapters 2 and 3 for more details).

- *Addressing insecurity and its attendant socio-economic consequences:* Domestic conflicts and insecurity reduce the ability of affected countries to make critical investments in human capital, agriculture, and infrastructure, leading to productivity losses in many sectors of the economy. They also lower government revenue by destroying part of the tax base while raising military expenditures. On average, annual growth in African countries in conflict is about 2.5 percentage points lower than in their relatively stable counterparts, and the cumulative impact on per capita GDP increases over time.[4] Conflicts and insecurity also affect the business environment, hamper private investment, and disrupt trade flows, with lasting consequences for economic growth. Domestic conflict and insecurity tend to have a regional dimension, with effects spreading to neighboring states. African countries should recognize the link between development and security, invest in sustainable infrastructure, and take preemptive crisis measures to prevent emerging governance weaknesses morphing into large-scale conflicts. Ultimately, sharing the dividends of growth would create an inclusive national agenda and a peaceful environment for common existence.

In the medium to long term, policy priorities should focus on structural reforms to stimulate supply and foster competitiveness of African economies.

- *Mobilizing private sector investments in key sectors:* Efficient government debt-financed public investments in areas such as transportation and energy infrastructure will reduce the cost of doing business. Investment in public infrastructure will catalyze innovation and technological spillovers and open the economy to private participation to accelerate the pace of transformation and economic diversification. This can help reduce countries' exposure to commodity price volatility, which has had knockdown effects on Africa's growth. For instance, private investment in agricultural value chains will increase food production, enhance processing and value addition, increase competitiveness, and reduce dependency on food imports—thereby saving the country's scarce foreign exchange. Similarly, improving domestic refinery capacity of petroleum products in oil-producing countries can help ease reliance on global supply chains, reduce Africa's vulnerability to volatile oil prices, and promote industrialization and job creation.
- *Local content and preferred procurement policies:* Policies such as local content and preferred procurement to encourage domestic demand for goods and services to boost growth of small, medium, and large-scale enterprises in Africa should be prioritized. They could foster forward and backward linkages with smaller firms and facilitate the deepening of domestic markets, enhance intraregional trade especially in manufactured products based on comparative and competitive advantages, and reduce vulnerability to recurrent shocks in global value chains.[5] For example, countries could enact legislation for public procurement to prioritize goods and services made in African countries, at least to an agreed percentage and quality standards. This will help to create jobs, boost intra-regional trade, and reduce vulnerability to global trade shocks. Overall, such policies that can build productive capacities in domestic markets are win-win situations for regional integration, economic resilience, and global sustainability.
- *Fostering food sovereignty:* The recurrence of multiple shocks—food price hikes, disruption of supply chains and logistics and exchange rate depreciations impose significant cost on food and keep it out of reach of the majority of Africa's poor people, a clear manifestation of lack of economic and food sovereignty. Improving food sovereignty will empower communities to produce their own food in more sustainable and socially and culturally appropriate ways. African governments should implement coordinated policy actions to invest in technology such as sustainable water harvesting and management, that anticipates and responds to shocks, particularly those caused by recurring natural disasters. The special agro-processing zones (SAPZs), supported by the African

Investment in public infrastructure will catalyze innovation and technological spillovers and open the economy to private participation to accelerate the pace of transformation and economic diversification

Development Bank can be an entry point for countries to invest in food system infrastructure that would improve farm management storage, distribution, marketing, and post-harvest loss prevention.

- *Franchising policies:* Promoting franchising policies can help countries to complement local content policies, leverage the technological know-how of foreign firms and promote cross-border investment among African countries, strengthen domestic economies, and reduce the environmental externalities of trade in unprocessed raw materials, especially in countries where technical and financial capacity is lacking. Countries rich in natural resources should prioritize a mix of local content, preferred procurement, and franchising policies to encourage natural resource beneficiation and value addition in local and regional markets, rather than the unfettered extraction and trade in unprocessed primary products. To maximize the benefits of franchising, countries need to identify comparative resource advantages and implement a comprehensive industrial policy to boost domestic capacity along the production value chains to foster progressive job creation, skills enhancement for value addition, and technology transfer in the requisite franchising models that best serve their own interests and are appropriate to their own contexts.
- *Regional economic integration and trade:* In the current global environment, full domestication and implementation of the African Continental Free Trade Area (AfCFTA) to deepen regional integration and increase intraregional trade has become an urgent necessity. Accelerating the implementation of the AfCFTA will expand the market for goods and services and put African countries on a better footing to improve the resilience of their economies and cushion the impacts of the recurrent trade tensions and disruptions in the global supply chains. If strategically implemented—alongside strategic industrial policies, some of which are listed above—the AfCFTA has the potential to foster industrialization, job creation, and investment among African countries, thus enhancing the global competitiveness of African economies in the medium to long term.

Accelerating the implementation of the AfCFTA will expand the market for goods and services and put African countries on a better footing

- *Strategic partnerships to mobilize international development finance:* Given the difficult external financial environment and growing financing needs, especially for the green transition, African countries will continue to need more strategic partnerships and support from the international community, including multilateral and regional development banks, to mobilize affordable long-term development finance. The ongoing reforms of the international financial system, as discussed in the African Economic Outlook 2024, and international platforms such as Financing for Development, offer opportunities for the global community to demonstrate continued support to providing affordable financing for investment in critical growth-enhancing and climate-resilient sectors in Africa. Regional and continental integration will build solidarity and amplify Africa's collective voice in global financial and debt governance. Maintaining a collective voice is critical in mobilizing global support for several financial innovations that can bridge the fiscal challenges in countries, such as the rechanneling of Special Drawing Rights (SDRs) through MDBs to be leveraged for development financing in Africa.

BOOSTING EFFECTIVE DOMESTIC CAPITAL MOBILIZATION AND EFFICIENT USE

Africa's growth has been relatively strong amid multiple global and domestic shocks, but socioeconomic transformation has been slow and uneven. While growth averaged 3.8 percent annually in the past four decades—second only to developing Asia, it falls short of the required 7–10 percent sustained for more than five decades, to meet the aspirations of Agenda 2063 of the African Union and 2030 Global Agenda on Sustainable Development Goals (SDGs).[6]

Africa's slow pace of socioeconomic transformation remains a paradox. While poverty remains widespread, Africa has a rich diverse resource endowment, including natural capital, human capital, business capital, and financial capital, which if well harnessed, provide necessary conditions for rapid transformation. For instance, Africa hosts 30 percent of the world's total mineral reserves, over 65 percent of the world's uncultivated arable land, over 624 million hectares of forest and some of the world's longest rivers, the Nile (#1) and Congo (#9). And Africa's youthful population is one of its biggest assets—with over 60 percent of the population under 25 years, and projections that a quarter of the world's population in 2050 will be in Africa.

Despite the rich resource endowment and with nearly 80 percent of expenditure financed from domestic resources, Africa's government revenue-to-GDP ratio lags that of other world regions. The share of public expenditure financed from domestic revenues increased from 72.5 percent in 2015 to about 78 percent in 2023, but Africa's domestically generated revenues increased only modestly by 2.3 percentage points to 19.8 percent of GDP over the same period. Africa's government revenue-to-GDP ratio is lower than Europe and Central Asia (41.0 percent), Latin America and the Caribbean (28.6 percent), and East Asia and the Pacific (26.2 percent), but slightly above South Asia (17.9 percent).

As share of GDP, ODA flows to Africa declined steadily between 2021 and 2023, and this downward trend is likely to continue despite the importance of international support in financing Africa's development. These flows declined to an estimated 2.1 percent of GDP in 2023 from 2.6 percent of GDP in 2020, the highest since 2010, mainly reflecting Covid-19 related development assistance for that year. Only few advanced countries have consistently met the ODA threshold of 0.7 percent of gross national income (GNI).[7] As noted earlier, donor countries have announced significant funding cuts. These aid cuts, triggered by shifting domestic policy priorities in donor countries, could create a funding squeeze for Africa's low-income countries whose budgets depend significantly on international development assistance.

Africa has the potential to mobilize and use its own capital assets for development to build more resilient economies. Efficient mobilization of its rich and diverse domestic resources should be accompanied by prudent use to plug the loopholes that enable bleeding resources out of the continent. Making "the world's last development frontier" a continent of promise requires a paradigm shift and building strategic partnerships that promote self-reliance and homegrown development solutions rather than perpetuating external dependence and patronage. Dependency is not a tenable strategy. It is imperative that the continent capitalizes on its domestic resources to make Africa's Capital Work for Africa's Development.

With better policies, Africa could mobilize an additional $1.43 trillion in domestic resources, from both tax and nontax revenue sources and by curbing resource leakages. Mobilizing additional resources domestically will require important reforms to leverage its resource endowments.[8] For instance, by just curbing illicit financial flows and corruption, tackling profit shifting, and advocating for better sovereign risk-assessment, Africa can retain more than enough capital to close the financing gap to achieve the SDGs. But tackling resource leakages requires investment in better data capture, in systems that track, monitor, and value these outflows, and in mechanisms for public reporting to enhance transparency and accountability.

Mobilizing additional resources domestically will require important reforms to leverage its resource endowments

Mobilizing and using domestic capital

Mobilizing additional domestic resources in Africa, however, needs to be accompanied with efficient use. With an estimated public expenditure efficiency gap of 39 percent, inefficiency in public spending in Africa is higher than the average for other regions—such as 17 percent in Europe and 29 percent in Asia.[9] Several factors explain the variance. Weak governance leads to corruption and illicit financial flows (IFFs). Poor project selection reduces the productivity and development impacts of financed projects, causes delays, leads to cost overruns, and in some cases high proportions of nonperforming loans. And projects with the least development benefits are enabled by inadequate project preparation and monitoring and evaluation systems. African countries need to address systemic challenges in using domestic capital to enhance sustainability and maximize the development impact of government spending. In this regard, the African Development Bank's maiden Public Service Delivery Index for Africa provides a comprehensive assessment of the quantity and quality of development impacts of public investment across key sectors in African countries. The index will enable countries to track performance in public service delivery and ultimately to encourage improvements in the allocation and efficient use of public resources.

The African Development Bank's maiden Public Service Delivery Index for Africa provides a comprehensive assessment of the quantity and quality of development impacts

Here are some of the mechanisms for Africa to mobilize and effectively use domestic capital for development.

- *Enhancing the efficiency of domestic revenue mobilization (DRM) can generate substantial fiscal resources.* By enhancing enforcement of existing regulations and strengthening tax administration efficiency through application of digital technology, Africa can mobilize an additional $469.4 billion annually—or 14.4 percent of GDP—in fiscal resources in 2025–29. The additional revenue takes Africa's revenue-to-GDP slightly higher than the estimated median 27.2 percent required for fast-tracking structural transformation.[10] Despite facing numerous DRM constraints similar to those in Africa, the average revenue-to-GDP ratio in Latin America and the Caribbean (LAC) is higher than that for Africa. So, DRM measures can raise significant additional revenues in Africa at the least cost without increasing tax rates. Governments' commitment is key to implementing sweeping and sometimes politically unpopular reforms—and to strengthening the social contract with citizens to improve voluntary tax compliance and secure political support for reforms.
- *Upgrading the Systems of National Accounts (SNAs) and fast-tracking implementation of the System of Environmental-Economic Accounting across the continent would allow countries to integrate natural capital and ecosystem services into national accounts.* Updating national statistical systems and properly valuing Africa's ecosystem services through natural capital accounting could generate significant resources for development. With the informal economy accounting up to 65 percent of the economy in some countries, and many of them still using outdated SNAs, some dating back to 1968, upgrading national statistics to include informal sector activities and the value of goods and services provided by Africa's natural resources could increase Africa's GDP significantly. For instance, estimates by the Bank indicate that by accounting for carbon sequestration alone, Africa's nominal GDP in 2022 could have been $66.1 billion higher,[11] a potential expansion in output of about 2.2 percent. These estimates, albeit conservative, mean that the size of African economies can be significantly expanded by upgrading their SNAs to consider goods and services produced in the informal sector and the valuation of vast natural resources. This can then help reduce their debt-to-GDP ratios, reduce debt vulnerability risks, and offer larger headroom for mobilizing lower cost and longer term development finance. This will require significant investments in statistical capacity building in countries to upgrade SNAs to the 2025 standards and implement natural capital accounting.
- *Investing in the blue economy holds significant potential.* Africa has 37 countries with beautiful coastlines and resources for developing the blue economy.[12] Africa's blue economy is projected to reach $405 billion in 2030, generating $100 billion from coastal tourism and creating 57 million jobs. Building the capacity of the public sector, aligning economic interests with long-term sustainability, and undertaking policies that promote growth of aquatic sectors and ecotourism could unlock substantial resources, estimated at $105 billion for just the blue economy.
- *Investing in green minerals value chains.* Africa hosts 30 percent of the world's total mineral reserves, including those critical to the global energy transition, such as cobalt copper, lithium, and manganese. However, African countries capture only about 40 percent on average of the revenue they could potentially collect from natural resources.[13] Investing in value addition to these minerals in countries that host them could be three times cheaper than the current model of mining and exporting them in raw or semi-processed forms to production

and manufacturing factories in distant countries such as the United States or China.[14] With its vast deposits of critical minerals, including 55 percent of global cobalt reserves and 48 percent of world manganese reserves, Africa can integrate into the global value chain of the green transition. For instance, the global battery storage and electric vehicle value chain alone is estimated to reach $56.7 trillion by 2050.[15] Capturing a share of this market will require enhanced value addition and beneficiation, supported by substantial investment in transport and other infrastructure to strengthen productive capabilities for innovation and resource-driven industrialization to expand exports by leveraging the African Continental Free Trade Area (AfCFTA).[16] Investing in local processing and battery manufacturing across regional hubs could generate $32 billion in additional exports per year, adding $24 billion to annual GDP and create 2.3 million jobs for African countries. In addition, proper value addition and beneficiation of natural capital could significantly increase returns, as the Democratic Republic of Congo clearly demonstrates. Through local processing of raw bauxite into aluminum, for instance, the value increased more than 30-fold, from $65 to $2,335 per ton. In general, African countries should deploy local content, preferred procurement, and franchising policies, and avoid the temptation to resort to trading unprocessed green minerals. Yielding to that temptation has proven to be a very inefficient use of these natural resources. It is prone to elite capture and encouraging corruption and illicit flows of resources. And it ultimately is inimical to job creation, poverty reduction, inclusive growth, and sustainable development.

- *Increasing resource ownership and sovereignty for sustainable management of natural capital: African countries must exercise full ownership of their natural capital and manage it sustainably to drive productivity growth and generate value for the well-being of citizens.* There is urgent need for African countries to move away from transferring legal ownership of natural resources to foreign companies through poorly designed Mining Concession Agreements towards Mineral Development Agreements (MDAs), enshrined in national laws. This would avoid the pillage and mortgaging of natural resources by providing citizens with a stake and guarantee responsible management of the resource. Resource sovereignty should be reinforced by franchising policies to enable countries to focus on MDAs that offer win-win situations for domestic and international investors (public and privatized domestic interests). Where possible, preferred procurement policies should prioritize domestic investors and suppliers in MDAs to an agreed percentage to encourage growth of local enterprises through effective partnerships and technology transfer programs with foreign companies, which dominate the natural resource sector across Africa.
- *Accelerating strategic investments in human capital development, retention, and effective use could boost produced capital.* Increasing Africa's workforce relative to the working-age population in 2022 could raise per capita income by an additional 0.13 percentage points (about $92), or around $47 billion to Africa's GDP. This is roughly equivalent to the size of Tunisia's economy in 2021. The gains could be direct, through the productivity enhancement of human capital development and taxation—or indirect, through consumption expenditure spillover effects. Emigration of highly educated individuals represents a considerable loss, both in skills and in "tax leakages"—that is, the forgone revenues from their professional activity abroad.
- *Securitizing remittances through diaspora bonds can mobilize some of the untapped $30 billion per year in potential capital.* Africa is expected to attract about $100 billion in remittance inflows in 2025, and the formal remittance market could reach a lower bound of $283 billion by 2035, a threefold increase from 2023. However, the high cost of remittances promotes transfer through informal channels, which range from 35 to 75 percent of resource transfers through formal channels, with Africa on the higher side.[17] According to the United Nations, reducing the cost of remittances from about 7 percent in 2023 to 3 percent by 2030—a target set by the United Nations Agenda on

African countries must exercise full ownership of their natural capital and manage it sustainably to drive productivity growth and generate value

SDGs—could crowd-in informal transfers to the formal remittance market. Regional and global collaboration to reduce remittance costs to the SDG target could boost annual remittances to about $500 billion by 2035 by encouraging informal transfers through formal channels. Available estimates indicate that up to 30 percent of formal remittances could be left over and thus leveraged for local investment and developmental purposes.[18]

- *Transitioning from informal to formal activity for Africa's businesses could generate $125.3 billion annually in additional revenue.* By simplifying business registration processes, tax filling procedures, and enhancing social contracts with citizens, Africa can increase revenue collection through reduced informality from the current estimates of 50–65 percent. Formalization is essential for greater resource mobilization, as taxing the informal sector is not straightforward mainly due to the opacity of informal activities. Even so, some examples in Africa offer valuable lessons. Kenya's relatively advanced information technology systems have eased the difficulties of paying the appropriate taxes. The Kenya Revenue Authority collected about $1 billion in additional revenues in the 2016/17 fiscal year—an annual increase of 12.7 percent—after tax procedures became fully digitalized in 2016.[19]
- *Boosting the potential revenue and output gains from reducing informality through productivity improvements.*[20] Global evidence shows that reducing informality by 10 percentage points could increase GDP growth in emerging market and developing economies by 1–2 percent annually.
- *Strengthening regional value chains and deepening Africa's integration can, if well harnessed, be a game changer for business capital in Africa.* Full implementation of the AfCFTA will reposition Africa's integration and reshape its economies for future growth, anchored on the continent's business capital and investment. The revenue implications of increased manufacturing activity, trade, and income could be substantial. Full implementation of the AfCFTA would increase Africa's exports by $560 billion, mostly in manufacturing, and boost the continent's real income by $450 billion by 2035 (a gain of 7 percent, the minimum GDP growth rate required to tackle Africa's poverty).[21]

Full implementation of the AfCFTA will reposition Africa's integration and reshape its economies for future growth

- *De-risking local currency financing and lowering the domestic cost of capital through reduced deficit financing could align with the economic realities and development needs of many African countries, while lowering exchange rate risks.* Increasing the proportion of domestic currency debt could ease growth in foreign currency debt by about $88.6 billion in 2025–30,[22] or about 35 percent of the estimated financing gap in education for this period. In addition, local currency bonds can tap into the pool of institutional savings, such as pension funds and insurance premiums. For instance, ring-fencing 1 percent[23] of assets under management (AUM) by pension funds in the six largest African countries for development financing could generate $70 billion per year, or about 17 percent of the $402 billion annual structural transformation financing gap through 2030.
- *Reforming portfolio allocation rules of intergenerational sovereign wealth funds to allow for domestic investment could provide additional resources for development financing.* Such funds are mainly invested in low interest yielding liquid assets, predominantly treasury securities in advanced economies. African countries with these funds should invest a percentage of these funds in African financial markets to finance own development, while contributing to the development and deepening of Africa's financial markets. And African countries without such funds could establish them and harness their potential for mobilizing development financing by appropriating a certain percent of resource rents for dedicated investment rather than mortgaging their economies through resource-backed loans. To optimize the development contribution, however, the funds should be delinked from political influence and given autonomy to make investment decisions with the usual private sector incentives guiding their decisions.
- *Capitalizing regional, subregional, and national development financial institutions.* Africa's national development banks (NDBs) and

multinational financial institutions (MFIs) such as the African Development Bank and Afreximbank can be a potent source of long-term financing, by deploying a blend of innovative and strategic measures. Leveraging innovative financial instruments—such as social bonds, balance sheet optimization, synthetic securitization, risk transfer transactions, and funding source diversification from financial markets—can increase the ability of NDBs and MFIs to mobilize stable long-term funding and crowd in private sector financing.[24] For instance, leveraging African Development Fund equity, the African Development Bank could generate $5.3 billion in additional finance in each replenishment cycle while maintaining debt at a sustainable level.[25] Assuming the same compound annual growth rate of 5 percent per year between 2018 and 2022[26], total assets of Africa's NDBs alone could reach $291.5 billion by 2030. If fully directed towards long-term development, this would translate into an additional $89.5 billion in lending capacity relative to 2022. Efficiency measures—based on G20 estimates in the Triple Agenda report—could further boost this capacity by 40 percent, or about $35.8 billion, resulting in a total increase of $125.3 billion by 2030.[27] This would be a substantial contribution to mobilizing long-term financing across Africa. The concessional window of the Bank's lending, the African Development Fund (ADF), was ranked the world's best concessional financing institution in 2022. Adequately capitalizing African Development Finance Institutions will help to reduce the cost of debt for financing Africa's development.

These estimates underscore the missed opportunities in domestic mobilization of fiscal resources for development in African countries. But retaining and effectively using mobilized resources are essential for optimal development impacts in Africa.

- *Retaining domestic resources now lost through capital flight and other illicit financial flows.* Africa loses on average up to about $90 billion in IFFs annually.[28] A further $275 billion are lost annually due to profit-shifting by multinational corporations and $148 billion (or 25 percent of GDP) through corruption.[29] Adding the $74 billion in potential savings that can be generated by objectively pricing Africa's risk, the estimated total leakage of capital from Africa could be as high as $587 billion annually, more than the $578.1 billion collected in revenues in 2023. In contrast, total external financial inflows averaged just $196.8 billion annually over 2022–23, which translates into a net external resource outflow of $390.2 billion, making Africa a "net creditor to the world."[30] Recently, major donor countries, led by the United States through USAID, have announced significant funding cuts. As a result, net capital outflows in Africa will widen even more, suggesting the longstanding need for Africa to look inwards for the mobilization, retention, and use of domestic resources for development. External resource inflows could be only a complement not a primary source of development financing for Africa. Endogenous policy measures to plug the leakages will therefore help retain more resources for Africa's development.
- *Improving the efficiency of resource use to raise the productivity of human capital without additional spending.* The gap between Africa's estimated tax capacity of 20 percent of GDP and its current tax revenue to GDP ratio of 16.2 percent reflects inefficiencies in revenue collection that, if corrected, can unlock significant additional resources. Yet even with current revenue levels and resource allocation, Africa can achieve significantly greater returns simply by enhancing the efficiency of public spending. For example, between 2010 and 2018, the efficiency of public spending on education in Africa was estimated at 58 percent for primary education and just 41 percent for secondary education. By raising spending efficiency levels in the best-performing peer regions, Africa could nearly achieve universal primary school enrollment, raising the rate from 79 percent to 98 percent.
- *Increasing health expenditure efficiency through expenditure rationalization and cost-sharing in socially based health insurance schemes.* Matching the efficiency of lower middle-income countries, African countries

Leveraging innovative financial instruments can increase the ability of NDBs and MFIs to mobilize stable long-term funding and crowd in private sector financing could gain on average 5 years of increased life expectancy—and up to 10 years if efficiency matched that of upper-middle-income countries. Universal health insurance coverage could also reduce cost overruns and fiscal burden through cost-sharing mechanisms. In addition to the human capital dimension, estimates indicate that Africa has the potential to increase public investment efficiency by up to 39 percent, which would significantly enhance the growth impact of fiscal resource use.[31] Countries can also retain substantial resources currently lost through the illegal harvesting and exploitation of natural resources by strengthening domestic surveillance systems and community participation in the management and use of these resources. Opportunities to improve the efficiency of resource use are numerous and go well beyond the few examples highlighted here.

Matching the efficiency of lower middle-income countries, African countries could gain on average 5 years of increased life expectancy

Unlocking capital's potential for development

Unlocking the potential of Africa's capital for development will require bold, coordinated, and homegrown endogenous policy actions, along with strong political commitments. Improving tax administration and collection of nontax revenues, developing human capital, retaining skills by curbing brain drain, tapping into diaspora remittances, formalizing Africa's businesses, capitalizing Africa's development financial institutions, leveraging the capacity of institutional investors and sovereign wealth funds—all these could generate substantial resources each year. This should be complemented by plugging resource leakages and improving spending efficiency to ensure prudent use of the resources mobilized. Policy actions should focus on the following:

Domestic resource mobilization, retention, and efficient use

- *Improve tax policy and enhance efficiency in tax administration:* Enhance tax revenue collection through digitalization of tax administration, policies to broaden the tax base, improved capacity of tax administrators, and enhancing the social contract with citizens through effective use of tax revenues. Strengthening tax administration—particularly in sectors like natural resource exploitation—can significantly boost fiscal revenues for delivering quality public services. Automating and simplifying tax processes, including electronic filing and online payment of taxes, would save time but also reduce the likelihood of corruption by minimizing contact between tax authorities and taxpayers. Rebuilding the social contract with citizens is equally vital; channelling tax revenues into the provision of quality public services will promote voluntary tax compliance and help broaden the tax base.
- *Invest in public financial management capacity and reforms:* Undertake comprehensive public financial management reforms to ensure efficient and strategic use of mobilized resources for growth-enhancing investments. In this regard, there is need for increased uptake of capacity development of the Bank's Public Finance Management Academy (PFMA) across African countries.
- *Curb leakages by building state capacity to manage and use capital effectively:* Enact and implement transparency and accountability laws to curb illicit financial flows, corruption, and international profit-shifting, including holding public officials and company executives accountable for misappropriation of public resources. Countries with financial intelligence agencies should grant prosecutorial functions to help them prosecute crime related to money laundering through the formal financial system. Those without these agencies should establish them to reinforce the work of other law enforcement agencies such as the police that, for many African countries, lack adequate capacity and expertise to curb corruption. Success will depend, however, on collaboration and information sharing with other countries such as through the African Beneficial Ownership Transparency Network initiative, which aims, among other objectives, to support the 2022 G7 members' commitment to increase support to African partners to counter IFFs.[32] Governments should also rationalize tax rebates and

investment expenditures for mining and other foreign companies as a practical means to raise nontax revenues.

Strategic policies to mobilize nontax revenues: Impose nondistortionary measures such as import duties and special levies/excise duties on selected goods and services without constraining the deepening of regional trade and integration. Digitalizing regular updates of valuation rolls and land registers to capture the value of new establishments and number of payers can improve the collection of property taxes and land rates. Parking fees and carbon emission charges also present opportunities for raising nontax revenues. Enforcing regulations and dismantling cartels can enhance nontax municipal revenues. For instance, dismantling cartels' opaque transport unions and their associates and cadres require political commitment in enforcing regulations.[33] Increased accountability of collected revenues and efficient and transparent use into provision of quality municipal social services helps to eliminate incentives for noncompliance of paying local levies and user charges.

- *Develop active management of public assets and liabilities to identify income-generating opportunities.* The adoption of accrual accounting would help in recognizing idle assets and liabilities on the government's balance sheet. A clear strategy with expanded focus to strengthen capacity and transparency, can improve the database and commercial value of such assets to raise rental or other income without divesting the ownership of the assets.

Tax the income of the African diaspora. The relocation of skilled Africans to higher-income countries outside the continent represents a significant loss of highly trained workforce, it also presents an opportunity for countries of origin to tap into the expertise these migrants acquire abroad. Many African diasporas still have the affinity to their homeland and would like to give back to their home countries, which in many cases provided the foundational education and training that shaped their careers—often at subsidized costs. African countries should therefore explore the option of taxing income of the African diasporans to compensate for the training and other services received in their home countries prior to migration. For example, in 2019, there were 2.1 million African migrants in the United States. Assuming an average household size of 3 and median household annual income of $58,000 for the same year, a 2 percent levy on that income would have generated more than $800 million in annual revenues to Africa. This figure is for immigrants to the United States only. Considering those in other countries and within Africa could generate even more in revenue for the continent's development. Such a tax would give the diaspora a strong sense of belonging and claim to participate in national affairs such as voting and holding leaders accountable. Implementing such initiatives however requires additional work to mitigate the risk of double taxation and building a digital database of the diaspora in each country with unique form identification such as a social security number or national identity cards in their home country and an assessment of their household income. Examples from the United States and other countries, where citizens file and pay their taxes could provide some lessons on operationalizing such an initiative.

Governments should rationalize tax rebates and investment expenditures for mining and other foreign companies as a practical means to raise nontax revenues

Enhance resource productivity through natural capital accounting, beneficiation, and value chain development

- *Make natural capital accounting and the System of Environmental-Economic Accounting integral parts of national development plans and sectoral strategies* to reflect the full value of natural capital,[34] including ecosystem services, while supporting sustainability objectives. Proper valuation of Africa's vast green wealth and updating the system of national accounts to capture this value could increase the size of Africa's GDP. A holistic and inclusive approach is key for successful policy integration, bringing together more stakeholders including statistics bureaus, policy implementors, such as ministries of finance and environment, and community leaders under whom the ownership of ecosystem services and mineral assets may fall. Policymakers should institutionalize natural capital accounting to leverage the strong commitment and ambition at the highest level of government to advocate and champion mandatory valuation. This should include establishing or strengthening dedicated NCA units across relevant government agencies.

- *Develop the capacity for value addition and beneficiation* to increase returns and build more resilient diversified economies. Moving up the global value chain can unlock new markets, boost tax and nontax revenues such as royalties, reduce exposure to commodity price volatility, and generate green jobs. Countries should develop and strengthen the capacity for local processing to add value to raw material and enhance export earnings. The Democratic Republic of Congo is processing cobalt and multiplying the value of exports manifold, adding value to natural capital. Replicating such efforts will help create the enabling environment for large-scale beneficiation and ensure that natural capital serves as a sustainable driver of inclusive economic growth.
- *Develop resource corridors and regional mineral value chains* to expand production possibilities and enhance cross-border use of natural resources. African governments need to facilitate regional industrialization by forming cross-border value chains for resources and critical minerals—lithium, cobalt, and rare earth elements—using harmonized policies, joint infrastructure, and common investment codes to allow seamless movement of semi-processed goods and integration into global value chains. Moving up the value chain can unlock new markets, boost tax and nontax revenues such as resource royalties, reduce exposure to commodity price volatility, and generate green jobs.
- *Implement mineral development agreements* to enhance ownership and sustainable management of natural assets to drive productivity growth and generate value for the well-being of citizens. There is urgent need for African countries to move away from transferring legal ownership of natural resources to foreign companies through poorly designed Mining Concession Agreements towards resource sovereignty, enshrined in national law. MDAs offer win-win situations for domestic and international investors (public and privatized domestic interests) by providing citizens with a stake while preventing pillaging and mortgaging of natural resources by foreign companies, which dominate the extractives sector across Africa.

Africa's financial sector needs to adopt fit-for-purpose regulatory frameworks that foster innovation

Developing deep and integrated financial markets to leverage financial capital

- *Deepen financial markets and enhancing the role of financial capital* in Africa's development will require cross-border cooperation, harmonized trading laws and accounting standards, and currency convertibility. The AfCFTA and existing regional integration frameworks—such as the Pan-African Payment and Settlement System—provide a foundation for building a unified African capital market and regional payment systems. Africa's financial sector also needs to adopt fit-for-purpose regulatory frameworks that foster innovation while safeguarding data privacy and protecting against cybercrime.
- *Leverage sovereign wealth funds, pension funds, and other institutional savings* for investment in long term productive sectors. Enacting laws to prescribe mandatory investment of a portion of institutional funds in domestic markets or designated projects could help to address Africa's low market depth and funding needs. Governments should provide incentives for pooling of institutional financing and mapping it to long-term bond to be repaid through project generated revenues. The African Development Bank and other multilateral development banks can help to de-risk such bonds through a menu of instruments, including issuance of a local currency bond.
- *Channel more resources into infrastructure development* through Africa's pension funds and other institutional investors to leverage the triple A credit rating of MDBs, such as the African Development Bank (AfDB). The AfDB's robust due diligence, high environmental, social, and governance standards, and strong in-country presence and knowledge of the continent's development landscape can help to de-risk such investments, offering a secure entry point into high-impact sectors. The AfDB has already collaborated with international fund managers, providing expertise and local

knowledge and preferred credit ratings. This collaboration shows that institutional capital can be mobilized effectively to support Africa's development while achieving attractive financial and sustainability outcomes. Other investors could build on this model to diversify their asset portfolios while contributing to the transformation of the African continent.

- *Tap into emerging venture capital markets* to fill the financing void created by the traditional bank-based model of financial development in Africa. African governments should streamline regulations and de-risk the flow of venture capital to Africa. Addressing infrastructure challenges and weak institutional quality in many low-income countries in Africa can draw firms from operating on the fringes of the venture market segment.
- *Adopt strategic policies to catalyze remittances and diaspora bonds* as an innovative asset class. Securitizing remittance flows could diversify sources of development finance and strengthen national ties with the global African community as well as reinforce collective ownership of the continent's development agenda. For diaspora bonds to succeed, proceeds need to be tied to clearly defined, economically viable projects—such as infrastructure, education, and healthcare—that resonate with the diaspora while offering positive returns to ensure timely repayment.

Making business capital a vehicle for Africa's transformative development

- *Support the development of business capital* through a comprehensive strategy that tackles the structural challenges inhibiting its growth. Governments can help Africa's firms learn to compete with regional and global peers in exports by reducing regulatory burdens through gradual reductions in marginal tax rates and costs of compliance that discourage small and medium enterprises from investing in business capital. Providing information on the available tax benefits for businesses operating in industrial clusters could reduce the search costs for local firms. Governments should also establish guarantee facilities to de-risk the banks' funding for small businesses.
- *Prioritize preferred procurement, local content policies, and franchising* to stimulate domestic production and deepen regional value chains. Encouraging countries to source raw materials and intermediate inputs within the continent can promote the growth of small businesses, leverage comparative advantages, and build resilient interconnected markets. Carefully structured franchising arrangements with foreign firms can facilitate access to frontier technologies and innovations, while embedding technology transfer and workforce training. These efforts should be aligned with national development priorities and based on detailed assessments of domestic capacity gaps. Local content policies should be flexible enough to attract foreign investment while ensuring meaningful integration of local firms and workers into global value chains.
- *Promote visa-free entry for all Africans across the continent.* Intra-Africa labor mobility is essential in facilitating the transfer of knowledge and skills and talent, fostering innovation, and driving employment, entrepreneurship, and business capital development. Despite existing protocols to deepen regional integration, particularly within the ambit of the African Continental Free Trade Area (AfCFTA), 46 percent of intra-African travel still requires a visa, according to the 2024 Africa Visa Openness Report.[35] These restrictions hinder intra-Africa investment flows and skills. The African Union, in collaboration with national governments should recommit to easing all impediments to the free movement of talent, investment, and labor to make business capital development a reality. The implementation of the African Passport Initiative for all Africans could be a significant step to build a sense of ownership and collective commitment to African development, irrespective of their nationalities. To make Africa's business capital work for Africa's development, Africans must unite and act as one regional market to deliver economies of scale for all.

The African Union, in collaboration with national governments should recommit to easing all impediments to the free movement of talent, investment, and labor

Developing human capital and skills

- *Prioritize investment in youth and women, Africa's greatest assets.* Empowering Africa's young people with the right skills and providing them with opportunities will unleash the dynamism of the continent's demographic dividend. Governments should prioritize education in national policy agendas and allocate at least 20 percent of public expenditure to the sector, in line with the African Union–Dakar Commitment on Education for All. To ensure that resources are used effectively, governments should strengthen national education data systems to track teacher recruitment and retention, weed the sector of ghost workers on payrolls, and monitor progress on performance. In parallel, aligning education systems with local economic priorities guided by national development plans—with a strong emphasis on science, technology, engineering, and mathematics (STEM); technical and vocational education and training (TVET); and digital literacy—will ensure that technical and soft skills are relevant to country-specific contexts. Strategic partnerships with global actors—such as Google's AI research lab in Accra—can enhance innovation and amplify the impact of investing in human capital.

> Investing in women—not just as recipients of support but as strategic actors in development—can unlock a powerful multiplier effect

- *Unleash the entrepreneurial spirit of Africa's youth* by increasing economic opportunities and access to supportive infrastructure and financing. Statistics show that more than three-quarters of young people plan to start a new business in five years, especially in the technology and innovation sectors. Governments, working with development finance institutions, can stimulate and nurture youth entrepreneurship by developing financing instruments and youth-friendly regulations tailored towards this segment of the business ecosystem. The establishment of the Youth Entrepreneurship Investment Bank (YEIB), an initiative led by the African Development Bank Group, is a step towards realizing this vision. The YEIB targets to provide support to over 30,000 youth-led businesses during the next 15 years.
- *Place women at the center of human capital development strategies* by tackling structural barriers to foster gender inclusivity and spur productivity. In some African communities, cultural expectations discourage girls and women from pursuing higher education or leadership roles, while some religious interpretations are used to justify early marriage or limit women's autonomy. African governments, working in collaboration with community leaders and faith-based and civil society organizations, need to confront and challenge the deeper social, cultural, religious, and structural barriers that suppress women's roles and limit their potential. By investing in women not just as recipients of support but as strategic actors in development, Africa can unlock a powerful multiplier effect: advancing gender equality, accelerating economic growth, and ensuring more resilient and inclusive societies for future generations.
- *Reverse migration and brain drain* through measures that go beyond economic effects of poor career prospects as a main push factor. Efforts to curb migration of talent or luring it back to Africa can take many forms. Several of these measures have proven successful in other countries, especially in Eastern Europe. Governments should phase out blanket direct tax exemptions but instead direct them to critical sectors, such as information technology to attract and support technology-oriented firms or those with high loss of skills. The Carnegie Mellon University Africa campus in Rwanda shows how leading global institutions can help retain critical human capital by reducing incentives for young graduates to seek education and jobs opportunities abroad.
- *Strengthen health systems* by meeting the Abuja Declaration target of allocating at least 15 percent of national budgets to unlock much-needed resources to improve health infrastructure, build a resilient health workforce, and modernize service delivery systems. Countries should prioritize predictable domestic health financing mechanisms, aligned with both the Abuja Declaration and WHO recommendations. Strengthened health systems are essential for enabling a productive population capable of contributing to long-term economic transformation. Crucially, countries need to devise an inward-looking approach in designing health insurance strategies by taking into account local cultural, social, economic, and political contexts.

- *Intensify the use of digital technologies* to scale up upskilling of healthcare workers and provide quality health care. Digital technologies such as telemedicine, e-health, and several other technologies provided at minimal cost can improve the efficiency of resource use and the delivery of quality of health care, especially for people in remote areas and underserved communities. Mobile phones and drones are currently deployed in Tanzania and other African countries in the diagnosis and treatment of malaria.

Strengthening strategic partnerships for effective domestic capital mobilization and efficient use

- *Foster mutually beneficial partnerships* between African countries and bilateral and multilateral agencies to enhance the institutional and technical capacity of African countries to mobilize, retain, and efficiently use resources for Africa's development. International support should focus on strengthening the capacity of African countries to identify opportunities and potential risks and challenges to mobilizing domestic capital at scale. Drawing from best practice and established international standards, development partners can support African countries, especially those in conditions of fragility, to curb resource leakages and improve systems for spending efficiency to transform Africa's natural and other tangible assets into intangible assets to fuel future growth. The international community should collaborate and commit to effective compliance with existing global mechanisms and bilateral agreements to track and repatriate embezzled resources stashed in tax havens by African elites. Collaboration with African governments and regional bodies, such as the African Union, is essential to establish a formal framework for addressing resource leakages from the continent.

Catalyzing a mindset shift across African leadership and institutions

- *Africa must move beyond inherited models of dependency, consumption of foreign goods, and reliance on global systems* that were never designed to serve its long-term interests. As highlighted in recent AEO reports, the current global financial architecture, distorted by risk-perception biases and flawed rating methodologies, diverts capital from the regions and sectors that need it most, reinforcing cycles of debt, poverty, and underinvestment. To break this structural trap, Africa must embrace a new paradigm grounded in self-belief, economic sovereignty, and continental solidarity, prioritizing intra-African trade, investment, and innovation. This also requires shifting societal preferences towards local products to support industrialization and encouraging development partners to adopt a model of equal, mutually beneficial cooperation.

HARNESSING AFRICA'S CAPITAL FOR DEVELOPMENT: THE ROLE OF INSTITUTIONS, ECONOMIC GOVERNANCE, AND THE RULE OF LAW

Institutions and the governance architecture are the "conversion factors" determining the efficiency of converting one form of capital into another

Harnessing Africa's capital for development can be understood through a development model based on capital conversion. Institutions and the governance architecture are the "conversion factors" determining the efficiency of converting one form of capital into another. In a resource-rich country with good quality institutions, natural capital can be converted into fiscal resources and long-term physical assets that multiply development gains. Without good governance and institutional frameworks, however, resources might be lost to corruption and other forms of theft, thereby the developmental impact (the "resource curse") of natural capital. Similarly, depending on the quality of the education system and the institutional framework, a growing workforce can be turned into a productive labor force—or wasted talent.

Africa faces a dilemma: Despite significant commitments to reform, the lack of effective implementation continues to hinder progress in governance and institutional quality. Many African countries have set up formal institutions —constitutions, anti-corruption commissions, semi-autonomous tax agencies—and have signed regional and international conventions to improve governance, strengthen institutions, and uphold the rule of law. Yet implementation has been slow, patchy, and selective. Institutional weaknesses and governance deficiencies are evident in pervasive corruption, frequent policy reversals, political instability, and poor public-sector performance, which directly hinder the mobilization and efficient use of capital, both domestic and external. For instance, many anti-corruption agencies use a generalized definition of asset for any stolen public property, which do not explicitly distinguish among different forms of assets.[36]

Weak institutions and low-quality governance imply that the conversion of natural and human capital into tangible development outcomes is suboptimal. Africa's political instability and ineffective laws, some reflecting colonial legacies, have led to low capital asset returns and a fertile ground for corruption and resource leakages, which further undermine fiscal capacity and public service delivery. And weak contract enforcement, policy uncertainty, and political risks discourage both domestic and foreign investors, leading to a loss of investment—canceled projects and jobs.

Building effective institutions and governance and upholding the rule of law are prerequisites for peace and national security

The persistent loss of resources holds back the continent from achieving its development potential. Africa loses substantial resources through illicit financial flows, corruption, and other leakages. Illegal repatriation of funds by wealthy individuals and firms to offshore jurisdictions, when confidence in domestic governance and the rule of law is low, deprives local economies of capital for investment in infrastructure and human capital development. This in turn has perpetuated episodic growth, pervasive poverty, and continued reliance on external financing, often on unfavorable terms, whether in policy conditionalities for aid or excessive cost of capital for debt.

The lack of strategic coordination amid weak governance and institutional deficiencies across African government agencies make public expenditure inefficient. Poor budgeting and politicized spending reflect inefficiencies in institutions and legal frameworks, which result in the loss of up to 40 percent of infrastructure budgets. This leads to low-quality public services, failing education systems, unreliable power supplies, and broken health systems. These failures have eroded citizens' willingness to pay taxes and levies, creating a vicious cycle of low revenue and poor quality public services.

Africa's governance and institutional challenges could amplify the impact of declining external development assistance. The current era of geopolitical fragmentation and rising protectionism has seen many traditional donors cut their humanitarian aid and concessional financing to Africa. Global foreign direct investment (FDI) has also become more selective, with investment in services increasing from 66 percent in 2003 to 81 percent in 2023 as the share of FDI in manufacturing declined from 26 percent to 13 percent.[37] Developing countries, including in Africa, carry the largest burden of the reduction in FDI, averaging 2 percent in 2024.[38] In Africa, this means mobilizing domestic resources and efficiently using resources are more urgent than ever. It will require deep improvements in governance and solidifying institutions to foster infrastructure development, industrialization, and investment in social programs.

Building lasting peace and security is crucial to achieving inclusive and sustainable development. A disruption in peace is often a symptom of economic and social exclusion. The two are therefore intertwined: a peaceful environment creates conditions for sustainable growth, while social exclusion and economic marginalization breed discontent and instability. Building effective institutions and governance and upholding the rule of law are prerequisites for peace and national security.

Mobilizing more fiscal resources

Well-functioning institutions foster public trust, reduce opportunistic and rent-seeking behavior, and enhance the ability of governments to implement policies that generate and effectively allocate revenue for development.[39] In contrast, predatory policies weaken transparency and accountability and undermine trust in government institutions. This reduces citizens' compliance with tax and other revenue generating measures.[40] In addition, inefficient public expenditure limits the government's ability to manage fiscal resources effectively.[41]

Limited institutional capacity and lack of expertise in designing and managing tax agreements[42] have encouraged base erosion and profit shifting (BEPS) by multinational enterprises (MNEs) operating in Africa. Those enterprises, with their complex accounting processes and expertise, exploit inadequacies in skills and administrative capacity in national revenue agencies and loopholes in existing tax laws to siphon resources out of the continent. In some countries, the companies' income tax act is not explicit about cost treatment even where double taxation is clear, so MNEs exaggerate costs to reduce reported profits.[43] Profit-shifting (in the form of tax evasion and avoidance) facilitated by an opaque international tax architecture costs the continent an estimated $275 billion annually. This amount exceeds the combined $174.9 billion the continent received from official development assistance, remittances, and foreign direct investment in 2022.[44]

State capture aggravates Africa's institutional challenges and weak governance capacity. Captured elites shape laws and regulations to secure tax exemptions, monopolies, and preferential access to public contracts and other privileges. Several cases of state capture exist across Africa, illustrating the extent of the problem. In some countries, commodity resource rights are granted to politically connected companies (both domestic and foreign), resulting in losses of millions of US dollars in forgone revenue. In some countries, state capture—where persons with political connections influence government decisions—is perverse and highlights how state institutions can be compromised by elite networks for personal gain.[45] A nation's secrecy laws—which criminalize the disclosure of economic information such as the government's use of resource revenues—also show that legal frameworks, while intended to protect national interests, can sometimes limit transparency and public accountability, potentially creating conditions conducive to state capture.[46]

Inefficient institutions of governance foster an environment of weak rule of law in Africa, impeding fiscal resource mobilization. High corruption leads to low tax morale among citizens,[47] and the effect is both direct and indirect, the latter occurring when it diminishes tax payers' confidence in tax authorities due to perceptions of corruption among government authorities.[48] In contrast, a perception of low corruption at different levels of the executive branch has a positive impact on tax morale.[49] Countries that have undertaken reforms to improve the efficiency and effectiveness of institutions also enjoy respect for the rule of law, such as the separation of powers among different branches of government.

Profit-shifting costs the continent an estimated $275 billion annually

The institutionalization of weak governance and rule of law has eroded state effectiveness and the legitimacy of governments, fostering a culture of impunity that undermines public trust in state institutions. Such weaknesses amplify governance vacuums that non-state actors exploit to perpetrate violence and assert control. In Africa, the persistence of fragility and conflict, linked in large part to weak governance and poor-quality institutions, represents one of the greatest impediments to economic development and resilience. These conflicts decimate revenue sources, shrinking the fiscal space, while increasing military or security spending at the expense of investing in sectors critical to stimulating economic growth and supporting vulnerable populations.[50]

Effective institutions, economic governance, and strengthening of the rule of law play a key role in improving capital mobilization in Africa. A coordinated approach is needed to implement policies and reforms to build and strengthen the effectiveness of institutions, economic governance, and the rule of law. Below are some key measures that offer immense potential to unlock the mobilization and effective use of Africa's capital assets.

Strengthening institutions, governance, and the rule of law

- *Ease the tax burden and increase incentives for businesses.* High and multiple[51] taxes slow down business births, reduce the chances of survival, and retard growth of surviving firms through weakening their size and strength. Tax rates on income, profits, and capital gains in Africa range from 3 percent to 48 percent, the highest among regions.[52] Governments should prioritize tax modernization, with each business issued a unique tax identification number to reduce multiple taxation and strengthen tracking tax payments. Measures should also include establishing a threshold for businesses to be tax exempt based on value of assets, turnover, or profit as well as tax breaks for a specified number of years from birth. Lessons can be drawn from the Ghana Revenue Authority's collaboration with the National Identification Authority to establish an identity information database to map revenue collections, an initiative that led to a threefold increase in total tax registrations in 2021/2022 financial period.[53]

- *Strengthen governance and institutional frameworks.* Building human and institutional capacity could amplify the effectiveness, transparency, and accountability of budgeting. The Public Expenditure and Financial Accountability (PEFA) Performance Assessment reports in Africa continue to paint a grim picture. Enhancing oversight institutions such as public account select committees of parliaments and audit agencies could help prioritize government investments, reduce waste, and ensure that public spending aligns with national development goals. Enforcing proposed sanctions against public service workers implicated in corruption and embezzlement can deter infractions of the law. To enhance risk analysis for improved efficiency in revenue collections, legislation should mandate and strengthen interagency coordination across revenue authorities and relevant industry regulators to harness technical expertise and practical experience to effectively identify and evaluate sector-specific tax evasion practices. The Zambian experience serves as a useful example for other African countries. A multiyear technical assistance program focused on mining taxation contributed to the collection of $6 million in property transfer tax and $58 million in mining corporate income tax revenue between 2020 and 2022.[54]

Building human and institutional capacity could amplify the effectiveness, transparency, and accountability of budgeting

- *Invest in digitalization to modernize tax administration systems.* In a world of rapidly changing economic conditions and business development, investing in digital platforms will enable better management of large and complex datasets and combat the evolving trade-based money laundering and illicit financial flows. Governments should invest in digital tools such as e-filing platforms, mobile payment integrations, and other automations to detect fraud. In South Africa, digital upgrades, automation, and improvements in taxpayer services and compliance led to a capture of 32 million taxpayers and improved taxpayers' behavior, with a marginal rise in voluntary compliance by about 0.4 percentage points to 75.5 percent, contributing to an annual increase in revenue collection by 15.8 percent to about $15 billion in the 2023/2024 fiscal year. Planned future automation could help to close the tax gap of about $41 billion uncollected revenues due to unpaid debts, overdue returns, and fiscal leakages.[55]
- *Leverage regional frameworks and policy sharing to establish uniform corporate tax rates.* Governments, in collaboration with regional agencies such as the African Union Commission, should tailor policies to regional characteristics to ensure optimal tax revenue collection in line with international standards. Joint regional audits for multinational enterprises would strengthen enforcement practices. These coordinated approaches will help countries to mitigate the loss of domestic revenues. The African Tax Administration Forum could help to develop model legislation based on the BEPS framework to ensure adherence with global standard compliance. National treasuries would then domesticate and enforce the rules. By presenting a united front, African nations can protect their tax base without worrying that individual member states will lose investment.
- *Adopt a regional approach and enhanced coordination between nations to tackle corruption.* The AU should prevail upon the 11 countries that have not ratified the convention on prevention and combating corruption to do so.[56] This will create a common strategy and shared roadmap on implementing anticorruption policies including through regional procurement

practices and digitalizing processes that facilitate access to information across the region. Country governments should invest in biometric technologies and other emerging technologies, such as blockchain on contract negotiations and procurement systems, to manage public finances and payment systems. Kenya's e-citizen platforms provide some lessons.[57] Building independent, anti-corruption commissions and well-funded judiciaries could deter corruption. There are global best practices that African countries can adapt to local circumstances. For instance, with support from independent judiciary, the Independent Commission Against Corruption of Hong Kong moved from being highly corrupt to the most efficient agency in arresting the vice.[58]

- *Implement coherent and coordinated responses in collaboration with global partners to tackle illicit financial flows.* Resources obtained through criminal and corrupt acts often move across borders, requiring a holistic approach that involves preventing illicit flows, supporting financial investigations, and recovering stolen assets. African countries belong to several global and regional initiatives, such as the Financial Action Task Force-Style Regional Bodies. These initiatives are focused on tackling anti-money laundering and combatting the financing of terrorism (and proliferation). But due to weak technical and institutional capacity, there is limited participation by African countries in multilateral initiatives to enhance tax transparency. Nor is there much interaction or intelligence sharing between public and private actors to mitigate illicit financial flows. Addressing these challenges will require close cooperation to enforce compliance with international tax standards and anti-money laundering regulations. Development partners can help strengthen the capacity of implementing agencies in Africa to align local regulations with global and regional initiatives such as the Common African Position on Asset Recovery, a continental blueprint for recovering, repatriating, and managing recovered assets.

African governments should enshrine a culture of independent law enforcement agencies and other institutions of governance for optimal outcomes. Respect for the rule of law and protecting civil liberties through judicial autonomy, established constitutionalism, legislative arms, and an accountable executive, reinforced by equal participation in national affairs and equitable distribution of country's wealth, fosters inclusivity for all citizens, removes incentives for opportunistic behavior, and reduces the propensity for armed conflict. Besides national cohesion, partnership and collaboration with international organizations such as the United Nations and regional bodies can help restore and maintain peace in times of civil or armed conflict. For countries emerging from war and conflict, there is a need for the international community to strengthen institutions and the rule of law and eliminate conditions of fragility. Ultimately, addressing fundamental drivers of instability such as economic disempowerment is key to silencing guns in Africa. The African Development Bank's Transition Support Facility (TSF) helps to rebuild institutions and governance architecture in countries facing fragility and conflict to consolidate peace and stabilize economies. This is critical to improving the lives of vulnerable populations and to laying the foundations for sustainable inclusive growth.

Mobilizing more natural capital

The legal framework in many countries in Africa vests ownership and management of natural resources in the state. But the implementation of mining codes often conflicts with the public interest. For instance, licensing and permits, critical to controlling access to natural resources, often involve opaque processes, established through direct negotiations rather than competitive bidding. And in many of the continent's resource-rich economies, limited technical capacity has hampered the enforcement of mining codes that aim to localize downstream mining industries and institutionalize transparency and accountability.[59]

Poorly crafted natural resource contracts between governments and investors lead to overexploitation and losses of natural capital. Production-sharing agreements balance risks and

Development partners can help strengthen the capacity of implementing agencies in Africa to align local regulations with global and regional initiatives

rewards, making them attractive, mainly in the oil sector, as they offer a framework for governments to benefit from these resources without directly investing in the exploration and production process, while also attracting foreign investment and expertise. By contrast, concessions grant companies the right to extract resources in exchange for royalties and taxes but lack flexibility to adjust to market conditions. These form of mining agreements found in several African countries are often characterized by confidential clauses with terms often undisclosed. These agreements prioritize investors' interests over national interest, especially when stabilization clauses are included.[60]

Countries should ensure that mineral development agreements have mandatory clauses that encourage domestic value addition

African countries can remedy the situation through enhanced technical skills and capacity. For mineral negotiators, publication of main clauses of the agreement and constant monitoring and evaluation of contract can ensure compliance and adherence to agreed implementation rules. African countries can leverage initiatives such as the African Union's African Mining Vision (AMV) and support the African Legal Support Facility (ALSF) to facilitate better alignment between resource extraction codes and paying fairer resource rents to host countries. Through the AMV, African states can benefit from capacity-building that enhances the bargaining power in natural resource contracts. The ALSF, in collaboration with international partners and stakeholders, offers Africa's resource-rich countries an institutional mechanism to address asymmetrical legal and technical barriers at the contract stage. Ultimately, countries should ensure that mineral development agreements have mandatory clauses that encourage domestic value addition to prevent unfettered extraction of mineral resources and export of raw materials to distant markets onward processing and value addition. This is tantamount to exporting jobs to other countries (see chapter 2 of this report for specific policies to encourage domestic value addition to natural resources).

Effective use of natural capital for development in Africa has thus been hampered by limited negotiating capacity, low transparency, and weak enforcement of prudent regulatory conduct. The effectiveness of natural capital in facilitating development is partly affected by the complex structure of an extractives sector that involves state, private, and global actors. Many governments, including in Africa, rely on foreign multinational enterprises (MNEs) for investment and technical expertise due to the capital-intensity of the extractive sector. The dominance of MNEs gives them an advantageous position but creates challenges for governments in revenue sharing and regulatory oversight.

Improving natural capital assets by strengthening governance and institutions

- *Enact mandatory public disclosure requirements of all natural resource contracts and revenue payments to enhance transparency and accountability.* Centralized online registries such as Liberia's Open Contracting Portal can enhance disclosure of and access to information on contracts and payment of revenues generated from extractive industries. The Extractive Industries Transparency Initiative (EITI) standards would operate as mandatory requirements with local oversight agencies provided by independent audit agencies to ensure compliance. National ministries that oversee extractive industries along with anti-corruption agencies would serve as lead actors. Implementing such contracts on transparency disclosure have led to renegotiation by Guinean authorities of $1.3 billion of mining deals.
- *Adopt a common open auction framework to maximize financial returns from natural resources.* The bidding process for extractive contracts in Africa should be guided by clear criteria that include local content requirements and environmental safeguards. The auction results should be publicly disclosed for scrutiny to maintain transparency and accountability. In Mozambique, the competitive auction of liquefied natural gas licenses reduced political influence and generated more than 30 percent higher in government revenue. This approach can be adapted by other African countries to reduce political influence and corruption, which leads to substantial losses of funds and continued patronage between investors and political elites. The African Natural Resource and Investment Centre established at the African

Development Bank Group, the African Mineral Development Centre hosted at the Africa Union Commission, and the African Legal Support Facility are available to provide technical guidance to national extractive sector regulators responsible for implementing the auctioning system.

- *Enforce domestic value retention through resource-based industrialization.* Authorities in Africa's resource-intensive economies must mandate and incentivize value addition in extractive industries through legally enforceable beneficiation requirements and targeted industrial policies. This will transform resource-rich countries from exporters of raw materials to processors and manufacturers. The enforcement of domestic value retention can be implemented through introducing legal clauses in mining/petroleum agreements requiring local beneficiation, establishing mineral processing zones or industrial parks near resource sites, offering targeted and tax breaks with definitive termination date, access to infrastructure, or credit guarantees to firms investing in value addition and processing plants, and developing local content certification systems and databases of domestic suppliers.
- *Develop regional mineral value chains through cross-border industrial hubs.* Expanding production possibilities and enhancing cross-border use of natural and human resources can build and strengthen domestic industrial and regional value chains. African governments need to facilitate regional industrialization by forming cross-border value chains for critical minerals—lithium, cobalt, and rare earth elements—using harmonized policies, joint infrastructure, and market integration. This will require collaboration by countries to negotiate bilateral or multilateral agreements on shared processing infrastructure (DRC–Zambia lithium corridor), standardize export taxes, local content policies, and investment codes across regions, coordinate trade facilitation and customs reforms to allow seamless movement of semi-processed goods, and through the backing of national and regional development financing institutions, pool development finance for industrial zones, R&D centers, and logistics hubs.

Mobilizing more financial capital

Financial markets in Africa often lack appropriate statutory backing and adequate resources to detect and enforce sanctions against malpractice, including market abuse such as insider trading and market manipulation.[61] Many African countries face challenges in developing financial markets, improving payments systems, and strengthening regulatory frameworks. No African country has attained the average financial development threshold index of 0.5 which evaluates a country's progress on depth, access, and efficiency.[62] The lack of sound legal and regulatory frameworks, clearing and settlement systems, and information for recording transactions restricts access to capital and limits the ability of marginalized populations to participate in the economy.

Expanding production possibilities and enhancing cross-border use of natural and human resources can build and strengthen domestic industrial and regional value chains

Poorly designed regulations also hinder innovation and discourage investment. Africa is bedeviled with bureaucratic financial regulations including overcomplicated credit reporting and loan approval processes, complex and cumbersome tax systems, extensive anti-money laundering and know your customer requirements that become increasingly complex, time-consuming, and difficult to manage. These regulatory bottlenecks discourage investment, increase borrowing costs, and hinder financial inclusion. Countries with streamlined regulations have moved up on the World Bank's Business Ready index. For instance, the Business Ready report for 2024 that Rwanda has made substantial progress in the low cost of transactions in the capital market. It also ranks top in Africa on providing high-quality public services to support business growth and operational efficiency of firms.

Mobilizing financial capital in Africa is also hampered by institutional inefficiencies. Institutions such as the judiciary, parliament, law enforcement agencies, and anti-corruption agencies are usually underfunded, understaffed, and under-capacitated to perform their functions. As a result, they are unable to tackle organized financial crime such as money laundering or profit shifting by MNEs. This leads to public distrust of the legal system. In addition, political interference and arbitrary appointments of judiciary staff further undermine legal protections, creating uncertainty for property rights and contract enforcement.[63] Weak contract enforcement and ineffective legal systems fail to protect minority shareholder rights or ensure equitable profit sharing. These deficiencies highlight the need for increased resource allocation and legal reforms to engender judicial independence and restore public trust in key institutions of governance.

Deepening governance and institutions to improve financial capital asset mobilization and use

> Greater cooperation among national financial institutions can create a large and robust capital market

- *Improve the capital market regulatory environment to mobilize long-term savings.* Capital markets in Africa are rudimentary but have the potential to mobilize financial capital through improved regulatory environment. A sound regulatory framework facilitates market infrastructure development and strengthens investor protection—such as disclosure rules and clear, consistent, and enforceable regulations that promote transparency. African governments and financial market regulatory authorities should invest in technologies such as tokenization of assets.[64] In 2024, DAMREV, a real-world asset tokenization company, signed a $330 million deal to tokenize a copper mine in Namibia. The agreement will enable DAMREV to create fractional ownership and leverage innovative approach for increased liquidity, thus setting new standards for asset management in Namibia's mining sector.[65] In Kenya, Project Mocha is supporting smallholder farmers by tokenizing coffee trees on the blockchain. This allows smallholder farmers to sell tokens representing the economic rights to some of their coffee trees, providing token holders with a share of the coffee sales revenue for 10 years and ensuring that farmers have greater access to increased funding pool for farm rehabilitation, equipment, and training.[66]
- *Harmonize regulatory and administrative frameworks and reduce barriers to cross-border investments.* Fostering greater cooperation among national financial institutions can create a large and robust capital market and enhance development of diverse financial products and instruments. Despite the fragmented and siloed nature of Africa's stock exchanges and capital markets, opportunities abound for potential investors, especially within the context of the AfCFTA. Full implementation of the AfCFTA will enhance trade activities and the opening of new investment opportunities with high returns. Harmonizing listing rules and establishing regional brokerage agencies such as the African Securities Exchanges Association can facilitate seamless movement of investments across exchanges and licensed firms. This can be achieved through technical assistance from international financial institutions to build regulatory safeguards to provide investors with incentives to trade in other jurisdictions across Africa.
- *Commit to implementing common settlement systems—encompassing technological infrastructure, rules, and processes.* This will enable the exchange of financial assets or securities between different parties and allow for investment in infrastructure spanning payments and securities settlement systems to digital currency architectures. In this regard, the Pan African Payment and Settlement System (PAPSS) must be fully imbedded into capital markets and trading frameworks of African countries. In a continent with over 40 currencies, the full rollout of PAPSS will reduce reliance on third-party currencies, significantly boost intra-Africa trade, and facilitate investments in domestic currencies across multiple exchanges.
- *Use central banks' foreign exchange reserves to bridge the infrastructure financing gap.* The value of foreign exchange reserves in Africa, $411.9 billion in 2023,[67] exceed the estimated financing gap of $402.2 billion annually to accelerate structural transformation, and countries hold more deposits in the bank for international settlements than they receive in external debt. The reserves, if optimally used, can be channeled towards investment in growth enhancing sectors, further boosting exports and reserves. This virtuous cycle depends on adequate capitalization of domestic commercial banks to better manage accumulated reserves. Nigeria can provide some lessons of successful cases.[68] Domestic deposit taking

commercial banks were given only part of the reserves to manage after being re-capitalized following the banking sector reforms. An initiative to integrate capital markets in the continent would enable countries with excess[69] foreign exchange reserves to free a prescribed share, based on domestic macroeconomic consideration, for investment in projects. This will ensure that African resources work for the development of Africa's productive infrastructure.

- *Engineer asset recycling to free up funds for critical infrastructure projects.* Asset recycling can help close the continent's infrastructure financing gap and end government dependence on tied project aid. This could be achieved by leveraging existing aging infrastructure to raise funds for new projects, through financing vehicles such as Africa50.[70] In 2024, Africa50 took over the operations of the Senegambia Bridge after disbursing the first $15.5 million tranche of a $100 million asset recycling program with the government of The Gambia. Togo is also working with Africa50 to monetize the Lomé-Kpalimé road project at a cost of $361.3 million. Overcoming transparency and accountability concerns in executing infrastructure projects due to poor track records and political influence in implementing such projects by some African governments will determine the viability of asset recycling as a financing instrument.

Unleashing the potential of business capital

Africa's entrepreneurial spirit is hindered by inadequate supportive infrastructure and weak governance structures. Statistics show that more than 1 in 5 working-age Africans start a new business and more than 75 percent of youth planning to start one in five years.[71] The growth in entrepreneurship has occurred primarily in the technology and innovation sectors. Sustaining the growth momentum of entrepreneurship is constrained by lack of a supportive business environment, including low access to finance and burdensome regulations that increase the cost of doing business. Attracting both domestic and foreign investment is critical for diversifying African economies from dependence on natural resources.

Portfolio investors are attracted to countries with predictable regulatory policies and commitment to the rule of law. Attracting large net portfolio inflows can boost the opportunity for businesses to tap into international capital markets, helping them to scale, grow, and create jobs. The volatility of equity investment flows highlights the need for stronger and effective governance and institutional frameworks. International portfolio investors are drawn to countries and regions with predictable and transparent regulatory systems that guarantee positive returns and repatriation of proceeds at least cost—in terms of regulatory burdens and exchange losses.

Deep reforms in public procurement processes can foster transparency, competition, efficiency, and fairness. Strengthening regulatory quality reduces the risk of rent-seeking behavior where agents pay to manipulate regulations in their favor.[72] Enactment of procurement laws—supported by secondary legislation to regulate procurement procedures—can enhance decision making, efficiency, and fair play. Electronic procurement (e-procurement) systems foster competition and greater scrutiny, while providing governments with a faster and more efficient mechanism for the collection of bids and analysis of data to address fraud and mitigate corruption risks. In Rwanda, the Umucyo e-procurement platform is connected to 24 information systems including the public financial management system, the revenue authority, the registrar general, commercial banks, and other financial institutions' systems. This automated system is used by nearly 1,200 government agencies, up from just over 200 in 2022—with more than 13,800 suppliers and 26,800 contracts awarded. Upgrading the system could make procurement data available in an open contracting data standard format.[73]

Procurement laws—supported by secondary legislation to regulate procurement procedures—can enhance decision making, efficiency, and fair play

Mobilizing more business capital

- *Invest in quality institutions for business capital development in Africa.* Quality institutions encourage commercial capital holders by creating a business-friendly climate. African countries should therefore harmonize their institutional framework through adequate laws, regulations, and enforcement strategies. Strong and democratized digital infrastructure —with provisions for protecting data, promoting trade, and preventing and tackling cybercrime—can spur growth in Africa across multiple sectors in two main ways. First, it could improve sector productivity by enhancing access to information and improving process efficiency. Second, it could boost consumption by providing greater access to diverse products and services.

- *Improve access to business financing and provide support to start-ups.* African start-ups are starved of business capital for growth. Improving systems of project appraisal and effective monitoring and evaluation can minimize risks of business failure and enhance access to business financing for start-ups. Start-ups are considered very risky and often record a high level of mortality due to slow sales and insufficient liquidity even if their assets are more than their liabilities. Credit reference bureaus, credit registries, or collateral registries and similar borrower information-collecting agencies can help ameliorate information asymmetries and reduce the propensity of default.[74] Governments must therefore design and provide tax incentives for angel investors and share the investment risk through public funds.
- *Grant autonomy and prosecutorial powers to anti-corruption agencies to mitigate emerging incidences of corruption.* Policy uncertainty and unfavorable business climate is fueled by weak governance, giving room for circumvention of the rule of law. Governments should tailor policies to equip institutions to respond proactively and quickly to business needs. Policy frameworks that encourage collaboration across domestic watchdog institutions and with international partners to mute the emerging perception of corruption in Africa will reduce investment risk for both local and foreign investors.
- *Minimize currency risk through borrowing in domestic currency.* Developed domestic debt markets encourage price formation, appropriately price risk, develop the domestic investor base, and support monetary policy transmission and financial stability. Local currency bond markets should therefore be tailored and carefully sequenced to country-specific circumstances to diversify and expand the pool of financing for the government, lower funding volatility, and limit its exposure to external shocks. The joint initiative by the IMF and World Bank on "Stepping up Domestic Resource Mobilization"[75] underscores the importance of developing public debt markets. Careful calibration and macroeconomic stability in Africa should be anchored on moderate fiscal deficits and sustainable debt levels to reduce domestic financing costs and alleviate interest payment burdens. High interest payments, stemming largely from external debt, consume about 27.5 percent of government revenues.[76] Fiscal largesse that leads to wanton domestic borrowing can crowd-out private investment, impeding overall economic growth.[77]

Strong and democratized digital infrastructure can spur growth in Africa across multiple sectors in two main ways

Unlocking human capital for Africa's development

Productivity differentials across countries can be reduced through better institutional architecture and more respect for the rule of law.[78] Better control of corruption strengthens the productivity returns, measured by value added per worker, to both tertiary and primary education. The implication is that even minor governance infractions—such as petty corruption or inefficiencies in resource allocation—can dilute the effectiveness of human capital investments, eventually leading to lower labor productivity. African countries can therefore reduce productivity differentials across countries by improving governance, institutions, and the rule of law.

Weaknesses in human capital reflect the quality of institutions to deliver efficient social services. The low quality of institutional governance in Africa, characterized by corruption, has been cited as one of the causes of underfunded education systems and broken health care. Brain drain or human capital flight could reflect people's dissatisfaction with maladministration and weak governance in preference of countries where such systems function better. The result is low human capital and high emigration.[79] And yet, as shown in chapter 2, emigration effectively means African countries subsidize developed nations' human capital needs.

Financial mismanagement and bureaucratic fragmentation in education and training schemes have hindered effectiveness and weakened their potential contribution to economic growth. Strong accountability frameworks foster trust and maximize the socioeconomic returns of education.[80] It is therefore critical to recognize strides Rwanda has made in tying school funding to outcomes, demonstrating how governance innovations can enhance quality and equity.[81] Countries like Botswana, Ghana, Kenya, and South Africa have also taken steps to enhance institutional autonomy—such as involving civil society on university boards to eliminate bureaucratic fragmentation and broaden and strengthen accountability of oversight institutions. Such innovative governance reforms can address gaps in resource allocation and use as well as build accountability of systems for better service delivery.[82] International evidence also shows the benefits of merit-based recruitment, autonomy, and professional norms on performance and effectiveness in delivering quality education and health services. In Finland, a combination of strong peer accountability and limited top-down oversight has been instrumental in achieving the country's quality education outcomes.[83]

Developing human capital

- *Develop strategic and targeted investment in human capital, focusing on vocational training and governance to build and retain human capacity on the continent.* Challenges in Africa's labor markets highlight the critical role for effective governance to facilitate and leverage human capital for development. Investment in skill development is crucial to unlocking the continent's growth potential, particularly in bridging the mismatch between labor market needs and educational outputs. Governments should allocate a portion of the recommended 20 percent education expenditure (see chapter 2 recommendations) toward vocational and technical training and prioritizing infrastructure, retention of qualified trainers, and curricula reform, linking it to market demands. At least 5 percent of this allocation should target vocational training.[84] To amplify returns from human capital, investments must be complemented by governance reforms, such as adopting open and transparent preferred procurement systems, supported by a digitalized system for monitoring teacher attendance and instructional hours in schools and vocational centers. Digitalization can also help in providing quality healthcare services.
- *Decentralize human capital development through e-government.* Decentralizing human capital governance—particularly education—enables context-specific reforms that align more closely with local needs, especially in countries with spatial inequality and regional development imbalances.[85] Progress in education and health governance, such as improved inclusivity and access is linked to decentralization with stronger institutional support.[86] Adopting e-government systems can empower community stakeholders to report malpractice (such as bribery for school admission or drug theft), monitor absenteeism of teachers and care givers, and improve service delivery tracking. Such feedback loops strengthen institutional responsiveness and promote human capital development by ensuring that systems serve communities equitably and efficiently.
- *Devolve health care governance to local authorities to improve the implementation of universal health insurance coverage for better health sector performance.* The transfer of power from central government to local authorities—*de facto* decentralization—can strengthen the involvement of subnational governments in policy development and enhance interactions between policy formulators and implementers. This has the capacity to minimize political interference emanating from the center, which in many African countries has compromised the delivery of quality health care at community level. Ethiopia shows that decentralization improves performance in health care and education outcomes.
- *Leverage diaspora skills for human capital development.* The emigration of highly skilled

Strong accountability frameworks foster trust and maximize the socioeconomic returns of education individuals from Africa is a leakage of human capital despite diaspora's contribution through remittances. African countries should pursue broader and more strategic avenues to harness the benefits of both skilled and unskilled diaspora workers beyond remittances. Africa's diasporas play prominent roles in the political, social, and economic development in countries of their origin. It is thus crucial to develop effective mechanisms to integrate the role of Africa's diaspora in institutional building and addressing the leadership deficit. This will in turn attract financial remittances through formal channels that can then be leveraged for national development. Governments should focus on structured skill-based migration partnerships to harness the diaspora for effective mobilization of development finance through diaspora bonds and leverage their skills and experiences through trade facilitation, entrepreneurship, technology, knowledge sharing, and brain circulation programs. They should also establish dedicated parastatal agencies to manage and monitor skilled migration. Morocco's cooperation with the European Union and Germany exemplifies strategic sector-specific partnerships for the mutual benefits of migration.[87] Through such partnerships, centers for migration and development have been set up to provide support in skills requirement, job identification, and language training for ease of integration.[88]

Governments should focus on structured skill-based migration partnerships to harness the diaspora

- *Reforms, particularly those that align citizenship policies with economic and governance reforms, should focus on incentivizing Africa's diaspora to establish businesses without legal or bureaucratic hurdles to make meaningful contributions to national economies by investing in key sectors and large ticket infrastructure projects including in the hospitality industry, and in education and health services.* According to some estimates, of Africa's 54 countries, only some 30 grant the right to vote to their nationals abroad.[89] This right is enshrined either in the countries' constitutions or electoral laws. Despite this, operationalizing these provisions is often hampered by institutional and logistical challenges. In countries where such provisions do not exist, this effectively creates push factors that exclude the diasporans from national governance and hence a sense of belonging. Thus, reforms should be implemented to establish an effective legal framework that encourages the African diaspora to actively participate in the political process in their home countries, including voting and/or contesting for positions of political leadership, could foster a reflow of skills and competences lost to migration, and ultimately boost good governance, transparency and rule of law. Where such laws already exist, governments should develop mechanisms for the operationalization of these provisions.

NOTES

1. The African Growth and Opportunity Act, enacted in 2000, is the core of US economic policy and commercial engagement with Africa. It provides eligible sub-Saharan African countries with duty-free access to the US market for more than 1,800 products, in addition to the more than 5,000 products that are eligible for duty-free access under the Generalized System of Preferences program
2. EAC 2023.
3. IMF 2017.
4. Fang et al. 2020.
5. AfDB 2024b.
6. AfDB/AUC/AUDA-NEPAD 2024.
7. AfDB 2024b.
8. AfDB 2024b.
9. AfDB 2021a.
10. AfDB 2024b.
11. This is based on a study conducted by the African Development Bank, Group on Measuring the Green Wealth of Nations: Natural Capital and Economic Productivity in Africa, launched at CoP 29.
12. https://www.mapsofworld.com/africa/thematic/coastal-countries.html.
13. Cust and Zeufack 2023.
14. BloombergNEF 2021.
15. BloombergNEF 2021.
16. https://www.afdb.org/en/documents/strengthening-africas-role-battery-and-electric-vehicle-value-chain-volume-14-issue-7.
17. See https://www.daimagister.com/resources/remittances/.
18. According to Adeseye (2021) and other analysts, 70 percent of remittances are for consumption while 30 percent is for investment.
19. Rödl and Partner 2018.
20. Ohnsorge and Yu 2021.
21. World Bank 2020.
22. This figure assumes that Africa's debt-to-GDP ratio in 2025–2030 increased conservatively by about 5.0 percentage points (the average annual pre-pandemic growth between 2016–19) and that any new debt is in local currency through issuance of long-term bonds.
23. Currently, many countries in Africa allocate less than half a percent of their assets in equity investment. Based on available date, only Uganda allocated 2.4 percent of its AUM towards equity investments (AfDB/AUC/AUDA-NEPAD 2024). Therefore, by just allocating 1 percent, African pension funds can generate about 17 percent of the estimated financing gap for structural transformation.
24. See also AfDB (2024a) on different innovative financing the AfDB has utilized since 2015 to raise resources for Africa's development.
25. African Development Fund, the African Development Bank Group's concessional financing arm to low-income regional member countries.
26. Based on data from Xu et al. (2021).
27. https://cdn.gihub.org/umbraco/media/5354/g20-ieg-report-on-strengthening-mdbs-the-triple-agenda.pdf.
28. UNCTAD 2020; Ndikumana and Boyce 2025.
29. Wickberg 2013.
30. UNCTAD 2020.
31. AfDB 2021a.
32. https://www.afdb.org/en/topics-and-sectors/initiatives-and-partnerships/african-beneficial-ownership-transparency-network.
33. Beardsworth et al. 2022.
34. For detailed discussion of the policy actions on the valuation of natural capital, see AfDB (2024c), Measuring the Green Wealth of Nations: Natural Capital and Economic Productivity in Africa.
35. https://www.visaopenness.org/fileadmin/uploads/afdb/Documents/2024_AVOI_final_R3_20nov24_2.pdf.
36. See Kenya National Ethics and Anti-corruption Policy and South Africa National Anti-Corruption Strategy (2020–2030).
37. UNCTAD 2024.
38. UNCTAD 2025.
39. IMF 2018.
40. OECD 2017.
41. UNU-WIDER 2025.
42. IBFD 2023.
43. Tax Justice Network 2024.
44. Ndikumana and Boyce 2025.
45. See findings of the Commission of Enquiry on State Capture 2021.
46. Atuobi 2007; Martin and Solomon 2016, Ndikumana and Boyce 2025, Hangalima 2023; Dikmen and Çiçek 2023; Ozor and Nyambane 2020; IMF 2011; Griffore et al. 2023.
47. OECD, AUC, and ATAF 2023.
48. Jahnke and Weisser 2019.
49. Boly et al. 2020.

50. Ezeoha et al. 2023.
51. This refers to taxes imposed by more than one jurisdiction—federal, state, and municipal—on the same declared income, financial transaction or asset.
52. Okunogbe and Santoro 2022.
53. GRA 2023.
54. https://www.ataftax.org/impact-story-boosting-zambias-mining-revenue-through-tax-audits-transfer-pricing-legislation-and-license-valuation.
55. https://www.sars.gov.za/latest-news/media-release-sars-is-committed-to-serving-south-africans/.
56. Central African Republic, Cabo Verde, Djibouti, Eritrea, Mauritius, Mozambique, Namibia, Rwanda, Senegal, South Sudan, and Zimbabwe.
57. World Bank 2017.
58. Johnstone 2022.
59. https://www.iied.org/formalising-artisanal-cobalt-mining-drc-much-work-remains.
60. See Adam and Simpasa (2009), for the case of Zambia.
61. https://www.afdb.org/sites/default/files/2022/12/14/afdb_acmcs_concise_final_report_23_july_2022_isc.pdf.
62. https://www.econstor.eu/bitstream/10419/249082/1/wp21–074.pdf.
63. See Milej and Ogada (2024) for Kenya and Simwatachela (2024) for the case of Zambia. These cases are not unique to the two countries.
64. Tokenization is the process of recording the rights to a given asset into a digital token that can be held, sold, and traded on a blockchain.
65. https://itweb.africa/content/5yONPvEr4zK7XWrb.
66. https://cointelegraph.com/magazine/tokenization-projects-transforming-farmers-lives-africa/.
67. Afreximbank 2024.
68. Marcellus et al. 2021.
69. The standard threshold for foreign exchange reserves holdings as required by the International Monetary Fund, is 3 months import cover or more, and above 100 percent of short-term debt of a country. However, these benchmarks are subject to other factors including structural challenges and shocks that a country faces at a particular time to warrant the decision of "excess."
70. Africa50 is a regional financing vehicle for long-term investment was established by African governments and the African Development Bank to help bridge Africa's infrastructure funding gap.
71. https://ichikowitzfoundation.com/storage/ays/ays2022.pdf.
72. Canen and Wantchekon 2022.
73. https://www.open-contracting.org/2024/06/03/strengthening-public-procurement-in-africa-a-conversation-with-joyeuse-uwingeneye/; https://www.open-contracting.org/2023/11/07/the-3-revolutions-of-public-procurement-in-africa/.
74. Pagano and Jappelli 1993; Galindo and Miller 2001; Kallberg and Udell 2003; Triki and Gajigo 2014.
75. IMF and World Bank 2025.
76. Afreximbank 2025.
77. Bai et al. 2024.
78. Fadiran and Akanbi 2016; Acemoglu et al. 2001; Hall and Jones 1999.
79. Beine et al. 2008.
80. Cerna 2023; Lewis and Pettersson 2009.
81. Lewis and Pettersson 2009.
82. Khemani 2019; Finan, Olken, and Pande 2015.
83. World Bank 2018; Finan, Olken, and Pande 2015.
84. Some countries have no identifiable share of the budget devoted specifically to TVET activities while others have 15 percent. We postulate that a 5 percent average allocation could help drive skill development.
85. Naidoo 2004.
86. Saint 2009.
87. Hertzog 2017.
88. German Federal Ministry of Economic Cooperation and Development 2024.
89. Anon (2015), cited in Zimbabwe Election Support Network (2019). Available at https://www.zesn.org.zw/wp-content/uploads/2019/10/ZESN-Position-Paper-on-Diaspora-Voting.pdf.

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Although Africa's economic performance improved in 2024, growth remains fragile amid multiple shocks and rising global uncertainty. Across the continent, growth in real gross domestic product (GDP) picked up marginally from 3.0 percent in 2023 to 3.3 percent in 2024, buoyed by strong government spending and private consumption. The growth uptick in 2024 was evident in 29 of 54 African countries. In addition, 10 African countries, saw growth increases of more than 1.0 percentage point from 2023 to 2024.

The plethora of new tariffs imposed by the United States and retaliatory measures announced and implemented by its trading partners in April generated additional shocks, exacerbating an already complex global macroeconomic landscape. Despite these headwinds, Africa's growth is projected to accelerate from 3.3 percent in 2024 to 3.9 percent in 2025, firming up further to 4.0 percent in 2026. Even after accounting for the tariff shock and the induced uncertainty, Africa's projected growth rates in 2025 and 2026 will surpass the global average and that of other regions, except emerging and developing Asia. Twenty-one African countries will see expansions in output exceeding 5 percent in 2025, and four of them (Ethiopia, Niger, Rwanda, and Senegal) could attain the minimum 7 percent growth threshold required to address poverty and achieve inclusive growth and sustainable development. These positive trends demonstrate the continued resilience of some African economies even under recurrent and compounding shocks, as well as declining official development assistance and other external financial flows.

Africa's growth outlook is subject to considerable downside risks, though some countries could sustain higher growth rates in the medium term. Downside risks to the outlook include restricted trade, which could affect growth directly through reduced business and economic activity and indirectly through financial and investment channels by reducing investors' risk appetite and leading to a reversal of capital flows. Africa's persistent inflation—reflecting deep-seated domestic supply bottlenecks and weakened monetary policy impact to rein in supply-driven inflationary pressures—could dampen the projected growth rebound. Persistence and further escalations in regional conflicts pose additional risks to Africa's flagging recovery.

Africa's slow pace of socioeconomic transformation remains a paradox. While poverty remains widespread, Africa has a rich diverse resource endowment, including natural capital, human capital, business capital, and financial capital, which, if well harnessed, provide necessary conditions for rapid transformation. For instance, Africa hosts 30 percent of the world's total mineral reserves, over 65 percent of the world's uncultivated arable land, over 624 million hectares of forest, and some of the world's longest rivers, the Nile (#1) and Congo (#9). And Africa's youthful population is one of its biggest assets —with over 60 percent of the population under 25 years, and projections that a quarter of the world's population in 2050 will be in Africa.

With the right and properly sequenced policies, Africa could mobilize an additional $1.43 trillion in domestic resources per annum, from both tax and non-tax revenue sources and by curbing resource leakages. Mobilizing additional resources domestically will require important reforms to leverage Africa's vast resource endowments. For instance, by enhancing enforcement of existing regulations and strengthening tax administration efficiency through application of digital technology, Africa can mobilize an additional $469.4 billion annually—or 14.4 percent of GDP—in fiscal resources in 2025–29. And by curbing illicit financial flows and corruption, tackling international profit shifting, and advocating for better sovereign risk-assessment, Africa can retain more than enough capital to close the financing gap to achieve the SDGs. But tackling resource leakages requires investment in better data capture, in systems that track, monitor, and value these outflows, and in mechanisms for public reporting to enhance transparency and accountability.

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