AFRICAN DEVELOPMENT BANK GROUP
GROUPE DE LA BANQUE AFRICAINE
DE DÉVELOPPEMENT

AFRICAN ECONOMIC OUTLOOK 2025

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

HARNESSING AFRICA'S DOMESTIC CAPITAL for DEVELOPMENT

POTENTIAL RESOURCES FROM LEVERAGING THE MOBILIZATION OF DOMESTIC CAPITAL

Fiscal resources

Enhancing enforcement of existing regulations and strengthening tax administration efficiency through application of digital technology

$469.4bn

Natural

Integrating the value of natural capital and ecosystem services into national accounts and invest in blue economy

$171.1bn

Financial

De-risking local currency financing, lowering the domestic cost of capital through reduced deficit financing, and capitalizing African development financial institutions

$159.5bn

Business

Transitioning from informal to formal activity for Africa's enterprises

$125.3bn

Human

Accelerating strategic investments in human capital development, retention, and effective use to boost produced capital

$47bn

ESTIMATES OF RESOURCES LOST THROUGH LEAKAGES

Illicit financial flows

Financial leakages due to capital flight and other forms of illicit financial flows

$90bn

Corruption

Losses due to corruption by the ruling elite and multilateral enterprises

$148bn

Profit shifting

Leakages in the form of international profit shifting and base erosion by multilateral enterprises

$275bn

Distorted risk assessments

Leakages in form of high interest rates due to subjective risk perception and credit ratings

$74bn

USING DOMESTIC RESOURCES

Efficiently

Maximize impact through better allocation, prudent management, and reduced waste

Effectively

Align spending with national priorities, ensuring transparency and measurable results

Sustainably

Avoid depletion, ensure long-term resilience, and promote intergenerational equity

Laws • Governance • Institutions

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

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ISBN: to come

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.

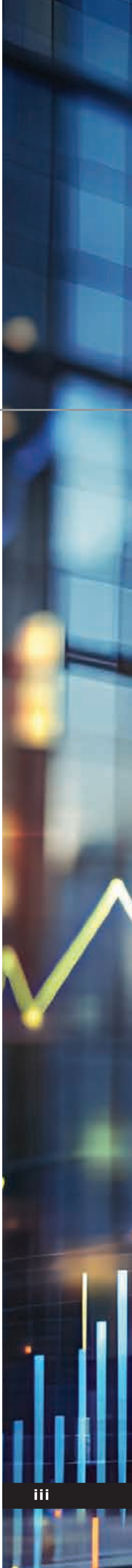
Amid recurring multiple shocks and tariff-induced global uncertainty, Africa's growth outlook relative to the forecast in the February 2025 Macroeconomic Performance and Outlook (MEO) report has been downgraded by 0.2 and 0.4 percentage points to 3.9 percent and 4.0 percent in 2025 and 2026, respectively. 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
President, African Development Bank Group

ACKNOWLEDGEMENTS

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Preparation of the chapters was supervised by Anthony Simpasa, Director of the Macroeconomic Policy, Forecasting, and Research (ECMR) Department, responsible for producing the report. The core team comprised Anthony Simpasa (Director, ECMR), Hammed Amusa (Division Manager (Officer-in-Charge), ECMR.1), Alexandre Kopoin, Lacina Balma, Francis Leni Anguyo, Assi Okara, Martin Wafula Nandelenga, and Kebba Jammeh, all from ECMR.1. Chapter 1 was co-led by Alexandre Kopoin and Lacina Balma, chapter 2 by Francis Leni Anguyo and Assi Okara, while Hammed Amusa and Martin Wafula Nandelenga co-led the preparation of chapter 3. Winnifred Doe, Richard Dutu, Blaise Gnimassoun, and Zackary Seogo contributed various sections of the report. Administrative support was provided by Hamida Riahi, Félicie Zongo Kaboré, Marie Thérèse N'zi, and Michael Abah.

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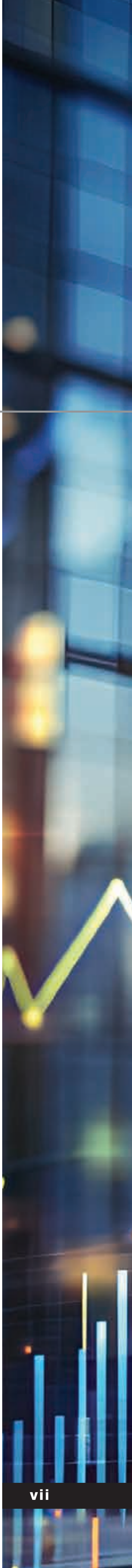

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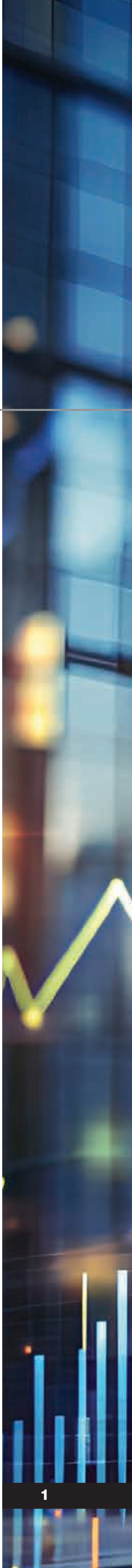
THEMATIC COVERAGE OF PREVIOUS EDITIONS

Edition	Thematic title
2003	Privatization
2004	Energy Supply and Demand
2005	Financing of Small and Medium-sized Enterprise (SME) Development
2006	Promoting and Financing Transport Infrastructure
2007	Access to Drinking Water and Sanitation in Africa
2008	Technical and Vocational Training
2009	Information and Communication Technology across Africa
2010	Public Resource Mobilization and Aid
2011	Africa and Its Emerging Partners
2012	Promoting Youth Employment
2013	Structural Transformation and Natural Resources
2014	Global Value Chains and Africa's Industrialization
2015	Regional Development and Spatial Inclusion
2016	Sustainable Cities and Structural Transformation
2017	Entrepreneurship and Industrial Development
2018	Infrastructure and Its Financing
2019	Integration for Africa's Economic Prosperity
2020	Developing Africa's Workforce for the Future
2021	From Debt Resolution to Growth: The Road Ahead for Africa
2022	Supporting Climate Resilience and a Just Energy Transition in Africa
2023	Mobilizing Private Sector Financing for Climate and Green Growth in Africa
2024	Driving Africa's Transformation: The Reform of the Global Financial Architecture

1

AFRICA'S ECONOMIC PERFORMANCE AND OUTLOOK



KEY MESSAGES

Africa's economic performance improved in 2024, but growth remains fragile amidst multiple shocks and rising global uncertainty. Average real gross domestic product (GDP) growth 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 points from 2023 to 2024. However, this slight improvement was overshadowed by persistent inflationary pressures, currency depreciations and high debt service costs. Deepening geopolitical fragmentation, regional conflicts, and rising global uncertainty spurred by emerging trade policies in several countries further cloud the outlook for the short and medium terms.

Since the release of the Bank's *2025 Africa's Macroeconomic Performance and Outlook* (MEO) report in February, the world has experienced additional shocks, exacerbating an already complex macroeconomic landscape. These shocks include a plethora of new tariffs imposed by the United States on 2 April 2025 and retaliatory measures announced and implemented by its trading partners. The 90-day pause announced on 9 April 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.

Amid these compound shocks, Africa's growth is now projected to accelerate to 3.9 percent in 2025 and firm up to 4.0 percent in 2026. Projections for 2025–26 reflect 0.2 and 0.4 percentage points downgrades from the 4.1 percent and 4.4 percent estimated in February 2025 (see the 2025 MEO), due to the expected impacts of increased trade tariffs announced by the United States and the associated uncertainties. But even after accounting for the tariff shock and the induced uncertainty, 21 African countries will see output expansion 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. 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.[1]

Africa's real GDP per capita growth is estimated at 0.9 percent in 2024, up 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 best performing region. 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 of 0.3 and 0.5 percentage points, respectively.

The economic performance and prospects conceal cross-regional variations as the tariff shock and its attendant uncertainty could have asymmetric effects on countries and regions, depending on the strength of existing macroeconomic buffers and degree of integration into global trade.

- *Central Africa.* Real GDP growth for the region averaged 4.0 percent in 2024, a decline from 4.4 percent the previous year. 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 downward revision for the region in 2025 is broad-based across all countries. In addition to the trade uncertainty, growth in the region is also being hampered by the ongoing conflict in the eastern part of the Democratic Republic of Congo, 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 point 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.
- *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 point 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 is estimated at 1.9 percent in 2024 and is projected to 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 point downgrades, respectively. Despite the low regional growth outlook, a few countries (eSwatini, Zambia, and Zimbabwe) could grow by 6 percent or higher in 2025. 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. The country's ongoing efforts to address the global trade shocks and implement projected structural reforms could improve 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. Except for Ghana, Nigeria and Sierra Leone, all countries are expected to grow by 5 percent or higher in 2025. 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 the 2025 MEO projections.

African countries could reverse the projected outlook by limiting the transmission of shocks and uncertainty on domestic economies.

As outlined above, Africa's growth outlook is subject to considerable downside risks, though some countries could sustain high growth rates. 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, resolving Africa's high debt, and the ability of the world economy to weather the effects of heightened risks and shore up global demand. Downside risks to the outlook include restricted trade, which could affect growth, directly through reduced business and economic activity, and indirectly through the 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 impact of monetary policy to rein in demand-driven inflationary pressures, could dampen the projected growth rebound.

Inflationary pressures have persisted with estimated inflation rates above medium-term targets in many countries. Inflation averaged 18.7 percent in 2024, mainly driven by domestic food supply shocks and pass-through effects of exchange rate depreciation. 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 hard hit by climatic shocks such as drought and flooding in 2024. Decoupling agricultural production from dependence on rainfall through sustainable water management, 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.

Widening fiscal deficits across the continent reflect rising primary deficits. 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, 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.

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 currency depreciation in 2023, national currencies in 17 of those countries (more than 60 percent) reversed their losses or recorded slowdown in rates of depreciation. However, 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. The depreciation will be driven by the potential decline in export earnings, which could put downward pressure on national currencies.

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, 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.

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

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 in 2022. 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. This increase offset the decline in foreign direct investment to Africa of 3.4 percent to $52.6 billion in 2023 and the almost 3 percent decline in official development assistance (ODA). Anticipated and announced aid cuts by major donors could further reduce ODA flows to Africa. Remittances, which are 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 prepandemic levels of around 50 percent in 2015–19. The median debt-to-GDP ratio is estimated at around 65.5 percent in 2024 down from 66.3 percent in 2023. The debt-to-GDP ratio is projected to stabilize at below 65 percent in 2025 and 2026. With commercial debt representing more than 40 percent of total external debt stock, 70 percent of it held in US dollars with the attendant high debt service costs, Africa's debt burden remains a major policy concern. Domestic debt has also risen since 2010 from 32 percent of total public debt to 39 percent in 2023. African countries are seeing beneficial effects of fiscal consolidation efforts on debt. Following the Covid-19 shock, several countries undertook policy measures—expenditure rationalization and shoring up revenue collection—to restore fiscal fitness.

The growing trade wars provide an incentive for African countries to fully implement the AfCFTA Agreement

While escalating trade wars illustrate the vulnerabilities inherent in over-reliance on foreign trade and global value chains, they also present an opportunity for African countries to further diversify their trading partners, deepen intraregional trade, and strengthen economic diversification and regional integration. To mitigate the impact, African countries should diversify their export markets—redirecting trade towards intra-regional 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.

Short-term policy priorities

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.
- *Fiscal prudence, debt productivity, governance, and institutional reforms:* 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 urgent need to scale up concessional financing through expanded support from the international community, with multilateral and regional development banks 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 should adopt a flexible exchange rate regime, which is known to be a shock-absorber, especially in the face of external shocks.[2] 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 demonstrates that if done promptly, debt restructuring 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 timely, accountable, fairer, more coordinated, and transparent 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 even more important roles 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 policy makers. 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, implementing strategic industrial policies to enhance beneficiation on natural resources and national sovereignty over national resources owned by countries (see chapter 2 and 3 for more details).
- *Address insecurity and its attendant socioeconomic consequences:* Domestic conflicts and insecurity reduce the ability of affected countries to make critical investments in human capital, infrastructure, and agriculture, 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 their relatively stable counterparts, and the cumulative impact on per capita GDP increases over time.[3] 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.

Countries should adopt a flexible exchange rate regime, which is known to be a shock-absorber, especially in the face of external shocks

Medium- to long-term policy priorities

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

Investment in public infrastructure will catalyze innovation and technological spillovers and open the economy to private participation

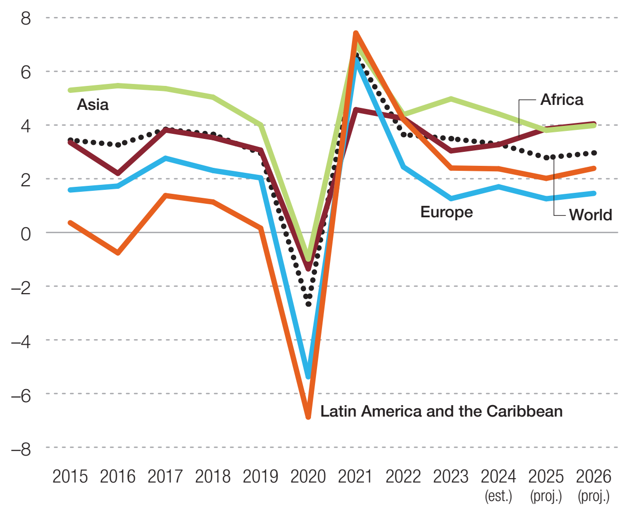
doing business. Investment in public infrastructure will catalyze innovation and technological spillovers and open the economy to private participation to accelerate the pace of transformation and economic diversification. This can help reduce countries' exposure to commodity price volatility, which has had knock-on 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.[4] 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 intraregional trade, and reduce vulnerability to global trade shocks. Overall, such policies that can build productive capacities in domestic markets are a win-win for regional integration, economic resilience, and global sustainability.
- *Franchising policies:* Promoting franchising policies can help countries complement local content policies, leverage the technological know-how of foreign firms, 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. This can foster progressive job creation, skill 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.
- *Sustainable management of natural and human capital:* To make Africa's capital work better for Africa's development, African countries must exercise full ownership of their natural and human capital and manage them sustainably to drive productivity growth and well-being of citizens (see chapters 2 and 3). There is an urgent need for African countries to move away from transferring legal ownership of natural resources to foreign companies through poorly designed Mining Concession Agreements (MCAs) and unfettered emigration of skilled professionals. Franchising policies can enable countries to refocus on Minerals Development Agreements (MDAs) that offer win-wins for domestic and international investors (public and privatized domestic interest). Where possible, preferred procurement policies should prioritize domestic investors in MDAs to at least an agreed percentage to encourage growth of local enterprises through effective partnerships and technology transfer programs with foreign companies, which currently dominate the sector across African countries.
- *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.

- *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.

FIGURE 1.1 **Real GDP growth by world region, 2015–26**



Source: African Development Bank statistics and World Economic Outlook, April 2025.

MACROECONOMIC PERFORMANCE AND PROSPECTS

Growth performance and outlook

Although Africa's growth outlook has strengthened, recent trade policy shifts and retaliatory tariffs have increased global uncertainty

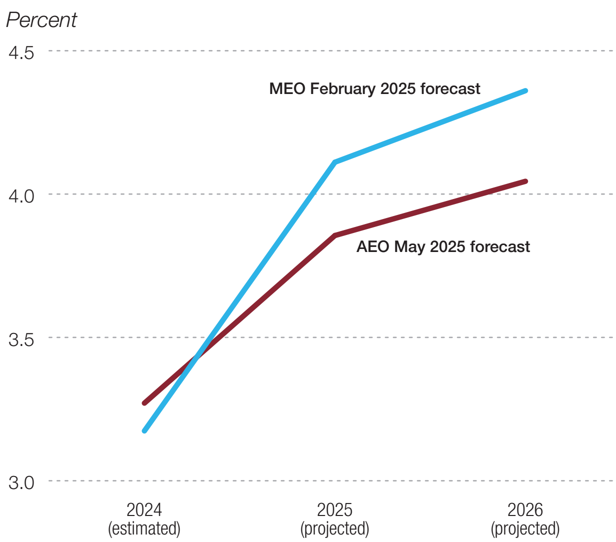
Africa's economic performance improved in 2024, with real GDP expanding marginally by 3.3 percent from 3.0 percent in 2023 (figure 1.1). Strong government spending in many countries and a pickup in private consumption supported this growth. The uptick in 2024 was reflected in 29 of 54 African countries. In addition, 10 African countries, including Angola, Ghana, Niger, and Uganda, saw growth increases of more than 1.0 percentage point between 2023 and 2024. However, Africa's growth was overshadowed by persistent inflationary pressures, elevated costs of debt, currency depreciations, pockets of regional conflicts, and insecurity and climate shocks. Growth in 24 countries was especially hit by these negative shocks. Drought in Southern Africa reduced agricultural output and hydro-powered electricity generation, and hampered activity in manufacturing and other sectors. Similarly, the impact of prolonged conflicts in the Horn of Africa and in the Middle East transcended the borders of countries directly engulfed in the war.

Since the release of the Bank's Macroeconomic Performance and Outlook (MEO) report in February 2025, additional shocks have emerged, exacerbating an already complex economic landscape. The shocks include, among others, a slew of new tariff measures announced by the United States on 2 April 2025, "Liberation Day," followed by countermeasures by its trading partners. Although the United States has since paused the new high tariffs for 90 days, it retained a uniform rate of 10 percent in all countries, except for China that was set at 30 percent. The 90-day moratorium has done little to substantially ease global uncertainty. Given the complexity of the global economic environment, Africa's growth outlook relative to the February 2025 MEO has been downgraded by 0.2 and 0.4 percentage points to 3.9 percent and 4.0 percent in 2025 and 2026, respectively (figure 1.2).[5]

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. The downgrade is broad-based, affecting most African countries, including its largest economies: South Africa, Nigeria, Egypt, and Algeria.[6] Despite the downward revision in real GDP growth, 21 African countries are expected to grow by more than 5 percent in 2025. But only four countries (Ethiopia, Niger, Rwanda, and Senegal) could achieve the minimum 7 percent growth target needed to spur structural transformation and reduce poverty in Africa.[7] Africa's projected average growth in 2025–26 will nonetheless exceed the global average and all other regions of the world, 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. Growth is projected to average about 1.0 percent in the Euro area and 2.2 percent in Latin America and the Caribbean. Growth in Emerging and Developing Asia is projected to average 4.6 percent in both years, the fastest among major world regions. Weaker global growth due to escalating trade wars and heightened uncertainty could affect investment flows to Africa and constrain world demand for its exports, leading to slowdown in projected growth rates.

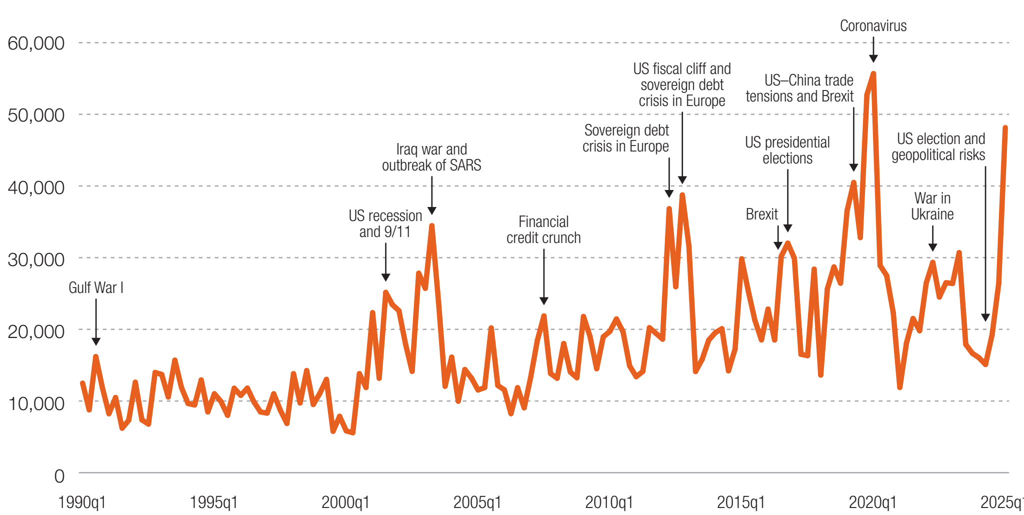
Africa's growth outlook for 2025–26 will evolve in line with geopolitical and policy fragmentations and the attendant uncertainty. The 90-day moratorium on higher tariffs could minimize but not eliminate

FIGURE 1.2 Impact of tariff shifts and global uncertainty on Africa's growth outlook, 2025–26



Source: African Development Bank statistics.

FIGURE 1.3 World Uncertainty Index, 1990q1–2025q1



Note: The World Uncertainty Index is computed by counting the percent of the word "uncertain" (or its variant) in the Economist Intelligence Unit country reports. The percentage is then rescaled by multiplying by 1 million.
Source: Ahir, Bloom, and Furceri 2022.

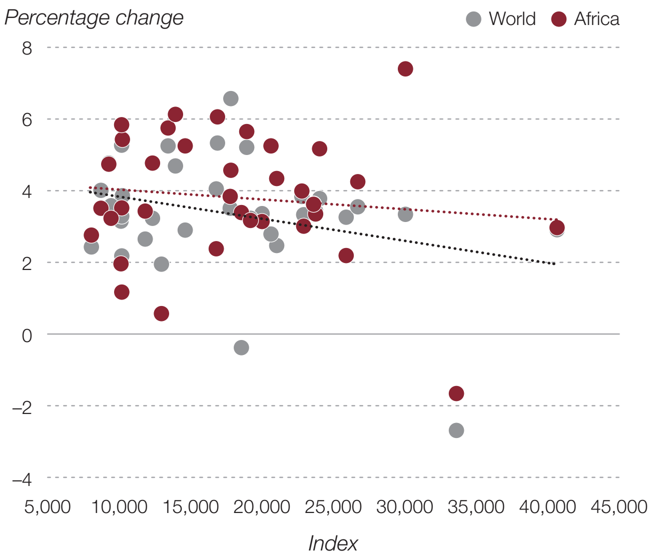
the impact of rising uncertainty, and prospects for faster recovery in the world economy have dimmed. Increasing uncertainty has also elevated the volatility in global financial markets and further weakened investor sentiment. The increase in the World Uncertainty Index, on the rise from October 2024, could further steepen (figure 1.3). By March 2025, the index was approaching its historical peak at the height of the pandemic, exceeding levels recorded during significant global events including previous US–China trade tensions and Brexit in 2019. Such uncertainty harms growth, as firms pause planned investments and hiring labor (figure 1.4).

Persistence in the current wave of global uncertainty could significantly constrain Africa's economic growth. However, from historical evidence, the rate of decline in Africa's growth may be smaller than that for the world economy, underscoring the continent's growing resilience to shocks (see figure 1.3).

Average growth in 2024 was also reflected in the Purchasing Managers' Index (PMI) for four of Africa's top six economies—Egypt, Kenya, Nigeria, and South Africa (figure 1.5). These economies account for at least half of the continent's GDP. Compared with 2023, the average PMI in 2024 rose in all four countries: Nigeria (0.31 points), Egypt (0.85 points), South Africa (0.70 points) and Kenya (1.53 points), signaling stronger economic activity. In the first quarter of 2025, the average PMI value in Egypt reached the 50-point mark, the highest since 2021, while it rose further in Nigeria (53.3) and Kenya (50.9), indicating strengthened economic activity in these countries. However, the average PMI value in South Africa (48.2) remained weak as business conditions were further suppressed mainly due to uncertainty arising from the delayed presentation and approval of the national budget. Increasing global uncertainty could further weaken South Africa's economic conditions and reverse the gains in the three other countries.

Dynamics in global commodity prices are being shaped by several forces, including geopolitical tensions and shifts in global trade policies. Apart from agricultural commodities and fertilizers, movements in prices of other global commodities in the first quarter of 2025 were consistent with overall projections for the year (figure 1.6). Average agricultural prices rose by 4.6 percent during the first quarter of 2025 relative to the average for 2024, partly on account of adverse weather conditions in some countries which led to tighter supply

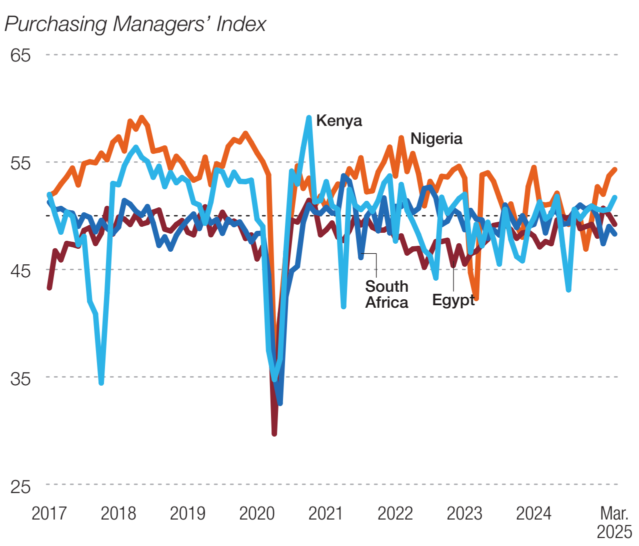
FIGURE 1.4 Relationship between world uncertainty and growth, 1990–2024



Note: The World Uncertainty Index is computed by counting the percent of the word "uncertain" (or its variant) in the Economist Intelligence Unit country reports. The percentage is then rescaled by multiplying by 1 million.

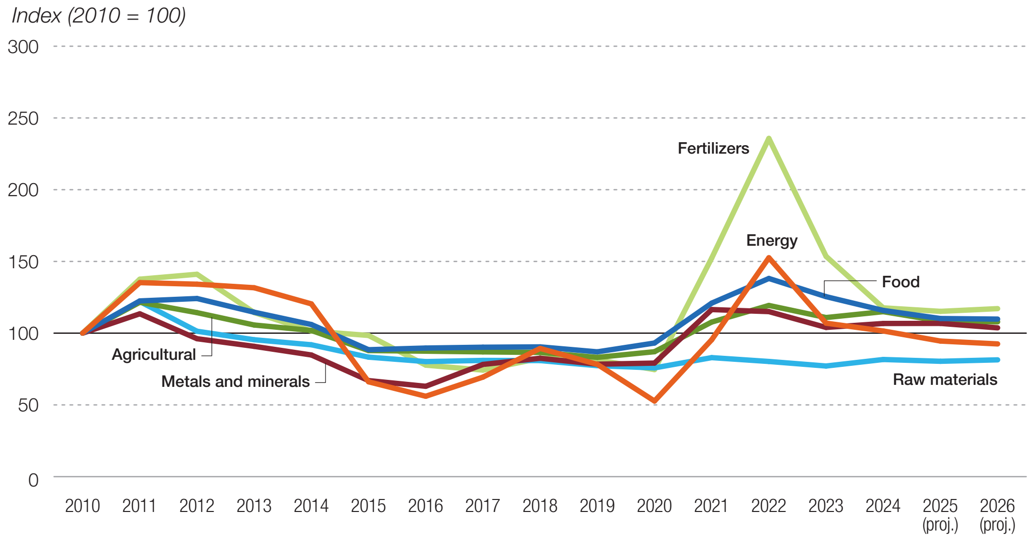
Source: Ahir, Bloom, and Furceri 2022.

FIGURE 1.5 Purchasing Managers' Index for selected economies in Africa, 2017–March 2025



Source: Haver Analytics and IHS Markit.

FIGURE 1.6 Global commodity price indices, 2010–26



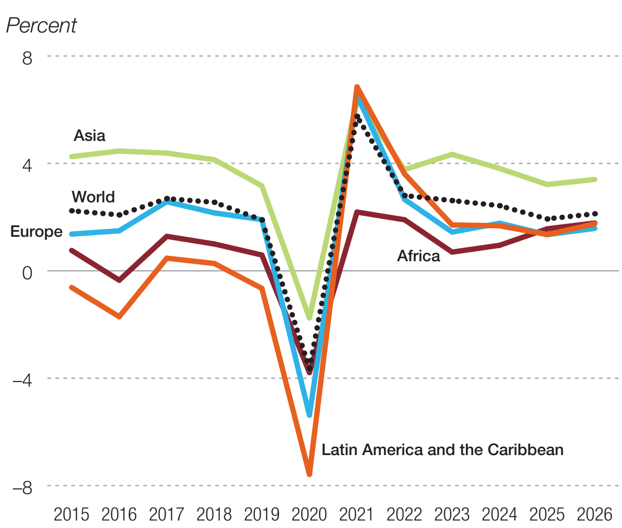
Source: AfDB staff calculations using the World Bank Commodity database.

conditions, and uncertainty. Prices of grains, particularly corn, rose due to weaker estimates of U.S. output and sluggish global consumption growth. Similarly, average prices for fertilizers rose by 9.4 percent, partly reflecting the impact of multiple shocks on some of the world's major suppliers of fertilizer. A continued upward trend in fertilizer prices throughout 2025 could affect agricultural output and possibly prices, with obvious implications on global growth and inflation.

In line with expectations, the average energy price index declined by 2.24 percent to 99.25 in the first quarter of 2025, from 101.52 in 2024. Oil prices declined and are forecast to fall further in 2025 due to excess supply, with the announced increase in production by the OPEC+ (Organization of the Petroleum Exporting Countries plus selected nonmember countries). In general, however, global commodity prices could adjust in tandem with increased uncertainty as expectations of weaker global demand materialize, particularly in China. Iron ore and steel prices were already low due to a slowdown in construction activity in China, and their prices could decelerate further. Global iron ore prices declined on average by 7.13 percent in the first quarter of 2025, compared with the average for 2024. A persistence of lower prices in 2025 would lead to reduced export earnings and propagate fiscal risks in African countries that export iron ore.

Estimated real GDP per capita growth for Africa rose marginally to 0.9 percent in 2024 from 0.7 percent in 2023. This was 0.5 percentage points lower than Latin America and the Caribbean, and 2.9 percentage points lower than Asia, the region with the highest growth in per capita incomes (figure 1.7). Although Africa's real GDP per capita

FIGURE 1.7 Real GDP per capita growth, 2015–26



Source: African Development Bank statistics, World Economic Outlook Update, April 2025, and United Nations Population Division estimates.

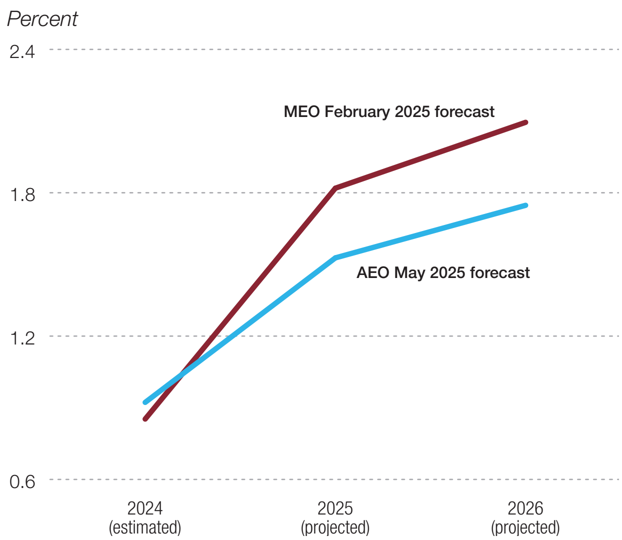
growth is projected to rise to 1.5 percent in 2025 and double to 1.7 percent in 2026, these rates were lower than the projections in February 2025 of 1.8 percent and 2.2 percent in 2026, and trailed growth rates in other regions of the world (figure 1.8). Achieving high per capita income growth rates should remain a key policy priority for all countries if Africa is to tackle widespread poverty.

SECTORAL AND DEMAND-SIDE DECOMPOSITION OF GROWTH

Africa's growth remains anchored on household consumption spending on the demand side, and the expansion in the services sector on the supply side

Household consumption spending contributes the most to real GDP growth on the demand-side. It accounted for 2.6 percent of Africa's 3.3 percent growth in 2024, three times higher than in 2023 (figure 1.9). Household consumption spending has remained resilient amid broadly persistent inflationary pressures and the removal of subsidies in some countries. This dichotomy may be explained by the aggressive monetary policy that helped to lower inflation in some countries, boosting private consumption demand. The relative increase

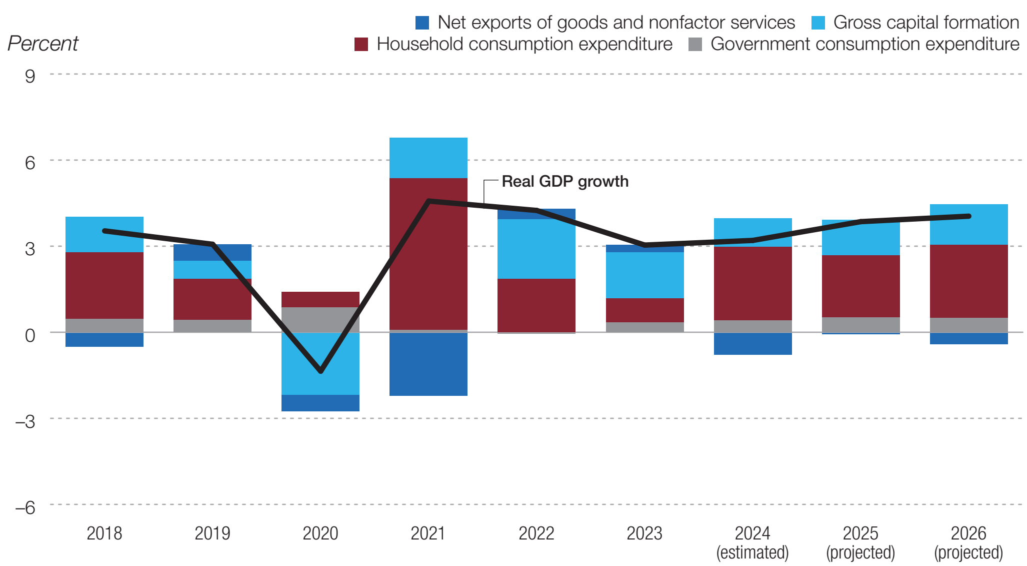
FIGURE 1.8 **Impact of tariff shifts and global uncertainty on Africa's GDP per capita growth**



Source: African Development Bank statistics.

in real GDP per capita also boosted household disposable income contributing to growth in private consumption. The contribution of household consumption expenditure to real GDP growth is projected at 2.2 percent in 2025 and 2.6 percent the following year. The rate for 2025 is lower than the February 2025 projected rate by 0.2 percentage points but remained steady at 2.6 percent in

FIGURE 1.9 **Demand-side decomposition of GDP growth, 2018–26**



Source: African Development Bank statistics 2025.

2026. The relatively lower value for 2025 shows effects of policy uncertainty as countries navigate an increasingly protectionist global trade environment, with high import prices constraining growth in private consumption spending. The slight uptick in 2026 could signal households' spending adjustment to projected inflation potential easing of exchange rate pressures (see discussion below on medium-term inflation dynamics).

The contribution of net export growth to real GDP growth weakened in 2024, falling from +0.2 percent in 2023 to –0.8 percent in 2024. The decline was due to low performance of exports in 2024, occasioned by subdued global economic activity, especially in major markets such as China where income growth was sluggish.[8] The contribution of net exports to growth is projected to average of –0.2 percent in 2025–26, unchanged from the February 2025 forecast, but representing a 0.6 percentage point improvement relative to 2024. Despite the high public spending in some countries, the contribution of investment growth to real GDP growth declined to 1.0 percent in 2024 from 1.6 percent in 2023. This is largely because public spending was financed by domestic borrowing mainly from the banking system through the issuance of government securities. This crowded out private investment. Private investment spending was further constrained by contractionary monetary policy to rein in high inflation (box 1.1).

BOX 1.1 Investment dynamics in Africa, 2001–23

Investment in Africa has been dominated by public capital. In 2023, investment in Africa was 21.7 percent, which was lower than the world average at 26.0 percent and East Asia and Pacific (34.9 percent) but higher than Latin America and the Caribbean (19.8 percent). Low investment in Africa is due to increasing policy uncertainty, poor infrastructure development, and weak governance and institutional deficiencies. However, East Asia and Pacific high investment is driven by high intraregional investment and an uptake in China's investment that has bolstered the regions investment portfolio.

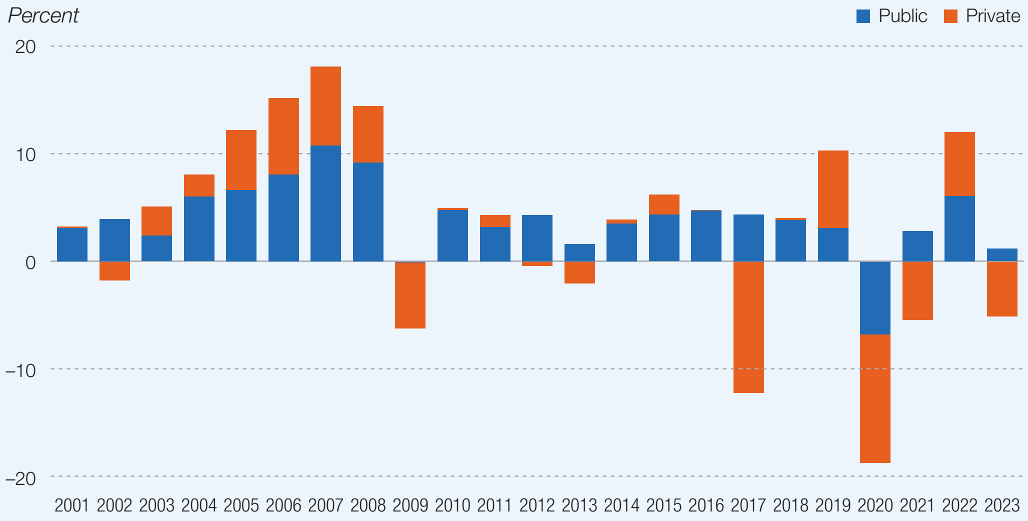
Over 2001–23, public investment growth averaged 3.9 percent of GDP, rising from 3.1 percent in 2001 to 6.1 percent in 2022 before reducing to 1.2 percent in 2023 (box figure 1.1.1). The decline in public investment growth in 2023 was due to rising fiscal consolidation measures being implemented to arrest the rising debt sustainability challenges facing many African countries. Despite this contraction, public investment has played a significant role in driving Africa's growth with many infrastructure investment projects across the continent. Private investment growth has been modest, rising from 0.1 percent of GDP in 2001 to 5.9 percent in 2022 before contracting in 2023 to –5.1 percent. The 2023 contraction of private investment was due to elevated policy uncertainty and macroeconomic imbalances that constrained private investment. The period 2001–23 saw investment face significant funding headwinds that affected its growth and ability to support Africa's development. Amid various shocks such as the 2007–08 global financial crisis and the Covid-19 pandemic in 2020, many African countries faced significant challenges, including a decline in foreign direct investment and private sector growth.

During the global financial crisis, several countries took measures to mitigate the situation by increasing public investment in infrastructure projects to accelerate growth.[1] To increase private investment, policy reforms were implemented to enhance opportunities for private sector growth. This led to an increase in investment growth, with both public and private investment growth peaking at 4.6 percent and 0.2 percent respectively in 2010 from –0.1 percent and –6.1 percent in 2009. However, the spillover effects of the global economic crisis and volatility in commodity prices, combined with a deterioration in the terms of trade, dampened investment growth, with private investment being the most affected.

(continued)

BOX 1.1 **Investment dynamics in Africa, 2001–23** *(continued)*

BOX FIGURE 1.1.1 **Investment growth in Africa, 2001–23**



Source: World Development Indicators.

The events following the Covid-19 pandemic show that both public and private investment growth contracted at –6.8 percent and –12.0 percent, respectively due to policy shift towards healthcare funding, and the private sector holding back to avoid investment losses. The patterns of investment growth call for concerted efforts to enhance the policy reform agenda to improve the efficiency of public investment given its prominent role and potential to drive growth.

Note:

1. Kasekende et al. 2010.

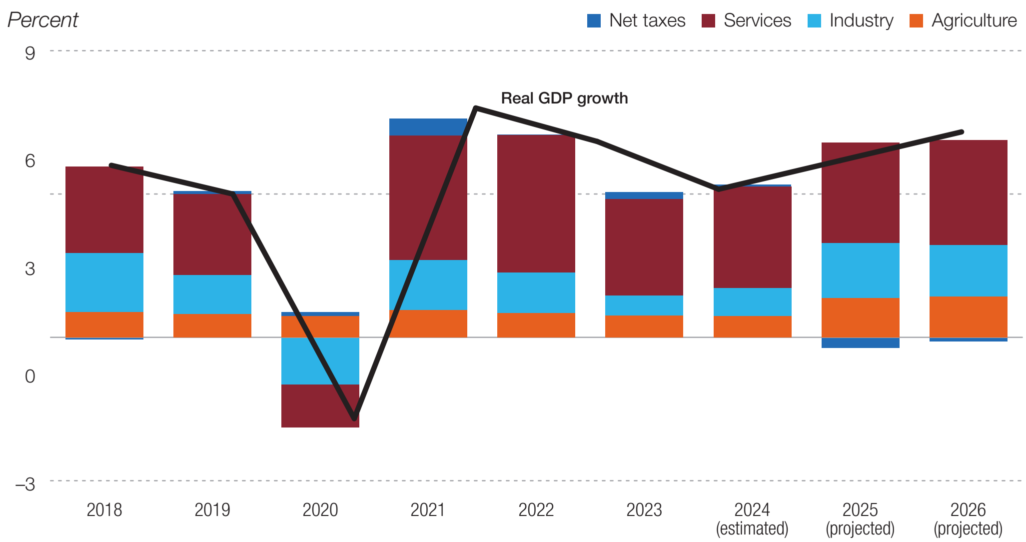
As inflationary pressures subside in the medium term as projected, central banks may ease monetary policy to bolster economic recovery

As inflationary pressures subside in the medium term as projected, central banks may ease monetary policy to bolster economic recovery. In the medium term, improved productive capacity through enhanced private sector growth and economic diversification remain key to scaling up contribution of private investment to Africa's economic growth. Furthermore, full implementation of the AfCFTA, through elimination of both tariff and non-tariff barriers, could improve the continent's productive capacity and unlock cross-border investment opportunities to drive Africa's growth performance.

On the supply side, growth in the services sector remained the main driver of real GDP growth. The sector contributed 2.1 percent (about 65.6 percent) of the estimated 3.3 percent GDP growth in 2024 (figure 1.10). This was marginally higher than the 2.0 percent, representing 66.7 percent of the 3.0 percent growth recorded in 2023. The sector's contribution to growth is projected to remain unchanged at 2.1 percent in 2025 before increasing to 2.2 percent in 2026, with the expected decline in inflation as the main driver. Yet this represents a downward revision from 2.3 percent projected in 2025 MEO for both years. The dominance of the services sector in the growth of African economies presents them with an opportunity to reap higher returns by implementing policies that support economic diversification and the development of new productive capacities, which are key ingredients of structural transformation.[9]

The share of agriculture in real GDP growth declined to 0.4 percent in 2024 while that for industry increased to 0.6 percent, accounting for 12.5 percent and 18.8 percent of GDP growth, respectively. Although agriculture remains the mainstay of the

FIGURE 1.10 Sector decomposition of GDP growth, 2018–26



Source: African Development Bank statistics 2025.

Africa has the potential to become the world's growth pole, but this depends on countries undertaking deep reforms and transforming their resources into development benefits

economy, providing employment and livelihood in majority of African countries, low productivity and susceptibility to adverse climatic conditions have constrained its contribution to growth. In 2024, many countries in Africa experienced severe drought, which affected the performance of the agriculture sector and its ability to drive growth. The sector also suffers from perennial structural challenges including inefficiency in the supply of inputs and poor marketing services, often leading to post-harvest losses.

Favorable weather conditions, especially in Southern Africa, which was severely hit by a devastating drought in 2024, could shore up the agricultural sector's contribution to overall GDP growth in 2025 and 2026 of average 0.9 percent and 1.2 percent, respectively, relatively unchanged from the February 2025 forecasts. The sector's future performance is expected to improve due to continued support through the *Feed Africa* and *Industrialize Africa* initiatives of the African Development Bank's operational priorities, aimed at scaling up agriculture productive capacities and building value chains through agro-processing. In the medium term, the prevalence of multiple shocks and policy uncertainty will continue to affect the supply-side of African economies, many of which depend on imports of inputs and exports of unprocessed or semi-processed products with low foreign exchange earnings.

GROWTH PERFORMANCE AND OUTLOOK ACROSS REGIONS AND COUNTRIES

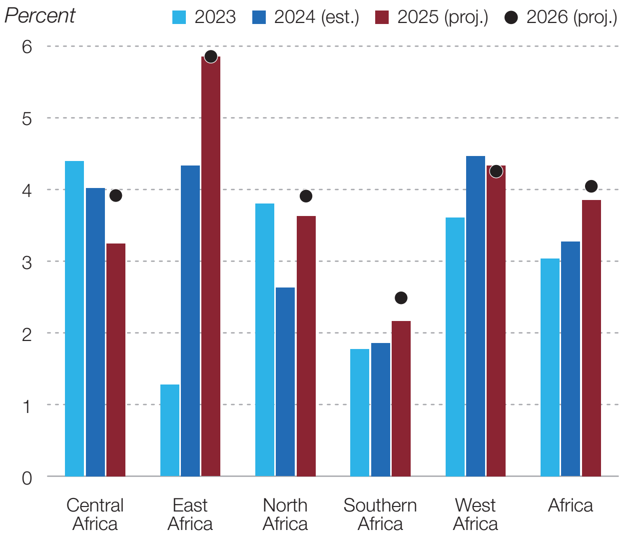
While resource endowments, reforms and strategic investments explain regional growth differentials, the tariff shock and its attendant uncertainty could deepen these variations

Africa has the potential to become the world's growth pole, but this depends on countries undertaking deep reforms and transforming their resources into development benefits. With the continent accounting for an estimated 13 of the world's top 20 fastest growing economies in 2025, prospects for a resurgence in Africa could not be more favorable. In several countries, structural policies and macroeconomic stability have been gaining ground, underpinning Africa's resilience amidst an increasingly difficult global economic environment. There is also some evidence of productivity gains in manufacturing, estimated to be 3.8 times the economywide productivity.[10] Higher productivity bodes well for the competitiveness of domestic economies. And countries undertaking strategic investments in key areas—infrastructure and human capital—to speed up structural transformation and economic diversification will reap the benefits of these actions. Differences in current and projected growth rates across Africa's regions (figure 1.11) and country groupings (figure 1.12) reflect these efforts. The tariff shock and its attendant uncertainty could have an asymmetric impact on regions and countries, depending on the strength of existing macroeconomic buffers and degree of integration into global trade. Economic performance and prospects thus mask cross-regional variations.

Real GDP growth in **Central Africa** averaged 4.0 percent in 2024, a decline from 4.4 percent the previous year. It is projected to fall to 3.2 percent in 2025 and 3.9 percent in 2026, below the February MEO forecast by 0.7 percentage points in 2025 and 0.2 in 2026. The broad-based downgrade for the region in 2025, across all countries, largely reflects deceleration in oil and mining production and restrained public investment due to growing uncertainty and weak prospects for global trade. Real GDP in the Democratic Republic of Congo is projected to decelerate to 4.8 percent in 2025, from the estimated 6.2 percent in 2024. The outlook is subject to significant headwinds, including the raging conflict in the eastern part of the country and global uncertainty, which could weaken demand for its mineral exports. Economic performance in Equatorial Guinea continues to weigh on the region. Its real GDP is projected to contract by 4 percent in 2025, worse than the contraction of 2 percent projected in the February MEO. The projected recession reflects limited economic diversification to compensate for losses resulting from a decline in hydrocarbon production and exports.

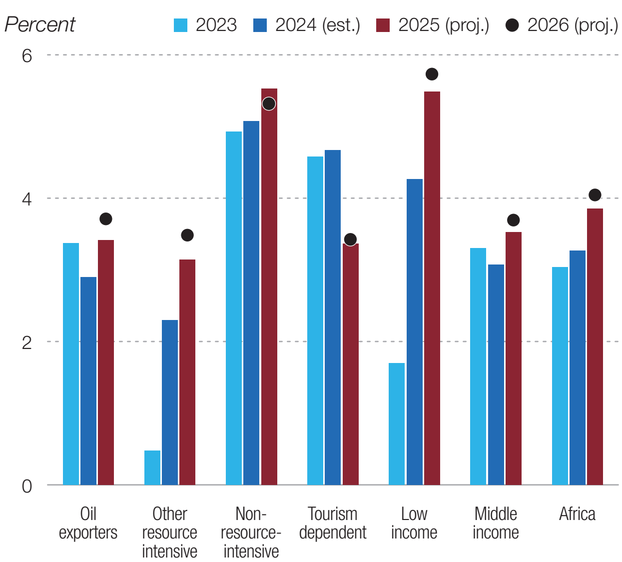
East Africa, long established as Africa's fastest growing region, is an embodiment of commitment to reforms and public infrastructure development to catalyze private sector investment. In 2024, the region's real GDP growth averaged an estimated 4.3 percent, and is projected to expand further to 5.9 percent in 2025 and 2026 (see figure 1.11). Compared with the projection of 5.3 percent in the February 2025 MEO, growth for the region is revised upward by 0.6 percentage point in 2025 but slightly downward by 0.2 percentage points in 2026. This reflects the resilience of growth in Ethiopia, Djibouti, Rwanda, Uganda and Tanzania, all expected to grow by an average rate of 6 percent or higher in 2025–26, supported by continued public investments to deepen domestic value chains in agriculture and energy infrastructure.

FIGURE 1.11 GDP Growth in Africa, by region, 2023–26



Source: African Development Bank statistics.

FIGURE 1.12 GDP growth by country grouping in Africa, 2023–26



Source: African Development Bank statistics.

East Africa's resilience to shocks may be explained by the fact that the region is home to some of the most diversified economies in Africa with a growing share of manufactured goods in intraregional 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 with the percentage share of intra-EAC trade to EAC total trade increasing to 15 percent.[11] Rwanda's projected growth rate of 7.8 percent in 2025 is not atypical and sustains a strong post-Covid-19 recovery. It can be attributed to continued strong public expenditure on mega projects as well as improvements in tourism infrastructure and investment to enhance technology innovation and mobility. Growth in Ethiopia is also underpinned by massive public and private investment. The country's projected growth of 8 percent in 2025 is 1.6 percentage points higher than forecast in the February 2025 MEO. The country has undertaken important financial sector reforms, allowing for some degree of exchange rate flexibility and assigning a greater role to the private sector in the economy. These measures have been complemented by efforts to boost trade and tourism and modernization strategies to enhance productivity in agriculture and agro-processing to boost exports of high-value crops. Ethiopia is one of few countries in Africa to post growth during Covid-19, signifying its growing resilience to shocks. Performance of other countries in East Africa shows the benefits of public sector–facilitated private investment to build economic resilience.

North Africa is projected to grow by 3.6 percent in 2025 and 3.9 percent in 2026

In **North Africa,** following 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. However, these forecasts reflect downward revisions of 0.2 percentage points apiece from the February MEO projections for both years. Among the region's economies, the forecast in Egypt is revised down, by 0.3 percentage points in 2025 and 0.5 in 2026; in Libya, it is downgraded by 0.6 and 0.2 percentage points. These downgrades are mainly due to a potential decline in export revenues. Despite the downgrades, Libya's projected growth of 6.9 percent in 2025 will reverse the economy's contraction of 3.1 percent in 2024, thereby contributing to North Africa's average growth rate for this year. Its growth rate often tracks dynamics in its prolonged conflict and prospects in the oil sector. Elsewhere in the region, growth will remain below 5 percent. With increasing global uncertainty, slower growth in key tourism source markets such as the European Union and China and flagging global demand could interrupt the recovery in the region.

Southern Africa emerged strongly from the impact of a devastating drought in 2024, but the recovery is likely to be disrupted by heightened uncertainty due to trade shocks. Fiscal risks in South Africa could further weigh on the region's growth outlook in 2025 and beyond. Growth in the region is forecast at 2.2 percent in 2025 and 2.5 percent in 2026, from an estimated 1.9 percent in 2024. This marks the first time since 2021 that growth has exceeded 2 percent. Compared with the February MEO forecasts, these growth rates represent 0.9 and 0.6 percentage point downgrades for the same periods. Despite the low regional growth outlook, projections for eSwatini, Zambia, and Zimbabwe point to sustained recovery, and their real GDPs could expand by 6 percent or more in 2025. Favorable rainfall in 2025 is expected to aid a strong recovery in agriculture output and improve energy production from Lake Kariba, a key source of hydropower generation shared by Zambia and Zimbabwe. Zambia could also benefit from investment in exploration and commissioning of new mines for copper and nickel production. Its economy is projected to grow by 6.2 percent in 2025, unchanged from the MEO forecast, reflecting the benefits of sustained reform efforts and debt restructuring. In Zimbabwe, growth is projected to be at 6 percent in 2025, 0.7 percentage point higher than the February 2025 MEO forecast.

Tariff-induced uncertainty will have the largest adverse growth impact in Botswana and Lesotho in 2025–26. The former 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 the latter, the tariffs will have a direct impact on trade in apparel and other exports to the United States, which accounts for 45 percent of its exports. While improved energy production had provided a respite to South Africa's struggling economy, fiscal risks could mount due to the suspended increase in the rate of value added tax which could affect revenue and budget execution. Its economy is projected to grow by 0.8 percent in the medium term, half the rate projected in the MEO. Growth could recover to 1.2 percent in 2026 if the country navigates current fiscal challenges and trade disruptions.

In **West Africa,** real GDP growth is estimated at 4.5 percent in 2024 but could decline to an average of 4.3 percent in 2025–26, 0.3 percentage points and 0.2 percentage points lower than the

February 2025 MEO forecasts. With the exceptions of Ghana, Nigeria, and Sierra Leone, all other 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). Senegal's growth is gaining speed, estimated at 6.9 percent in 2024, after a slowdown in 2022 and 2023, and the country will retain its position as Africa's fastest-growing economy. Real GDP growth is projected at 10.3 percent in 2025, down just 0.2 percentage points from the February 2025 MEO forecast. Projected growth in Senegal will be buoyed by the commencement of oil and gas exports from the Greater Tortue Ahmeyim LNG project. Niger is also benefitting from ramping up oil production and increased financing of infrastructure. These efforts will steady Niger's growth rate at 7 percent. Other countries with growth rates exceeding 5 percent include Benin (6.6 percent), Côte d'Ivoire (6.3 percent), and Gambia (5.8 percent), driven by strong domestic demand, sustained investment, and increased value addition of key agricultural products. The shift in demand in Nigeria's trading partners, including the United States and China, coupled with global supply chain disruptions and increased volatility in financial markets, could further affect the country's growth outlook, which is 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 the February 2025 MEO projections.

The differentiated regional performance is also evident across country groupings. For **non-resource intensive countries,** growth has been broad-based and consistently above 5 percent since the recovery from Covid-19. In 2024, average growth for these economies was estimated at 5.1 percent and is projected to increase to 5.5 percent in 2025 and 5.3 percent in 2026 (see figure 1.12). Output in 13 of the group's 27 countries could expand by 5 percent or more in 2025 and 8 of them will be among the top 20 fastest growing economies in the world with growth rates ranging from 6.3 percent in Côte d'Ivoire to 10.3 percent in Senegal.[12] This group comprises some of the most diversified economies with vibrant private sectors in Africa and growth could benefit from expected uptick in public investment in energy and transportation to unlock private sector activity across different sectors.

The average growth for **tourism-dependent economies** is expected to moderate from 4.7 percent in 2024 to 3.4 percent in 2025 and 2026. Tourism inflows have risen steadily since 2021, bringing much-needed foreign exchange and creating jobs for a sector severely hit by Covid-19. Africa received an estimated 74 million tourist visitors in 2024, up from 68.8 million in 2019, a full recovery from Covid-19 induced contraction. And the global tourism market could maintain an upward growth trajectory. But with the global economy now mired in uncertainty and fears of weaker growth in Africa's key tourism source markets in Europe and Asia, the recent gains in the tourist-dependent economies could be undone. Yet countries can mitigate potential losses with targeted policy efforts, including using technology to market niche tourist events and traditional cultural heritage to help maintain the current momentum in tourism receipts.

For non-resource intensive countries, growth has been broad-based and consistently above 5 percent since the recovery from Covid-19

Prospects for higher growth in **oil-exporting countries** appear favorable despite emerging global headwinds. Average growth for this group is expected to improve, increasing from an estimated 2.9 percent in 2024 to 3.4 percent in 2025 and 3.7 percent in 2026. But these rates have been revised down from 3.8 and 4.2 percent. The projected growth will be driven largely by sustained recovery in Libya and South Sudan—two countries plagued by civil conflict. But growth in the latter has been significantly downgraded from 27.2 percent in the 2025 MEO to a current forecast of 4 percent. This sharp revision reflects effects of a renewed domestic political impasse, intensifying conflict in neighboring Sudan, and increasing global risks. A decision by OPEC+ to increase oil production quotas in April 2025 may also depress the price effect on revenues for oil-exporting countries. This could also contribute to projected downward revision in growth for South Sudan.

Despite overall positive performance for the group, four countries—Algeria, Angola, Gabon, and Equatorial Guinea—are projected to record declines in growth in 2025 relative to 2024. Lower hydrocarbon production in Equatorial Guinea due to depletion of existing oil fields and limited discoveries of new ones could contract the country's real GDP growth by 4 percent in 2025 from an expansion of 1.7 percent in 2024. Algeria and Gabon are also struggling to keep production levels up, and both countries face constrained fiscal space due to volatile revenues.

Other resource-intensive countries could enjoy stronger and broad-based growth, from 2.3 percent in 2024 to an average of about 3.1 percent in 2025, rising further to 3.5 percent in 2026. Projected growth rates for this group have been revised downward from the 2025 MEO forecast by 0.3 and 0.2 percentage points, respectively. Even so, 8 of the group's 16 countries are projected to grow by 5 percent or more in 2025, a conditional projection subject to significant downside risks. The ongoing global trade tensions and expected slowdown in China could weaken the demand for the group's key commodity products (copper, bauxite, and iron ore). This may reduce the grouping's growth outlook in 2025 and 2026 since China is the main market for most commodities exported by countries in this group. However, China's policy decision to stimulate domestic demand, especially in the property sector, and scale up public investment in infrastructure and energy projects remains on course, despite rising global shocks, may shore up its demand for metal exports in 2025. Zambia and Guinea could benefit from exports of copper and bauxite, respectively. Burkina Faso, Mali, and Niger have prioritized domestic value addition to minerals, which if well implemented could raise revenues from commodity exports, especially gold.

Falling energy costs signal a brighter outlook for inflation, sustaining the downward trend in global inflation

UPSIDE AND DOWNSIDE RISKS TO THE GROWTH OUTLOOK

An escalation in trade wars could further expose Africa's heavy reliance on foreign trade and global value chains. But there is a silver lining to heightened uncertainty, which presents an opportunity for African countries to deepen intraregional trade and accelerate economic diversification. To mitigate the impact of trade shocks and the associated uncertainty, African countries should diversify their export markets—redirecting trade towards intraregional markets and potential new trade partners in Asia, Canada, Latin America, the Middle East, the European Union, and other European countries.

Upside risks

- *Tariffs fall worldwide and US growth rebounds.* The 90-day pause of most US tariffs and prospects for negotiated rebates could unlock the avenue for trade, investment, and consumption. Concurrent US deregulation, targeting energy and manufacturing, alongside expenditure cuts targeting federal agencies, while weighing on the economy in the short run, could substantially lower US 10-year Treasury yields, spurring private sector dynamism and lifting GDP growth in the medium term. As threats to inflation subside and recession fears materialize, anticipated rate cuts could further ease global financial conditions, supporting emerging markets. In Africa, these developments would bring indirect benefits, especially to commodity exporters whose export revenues could rise with renewed global demand. In addition, lower US interest rates would alleviate pressure on US-denominated debt across Africa, creating room for domestic interest rate cuts, contributing to growth on the continent.
- *Lower inflation in advanced economies and resilient growth in emerging markets.* Falling energy costs signal a brighter outlook for inflation, sustaining the downward trend in global inflation. This could create conditions for further monetary easing and a revival of economic growth in advanced economies. In March 2025, US inflation fell to 2.4 percent (the lowest since 2021) and to 2.2 percent in the European Union, paving the way for anticipated rate cuts, potentially lowering borrowing costs and stimulating investment. Further reductions in oil prices—in April 2025, the Brent crude futures declined below $60/bl for the first time in four years—will help lower production costs, lifting global GDP. A strong rebound in China's domestic demand, bolstered by stimulus (interest rate cuts and local government debt relief, among others) and a weaker yuan, would spur commodity imports from emerging economies. Similarly, India's robust 6 percent growth is likely to further strengthen emerging market dynamics, supporting global trade networks.

For Africa, these developments would offer relief in various ways. Net oil importers would benefit from lower energy costs, creating fiscal space, while commodity exporters would see revived demand from the recovery in China's construction and manufacturing sectors.

- *Debt reduction and fiscal consolidation bolster Africa's economic prospects.* Successful fiscal consolidation and declining public debt will restore fiscal credibility and investor confidence, keys for mobilizing private finance for economic growth and enhancing fiscal space. Ongoing debt restructuring under the G20 Common Framework has supported countries like Zambia (restructuring \$3 billion with bondholders and \$6.3 billion with official creditors) and Ghana (\$5.4 billion with bilateral creditors and \$13 billion with bondholders), enabling progress towards debt sustainability. In addition, Africa's average public debt-to-GDP ratio is estimated to have declined to 60 percent in 2024 from around 63.5 percent in 2021–23, driven by fiscal discipline and rebounding economic growth. The current trend of falling global and African interest rates will further lower borrowing costs, creating a virtuous cycle, lowering risk premium, and attracting investment. Enhanced fiscal revenues and reduced debt servicing burdens will provide governments with improved fiscal space to prioritize budgetary resources on improvements to public infrastructure, health, and education. If these trends persist, African economies could unlock significant resources and boost long-term capital accumulation.
- *Accelerating intracontinental trade via AfCFTA could boost Africa's GDP at a time of growing global trade fragmentation.* As advanced economies increasingly contemplate protectionist measures, Africa has room to counter external volatility by deepening regional integration. The continent's intraregional trade remains disproportionately low at around 15 percent of total global commerce, compared with 59 percent for Asia and 68 percent for Europe.[13] This low figure, reflecting decades of reliance on traditional export routes rather than localized value chains, can be boosted by moving beyond tariff reductions to policy measures that address barriers such as inefficient customs systems, poor transport infrastructure, and regulatory mismatches that inflate cross-border costs. Several initiatives—such as the Biashara Afrika 2024 Forum in October 2024 in Rwanda, themed Dare to Invent the Future of the AfCFTA—are encouraging further trade integration. The resulting increase in intra-Africa trade could shift the continent's economic trajectory by incentivizing regional manufacturing, reducing import dependency, and attracting investment into African supply chains. This would not only cushion global trade shocks but also enable African industries to move up the value chain, transitioning from raw material exports to value-adding processed goods.

Successful fiscal consolidation and declining public debt will restore fiscal credibility and investor confidence

Downside risks

- *Tariffs are here to stay, hurting world trade and Africa's economy.* If implemented, US tariffs cast a shadow over global economic prospects, risking unravelling decades of trade integration and reversing the gains from globalization. According to the IMF, the set of tariff measures announced between February and April 2025 could reduce world exports by between 3.1 and 5.1 percent and world GDP by between 0.2 and 0.9 percent.[14] Increased protectionist stances by the world's leading economies have deepened uncertainty, dampening investment and consumer confidence worldwide. The resulting trade fragmentation risks accelerating inflation and supply chain disruptions, particularly for emerging markets. China, a primary target of these measures, could see its export-driven growth slow further. As the primary export destination for many African commodities, China's deceleration would reverberate through African economies, particularly those dependent on commodity exports revenues. Retaliatory trade measures might also disrupt shipments under AGOA. While some trade diversion could benefit some African manufacturers, the continent's limited industrial capacity and infrastructure gaps will likely constrain the gains. The continent's real GDP growth, projected at 4.0 percent in 2025–26, may underperform if US protectionism persists, especially as global uncertainty continues to curtail investment and aid flows.

The global economy is currently navigating a confluence of destabilizing factors that threaten to undermine growth prospects

- *Economic policy uncertainty is high.* The global economy is currently navigating a confluence of destabilizing factors that threaten to undermine growth prospects. High tariffs and fiscal restraint in the United States could constrain public sector demand, with implications for private sector activity. Amid continued tight monetary policy, these austerity measures, while intended to stabilize long-term fiscal health, are expected to dampen short-term economic activity. For Africa, these combined US and global headwinds pose significant challenges given the continent's vulnerability to external shocks. A fall in US GDP, which accounts for about 25 percent of world output, could reduce demand for African exports, particularly from resource-rich countries. And heightened global uncertainty may deter foreign investment flows into Africa and trigger depreciations in African currencies. Likely reduced US aid and remittances would further strain fiscal resources, particularly in countries where such aid has formed an essential component of education and health budgets. Collectively, these dynamics threaten to impede Africa's economic momentum and exacerbate existing development challenges.
- *Geopolitical tensions and political instability undermine African economic prospects.* Escalating global geopolitical tensions and deepening regional political instability pose severe downside risks to African economies in 2025, amplifying policy uncertainty and disrupting economic stability. Conflicts, particularly in the Middle East and Ukraine, hamper trade routes, inflate commodity costs, and erode purchasing power, exacerbating inflationary pressures. Such outcomes could trigger sharp increases in energy, food, and fertilizer prices, alongside global financial market volatility, disproportionately affecting import-dependent African nations. Geopolitical fragmentation may also deter FDI and ODA, potentially costing African economies billions in capital inflows, while hindering technological diffusion and innovation. Within Africa, political instability in the Democratic Republic of Congo, the Sahel region, and Sudan (to name but a few) compounds these challenges. Military coups and subsequent regional sanctions disrupt trade, erode investor confidence, and strain public finances by diverting resources from development to defense spending. Persistent instability, both abroad and on the continent, coupled with social unrest driven by rising food and energy prices, risks prolonging economic stagnation and heightening social fragility across the continent.
- *Drought and weather shocks threaten strong economic recovery in Africa.* Frequent droughts and floods present a significant risk to Africa's economic growth, disrupting agriculture and straining public resources. Droughts reduced harvests, severely affecting food security and rural livelihoods, as in Southern Africa. In East Africa, flooding in South Sudan affected 1.4 million people, exacerbating displacement and damaging cropland. Torrential rains and severe flooding have threatened approximately 6.9 million people across 16 countries in West and Central Africa too, with more than 1 million displaced, significant damage to homes, schools, and health facilities, and extensive losses in agriculture and livestock, surpassing previous years' impacts and exacerbating food insecurity in vulnerable communities.[15] In addition, extreme weather events result in governments diverting funds to recovery actions, reducing investments for development. As a result, persistent droughts and floods increase fiscal pressures without a corresponding increase in public services such as education and healthcare. Without robust adaptation measures and adequate financing, these recurring shocks risk weakening economic resilience and hindering Africa's long-term development goals, particularly in countries already grappling with structural challenges.

MACROECONOMIC DEVELOPMENTS, OUTLOOK, AND IMPLICATIONS

Inflation dynamics

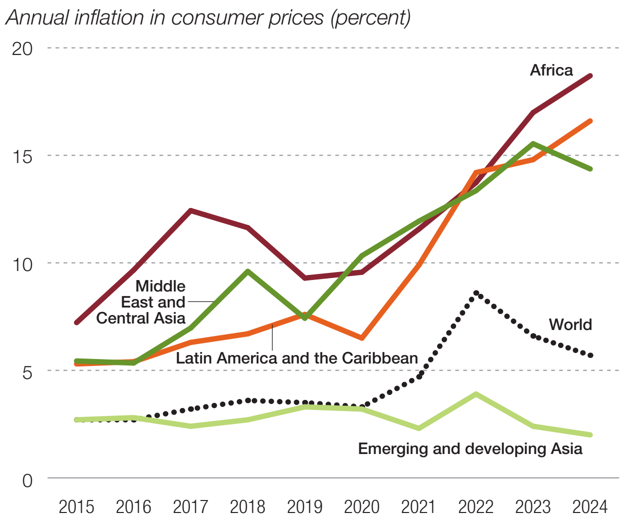
Africa remains trapped in a tide of high inflationary pressures, posing a challenge to economic recovery

Africa's structurally driven inflationary pressures have proven difficult to contain with traditional instruments of monetary policy (increases in interest rates and upward adjustments in reserve requirements). Thus, inflation has persisted but with marked regional and country differences. Average annual inflation for Africa accelerated from 16.9 percent, reaching 18.7 percent in 2024, above medium-term targets in many countries. In contrast, global headline inflation declined to an average of 5.7 percent in 2024 from 6.7 percent the previous year and is expected to decline further to 4.3 percent in 2025 and to 3.6 percent in 2026.[16] A similar trend is observed in other developing regions, except in Latin America and the Caribbean, where inflation increased from 14.8 percent in 2023 to 16.8 percent in 2024, respectively (figure 1.13).

Higher annual average inflation in Africa in 2024 was fed by an escalation in food and energy prices, and the passthrough effects of exchange rate depreciations. These factors have been compounded by internal economic imbalances including strong fiscal dominance and central bank deficit financing. While the overall inflation profile was unfavorable for the continent, the number of countries with double-digit rates has declined steadily, to 15 in 2024 from 19 in 2022, and could fall further to 12 in 2025 (figure 1.14). Much of this progress is owed to lower global energy and food prices, two commodities that constitute the largest share in consumption baskets for many countries in Africa. For instance, the poorest 10 percent of African households spend on average 36.5 percent of their income on food and 5.2 percent on energy, while the richest 10 percent spend 31.8 percent on food and 3.9 percent on energy.[17] Countries with double-digit inflation rates above 25 percent include Egypt, Ethiopia, and Nigeria. Rising inflation has strained household incomes and eroded any potential gains from post-pandemic economic growth.

At the regional level, inflation in 2024 was highest in West Africa at 22.9 percent, largely driven by an increase in Nigeria, where inflation peaked at 33.2 percent in 2024, up from 24.7 percent a year before. Inflationary pressures have been building up in Nigeria, spurred by market correction of the exchange rate and removal of fuel subsidies. Severe flooding in food-producing areas combined with insecurity and other structural challenges, such as poor infrastructure and limited industrialization, also escalated inflation. Increases

FIGURE 1.13 Inflation persistence in Africa and other developing regions, 2015–24



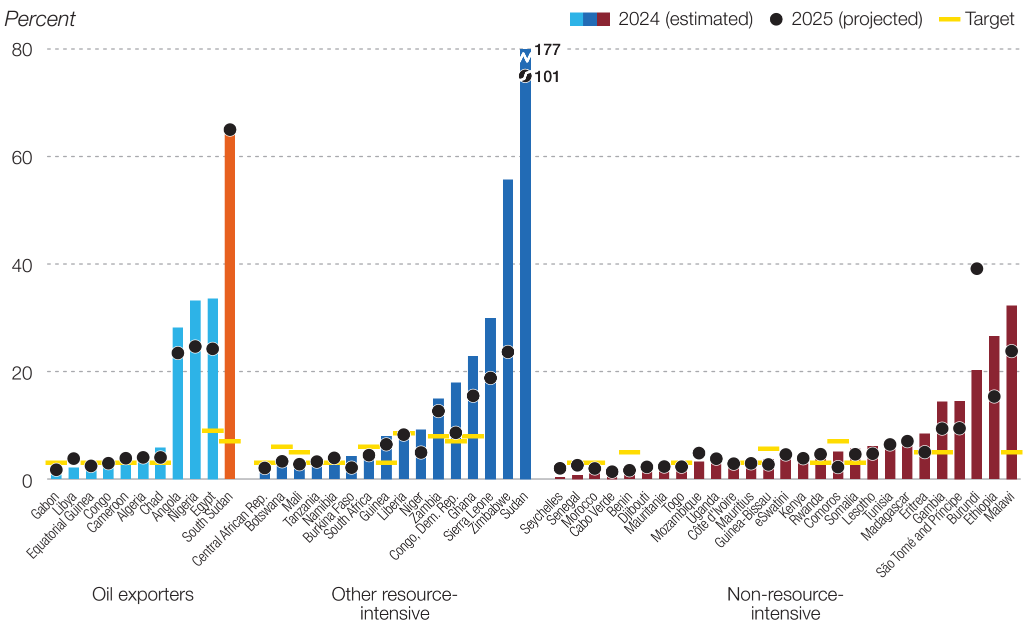
Source: African Development Bank statistics.

in policy rates and upward adjustments in reserve ratios have had limited success in bringing inflation under control because of the structural nature of the country's inflation. An empirical study in Nigeria shows that supply shocks are still the most important factor for inflation to persist (box 1.2).

Inflation in North Africa, at 20.5 percent in 2024, has also been rising, fueled by higher rates in Egypt, estimated at 33.6 percent in 2024. Drivers of inflation in Egypt mirror those in Nigeria in West Africa—exchange rate pass-through effects (first-round effect) following a transition to floating regime and cuts in fuel subsidies to reduce the fiscal deficit. Supply chain disruptions due to Houthi attacks in the Red Sea have fueled second-round effects through higher costs and inflation expectations, exacerbating Egypt's inflation dynamics.

With the drought reducing agriculture and energy production, food and energy costs soared in Southern Africa in 2024, fueling strong inflationary pressures in several countries. The region's annual inflation rose to 12.1 percent in 2024, 2.8 percentage points higher than in 2023. Countries with higher inflation included Zambia (15.0 percent), Angola (28.2 percent), Malawi (32.3 percent), and Zimbabwe (55.7 percent). Inflation was lowest in Botswana, at 2.8 percent thanks to a tight monetary policy stance.

FIGURE 1.14 Consumer prices inflation, 2024–25



Note: Values for Sudan have been truncated for better visibility of other countries.
Source: African Development Bank statistics.

Food and energy costs soared in Southern Africa in 2024, fueling strong inflationary pressures in several countries

Central Africa and East Africa recorded declines in inflation in 2024. In Central Africa, the rate fell to a single-digit average of 8.5 percent in 2024 from 10.1 percent the previous year. Cameroon, Gabon, and Democratic Republic of Congo recorded the largest inflation declines, which more than offset the increase in Chad. In East Africa, the region's average annual inflation rate fell from 23.3 percent in 2023 to 19.4 percent in 2024, due to decelerations in Ethiopia, Kenya, and Rwanda. But the rate remains elevated due to significantly higher rates in Sudan (176.9 percent) and South Sudan (65.6 percent). Sudan's elevated inflation reflects impact of the civil war, which has disrupted economic activity and agricultural supply chains.

Africa's average inflation rate 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 February 2025 MEO (figure 1.15). Projected inflation dynamics reflect favorable food supply, especially in countries hit hard by climatic shocks such as drought and flooding in the previous year. They also reflect the decline in energy prices due to excess supply following the OPEC+ decision to increase production. Decoupling agricultural production from dependence on rainfall through sustainable water management, 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.

MONETARY POLICY IMPLICATIONS AND OUTLOOK

Despite persistent inflationary pressures, central banks are transitioning to a more accommodative monetary policy stance

The projected decline in Africa's average annual inflation to 13.8 percent in 2025 from a peak of 18.7 percent in 2024 embodies a mix of policy interventions including tighter monetary policy, fiscal consolidation, and better crop harvest due to favorable rainfall and easing global supply chain

BOX 1.2 **Explaining Nigeria's inflation spirals since 2020**

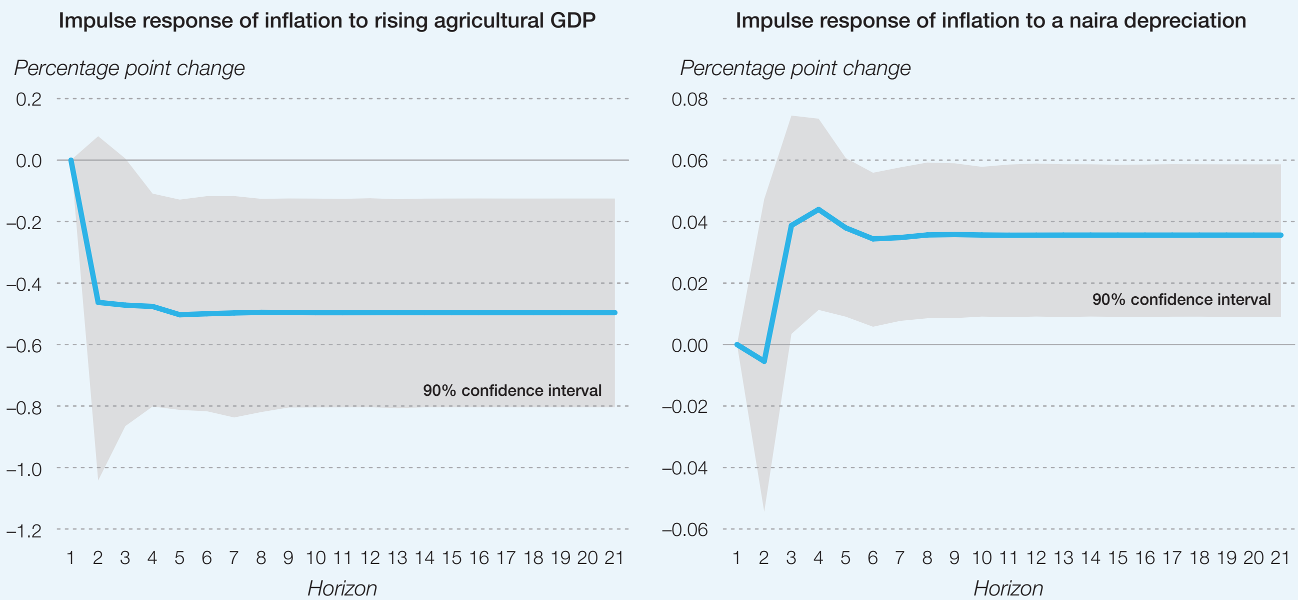
Inflation in Nigeria rose to above 30 percent by the end of 2024, with food prices at the center of this development. An econometric analysis, using a vector error correction model with data covering 2010–23, shows that supply-side constraints—especially in agriculture—are the main drivers of inflation in the short and long runs. The estimated long-term cointegration relationship is given by

$$CPI_t = 0.0603e_t + 0.0361M_t - 0.3363GDP\_A_t + 0.1031GDP\_IS_t + v_t$$

where e_t is the naira/\$ exchange rate, M_t is broad money (M3), which is a comprehensive measure of the money supply in the economy, GDP_A_t is agriculture GDP and GDP_IS_t is industry and services GDP. In the long run, GDP_A_t plays a dominant role: for instance, a 1 percent decline in output increases inflation by 33 basis points, reflecting the weight of food (more than 50 percent of CPI) in Nigerian consumption basket. Droughts, poor harvests, and rapid population growth (2.4 annually) exacerbate this pressure. Nonagricultural GDP (proxied by GDP_IS_t) contributes positively to inflation, albeit modestly, consistent with a weak Phillips curve. In contrast, monetary and exchange rate variables have only a limited impact: A 1 percent depreciation or increase in the money supply contributes only 6 and 3.6 basis points to inflation, respectively, due to weak policy transmission and controlled exchange rates until 2023. Structural weaknesses in the transmission of policy and the declining velocity of money are likely to weaken the monetary policy impact.

In the short run, inflation reacts to supply-side shocks and policies. Reforms—such as the abolition of fuel subsidies and the liberalization of the exchange rate in 2023—fueled the initial rise in inflation. They reflect the market corrections from dirigiste policy regime—and fluctuations in agricultural production affect both prices and the exchange rate, the latter due to increased demand for foreign exchange to meet food imports in lean harvest seasons. The exchange rate is passed on only with a delay. Finally, fiscal imbalances, population growth, and debt monetization are most likely to contribute to persistent inflation drift, which is captured by a positive constant in the model. The response of inflation to a shock to GDP_A_t is aligned with findings that higher agricultural output increases food supply, leading to lower food prices (box figure 1.2.1). After the initial (insignificant) response, inflation gradually stabilizes and converges to a new lower equilibrium value. This adjustment is accelerated by the appreciation of the currency and the fall in the money supply that follow an increase in farm output in the short run, all of which contributes to bringing inflation down. This is confirmed by the response of inflation to a shock to the exchange rate where a depreciation of the currency leads to a rise in inflation.

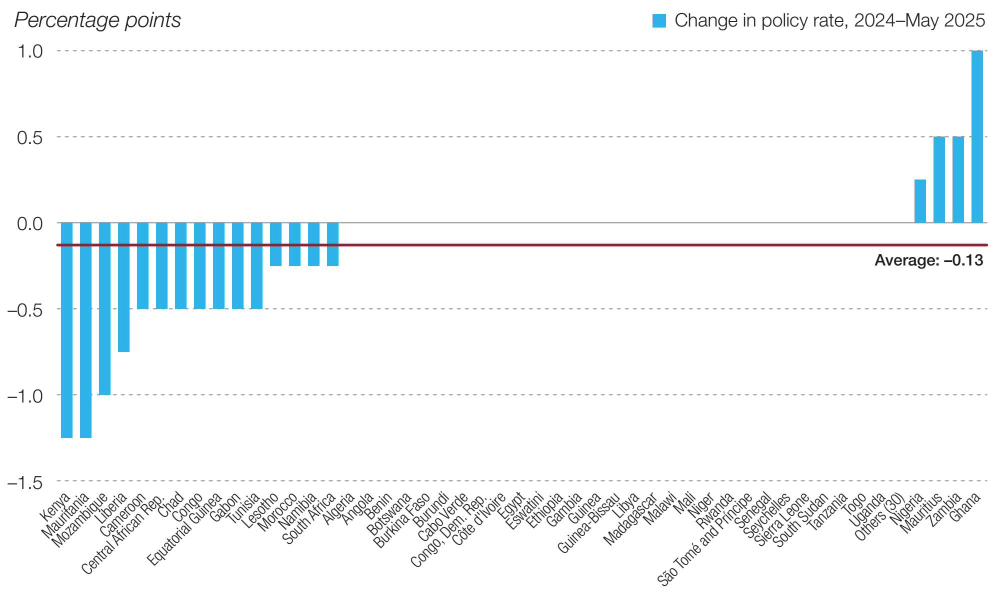
BOX FIGURE 1.2.1 **Impulse response functions from the model**



These results underline the persistence of inflation shocks and the need to go beyond interest rate hikes in the fight against inflation in Nigeria, but perhaps also in many African countries where supply shocks dominate. Sustained improvements in agricultural productivity, upgraded rural infrastructure, and the resilience of the food system are crucial to keeping prices in check. Monetary policy, which seems to play only a minor role if transmission mechanisms do not improve significantly, should avoid stifling growth.

Source: Dutu and Simpasa 2025.

FIGURE 1.15 African central bank monetary policy changes in May 2025



Source: African Development Bank statistics.

To take advantage of the current downward inflation movement, African central banks have begun to adopt a more accommodative monetary stance

constraints facilitating food imports to Africa and decelerating cost of other imported commodities. To take advantage of the current downward inflation movement, African central banks have begun to adopt a more accommodative monetary stance, reducing policy rates by an average of 13 basis points in 2025—a stark contrast to 2024, when most central banks tightened monetary policy.[18] Fifteen African central banks have already lowered their rates in 2025, with Kenya, Mauritania, and Mozambique implementing cuts exceeding 100 basis points each (figure 1.16). However, monetary policy responses remain varied: 30 central banks have opted to maintain steady rates, reflecting caution amid rising uncertainties, while 4—Ghana, Mauritius, Nigeria, and Zambia—raised rates to address persistent inflationary pressures driven by currency depreciations and supply-side constraints (Ghana's cedi fell 18.6 percent against the US dollar by June 2024, pushing up import costs).[19]

This downward trend in African policy rates mirrors global monetary policy shifts, as advanced economies also eased rates in response to cooling inflation. In March 2025, US inflation fell to 2.4 percent—the lowest since February 2021—while in the European Union, inflation stood at 2.2 percent, relatively stable compared with a year earlier, driven by slowing economic growth, heightened policy uncertainty, and declining energy costs following a more than 20 percent drop in global oil prices since mid-2024. These developments have reduced imported inflation in Africa, especially for net oil importers, creating room for further rate cuts. But challenges persist, especially for major oil exporters where inflation remains high.

The monetary policy response to inflation in Africa differs markedly across country groups reflecting differences in structural factors and asymmetric macroeconomic conditions

Across country groupings, oil exporters are conducting a relatively restrictive monetary policy characterized by policy rates slightly higher than the inflation rate (figure 1.17). Policy rates in double-digit inflation countries—Angola, Egypt, and Nigeria—have been negative in real terms, indicative of cautious monetary tightening, reflecting the buffering effect of oil revenues. Other resource-intensive economies responded more forcefully to rising inflation, with policy rates markedly higher than inflation rates (except in Niger and Sierra Leone). This suggests heightened vulnerability to external shocks of countries in this group and higher macroeconomic volatility, requiring more decisive policy signaling.

With a few exceptions such as Burundi and Ethiopia, non-resource–intensive economies enjoyed lower inflation rates in 2024, perhaps due to interest rates (8.1 percent on average) significantly above inflation (6.3 percent on average once Ethiopia is removed). That inflation remains high in Africa despite elevated interest rates may point to an inefficient monetary policy framework, where interest rates have limited traction on demand, often due to shallow financial markets, fiscal dominance, weak central bank credibility as well as entrenched structural factors.

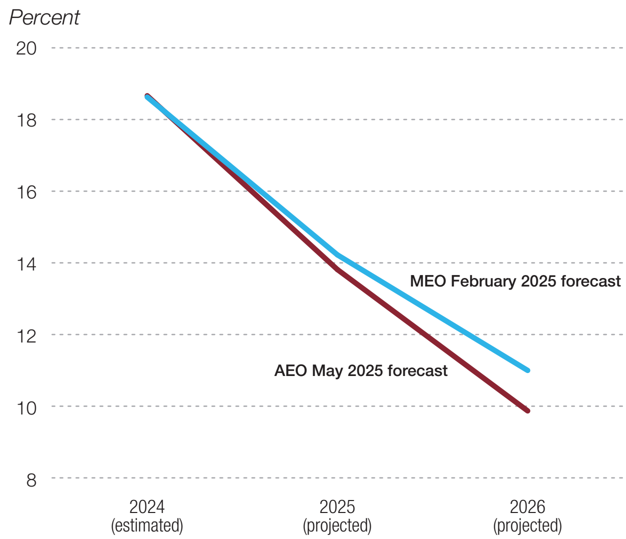
In Africa more generally, inflation is predominantly driven by structural supply constraints—such as insufficient infrastructure, low productivity, and reliance on imported food and energy—than by excess demand. As a result, monetary policy is less effective, and tightening may come with high output costs. These asymmetries highlight the need for tailored policy frameworks that take into account country-specific transmission mechanisms.

A fundamental question is how the tightening of monetary policy has affected the domestic banking sector. This question is central to the role of banks in the transmission of monetary policy. In particular, the extent and timing of the transmission of interest rate changes by banks to borrowers are critical in determining how monetary policy influences borrowing and, consequently, investment and consumption spending behavior. Similarly, the timing and extent of the pass-through of monetary policy rate changes to deposit rates also affect savings behavior. Moreover, changes in banks' profitability may also affect banks' risk appetite and stability, which in turn can have spillover effects on the real economy.

In 2023, banking sectors across the continent were characterized by high profitability, sound capital ratios (often well above minimum regulatory requirements), and lower nonperforming loan (NPL) ratios (see Box 2.2). Still, the soundness of the banking sector varied (figure 1.18). In 2023, NPLs ranged from 6 percent in Southern Africa to 13 percent in Central Africa. The ratio of capital to risk-weighted assets ranged from 11 percent in Central Africa to 22 percent in Southern Africa. Profitability was generally good in all African regions, with data showing returns on equity ranging from 15 percent in North Africa to 32 percent in West Africa.

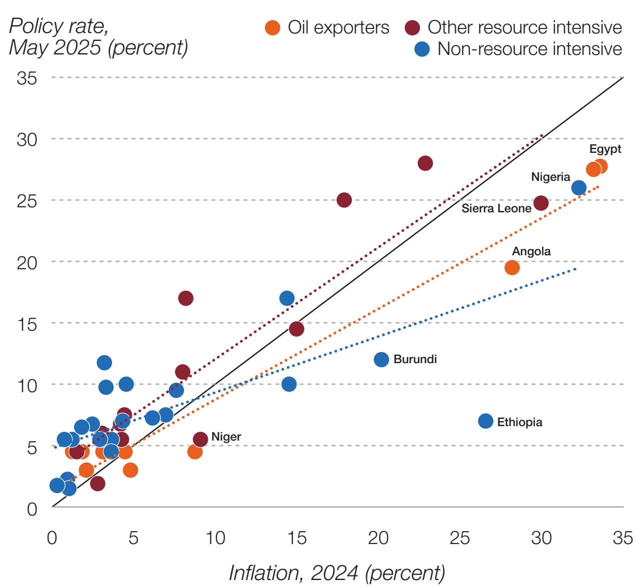
Although the banking sector remains resilient, African central banks should remain vigilant in monitoring both domestic and global inflationary pressures to tailor their policy responses (box 1.3).

FIGURE 1.16 Impact of global uncertainty on inflation forecast, 2025–26



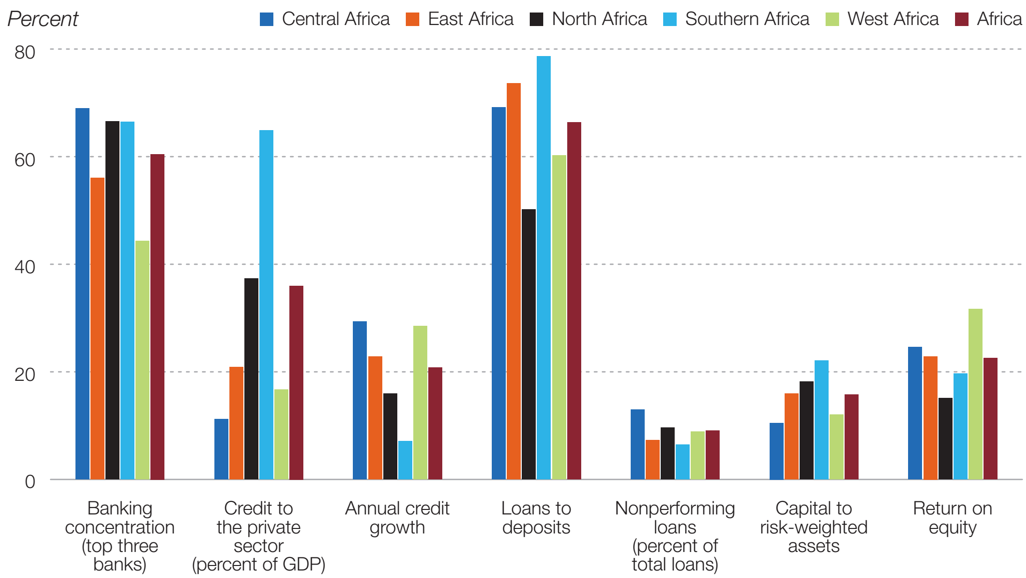
Source: African Development Bank statistics.

FIGURE 1.17 Monetary policy rates in Africa by country groupings in 2024



Source: African Development Bank statistics.

FIGURE 1.18 Key banking sector indicators, Africa and subregions, 2023



Source: IMF Financial Soundness Indicators; World Bank DataBank data for Sub-Saharan Africa; Moody's Analytics Bank Focus data (combines content from Bureau van Dijk).

Tightening global financial conditions induced capital outflows from Africa, exerting enormous pressure on national currencies

If Africa's pivot towards disinflation is effective—driven by tighter monetary policies and the easing of global supply shocks, such as stabilizing energy prices and improved global supply chains—this could create opportunities for lowering policy rates. Countries with relatively low inflation, such as Algeria, Kenya, Morocco, and South Africa, could consider cutting interest rates further. Keeping rates elevated in some of these countries as inflation declines would lead to a sharp rise in real interest rates, potentially hampering economic growth. Conversely, economies with entrenched inflation and where inflation is demand-driven should maintain a restrictive monetary stance to ensure that long-term inflation expectations remain anchored. However, in countries where inflation is supply-driven, addressing critical real sector-specific supply bottlenecks is appropriate.

EXCHANGE RATE DEVELOPMENTS

Easing global financial conditions bolstered Africa's currencies but the dynamics remained mixed

Tightening global financial conditions induced capital outflows from Africa, exerting enormous pressure on national currencies. Towards the end of 2024, monetary policy in advanced economies became more accommodative, with the Federal Reserve Bank and the European Central Bank lowering their policy rates. In December 2024, the upper bound of the Federal Funds rate target range was 4.5 percent—a 1 percentage point decline from its peak between August 2023 and August 2024, but still 4.25 percentage points higher than its pre-tightening level in February 2022. Likewise, the euro short-term rate was gradually lowered from 3.6 percent in September 2024 to 3.1 percent by December 2024, while it was in negative territory before September 2022.

The easing of global financial conditions in advanced economies improved the risk profile of African assets, with capital flows returning to the continent. Portfolio investment improved significantly, shifting from net outflows of $23.1 billion to net inflows of $322.9 million, an improvement of more than 100 percent. In addition, the development of global commodity prices was relatively more favorable for African economies in 2024. For instance, prices of soft commodities such as energy, food, and fertilizers declined, reducing import-related pressures. Conversely, increases in prices for Africa's exported commodities and minerals bolstered foreign exchange inflows. These

BOX 1.3 Interplay between monetary policy, financial stability, and resilience of the banking sector in Africa

It is well established that central banks' objectives of achieving price stability often run against financial stability.[1] While high interest rates may boost profitability of the banking sector, keeping interest rates "higher for longer" to stem inflationary pressures can test its resilience and increase financial stability risk, especially when the banking system does not have strong prudential ratios. In March 2023, the sudden failures of Silicon Valley Bank and Signature Bank in the United States and the loss of market confidence in Credit Suisse, which led to its acquisition by UBS, highlighted the challenges posed by the interaction between tighter monetary and financial conditions and the buildup in banking sector vulnerabilities.

For Africa, the share of government domestic debt was more than 42 percent of total debt at the end of 2021, up from 35 percent in 2019, with most of the debt originating in the banking sector.[2] This upward trend is expected to continue, given countries' increasing financing needs, limited tax revenue mobilization, and external financing squeeze. The rising share of government debt on bank balance sheets may increase the vulnerability of the financial system through the "bank–sovereign nexus," where higher interest rates, higher levels of sovereign debt, and a higher share of that debt on the banking sector's balance sheet make the financial sector more vulnerable to fiscal shocks.

The current fiscal burdens and debt vulnerabilities of many African countries could thus impair the soundness of the continent's banking sector, especially when higher interest rates increase the risk of government default on domestic debt. Ghana's 2022 sovereign default on domestic and external debt is instructive. In December that year, Ghana announced a default on most of its domestic debt, which represented around 50 percent of its total debt in 2021. In October 2023, the government completed a domestic debt restructuring in which local currency debt ($17.5 billion) was swapped for longer-dated debt at lower interest rates. The financial system was affected by the default, with credit growth slowing to an average of 1.9 percent in 2023, even reaching a low of a negative 9.5 percent year-on-year in October 2023. In April 2024, the Bank of Ghana introduced a new cash-reserve ratio to boost credit growth to the economy, with higher reserve requirements for banks with lower loan-to-deposit ratios. Ghana's case is a reminder that fiscal pressures and debt distress can increase risks to financial stability through the bank–sovereign nexus, subsequently reducing credit to the economy and, in turn, economic growth.

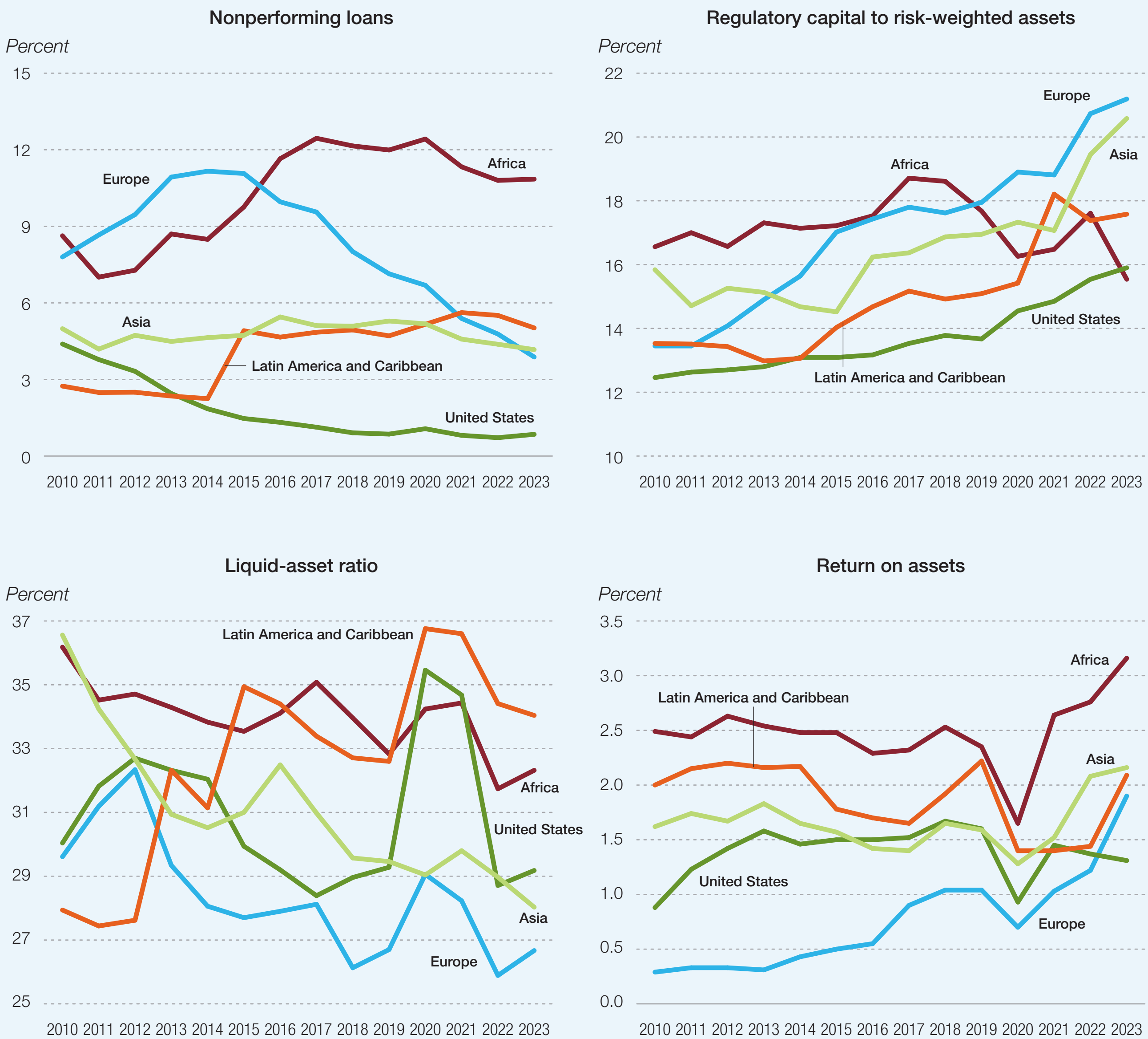
Financial stability risk can also arise through banks' holdings of private debt on their balance sheet and the dampening of household and business activity due to high inflation, rising interest rates, and foreign exchange shortages. Combined, this could become a source of vulnerabilities when interest rate hikes lead to nonperforming loans (NPLs), causing banks to limit credit for investment in the real sector. For instance, high interest rates and high inflation in Ghana led to a surge in NPLs when the country went into sovereign default, which were already high at 15 percent of gross loans in December 2022 and by June 2024 had increased to 24 percent.

From a historical perspective, NPLs have always threatened the viability of banks in emerging markets, especially in Africa. Box figure 1.3.1 shows that, on average since 2010, NPLs have been on the rise in Africa, in stark contrast to marked declines in Europe and the United States. Given the tightening of financial conditions globally, the upward trend in NPLs on the continent is worrisome. Still, Africa's commercial banks have accumulated enough capital buffers and robust profitability to withstand the growing NPLs. For instance, the average capital-adequacy ratio for South Africa's commercial banks stood at 17.9 percent in January 2023, far above the regulatory minimum of 10 percent. Moreover, Africa's banks are subject to stricter minimum capital requirements, as shown by the regulatory capital to risk-weighted assets (RCRWA) ratio, which was consistently above that in all counterpart regions until 2019. In addition, African banks appear to have more liquid assets relative to total assets than their counterparts in Europe and the United States. However, the performance of African banks has been overtaken by banks in Latin America and the Caribbean in terms of liquidity (liquid-asset ratio, LAR), although they remain profitable, measured by the return on assets (ROA).

(continued)

BOX 1.3 Interplay between monetary policy, financial stability, and resilience of the banking sector in Africa *(continued)*

BOX FIGURE 1.3.1 Selected banking sector performance indicators



Source: AfDB staff using the IMF Financial Soundness Indicators database.

Notes

1. Adrian et al. 2018.
2. AfDB 2023b.

developments provided some relief to African currencies and helped to mitigate their depreciation against the US dollar and other convertible currencies.

Of the 28 countries that recorded a currency depreciation in 2023, national currencies in 17 of those countries (more than 60 percent) reversed their losses or recorded slowdowns in rates of depreciation. For example, the South African rand, which depreciated by 11.3 percent in nominal terms in 2023, pared those losses, appreciating by 0.7 percent year-on-year. Similarly, the Kenyan shilling appreciated by 3.1 percent in 2024 reversing its losses of 15.4 percent. The shilling was bolstered by improved market sentiment following successful issuance of $1.5 billion in Eurobonds to buy back the $2 billion Eurobond maturing in June 2024 and leading to a 121 percent increase in portfolio investment inflows, reversing net outflows of $233.4 million recorded in June of the previous year.[20] In contrast, national currencies of Guinea, Mauritania, and Seychelles lost ground, posting significant rates of depreciation. Most other currencies experienced relative stability or appreciated (figure 1.19). In particular, the CFA franc, and the Cabo Verdean escudo, the São Tomé and Príncipe dobra, and the Comoros franc remained largely stable, supported by the full or partial peg to the euro, which stabilized against the US dollar in 2024. Despite the overall improvement in exchange rate conditions in some countries, others experienced significant challenges, with depreciation rates of 30 percent or higher. These exchange rate deprecations reflected a combination of accumulated macroeconomic imbalances, depressed export revenues, and political instability.

Volatility in financial markets due to growing global uncertainty could affect the dynamics of African currencies in 2025–26. Of the 54 African countries, 21 are expected to experience currency depreciation in 2025 while 25 could appreciate against the US dollar. Several countries—Egypt, Ethiopia, Ghana, Libya, Nigeria, Rwanda, Zambia, and Zimbabwe—are expected to experience currency depreciations of 6 percent or more. The depreciation in most of these countries will be driven by the potential decline in export earnings, which could put upward pressure on national currencies. Conversely, some countries like Kenya, Morocco, and those in the CFA franc zone could post appreciation in their currencies against the US dollars of more than 3 percent. While exchange rate pressures have been largely driven by global factors, domestic challenges—such as misaligned foreign exchange regimes, fiscal deficit monetization, political instability, and low productivity—have also played a significant role. By addressing these structural issues and strengthening domestic macroeconomic fundamentals, countries can raise the capacity for exporting, including through value addition, and reduce exchange rate volatility, which has historically been high with significant economic costs (box 1.4).

Countries can raise the capacity for exporting, including through value addition, and reduce exchange rate volatility

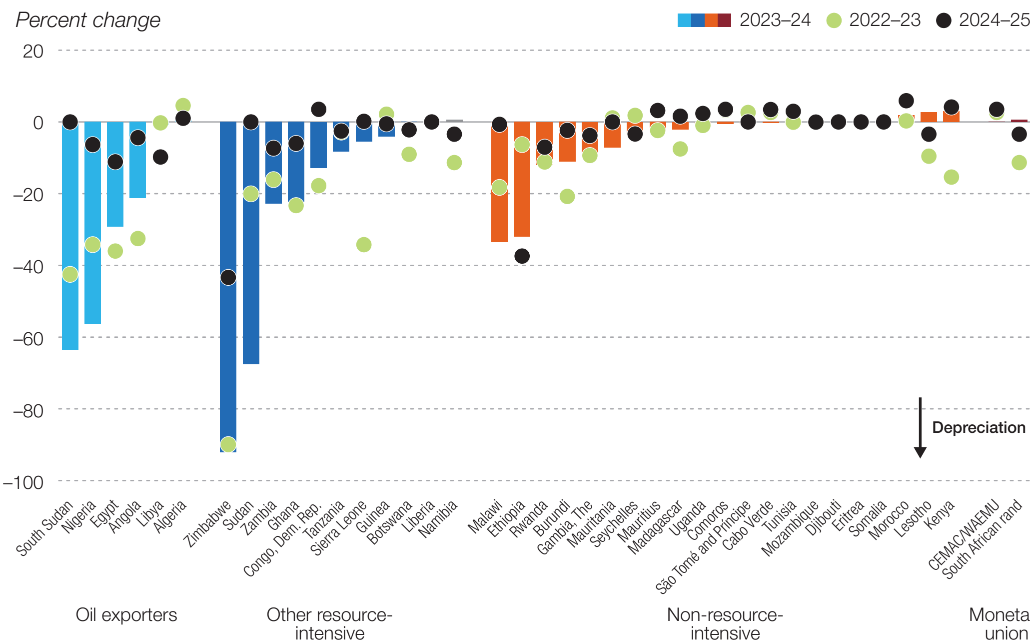
FISCAL POSITION AND DOMESTIC RESOURCE MOBILIZATION—IMPLICATIONS AND OUTLOOK

Fiscal consolidation measures have helped narrow the deficit, but further reduction faces challenges

Following large stimulus packages by governments to mitigate effects of Covid-19 on businesses and households, fiscal deficits soared in Africa in 2020–21. With the pandemic's impact receding and economies gradually improving, countries have undertaken fiscal consolidation measures—combining expenditure priorities and efforts to improve revenue collection. These efforts have helped to contain rapid deterioration in fiscal positions. Examples include Ethiopia, Ghana, and Zambia, which undertook austerity measures during debt restructurings. Fiscal deficits are returning to prepandemic levels, but progress remains slow, largely because of elevated primary deficits. The continent's average fiscal deficit widened marginally to 4.7 percent of GDP in 2024 from 4.4 percent the previous year. Over the same period, the primary balance widened to 2.2 percent of GDP from 1.6 percent (figure 1.20).

Lower export revenues, persistent inflation, and weakening domestic currencies and a ramping up of public infrastructure investment in several countries contributed to further increase in the primary balance. In addition to the widening

FIGURE 1.19 Exchange rate changes, 2023–25



Source: African Development Bank statistics.

With the pandemic's impact receding and economies gradually improving, countries have undertaken fiscal consolidation measures

primary deficit, the debt service burden remains the main component of fiscal deficit and continues to be a source of budgetary pressure, though its contribution to government revenue has been increasing since 2022. Africa's interest payments as a percentage of government revenue increased from 3.5 percent of GDP in 2022 to 5.3 percent in 2024, due to high global interest rates. However, interest payments are projected to decline due to loosening global financial conditions and successful debt restructurings in several countries.

The effects of consolidation measures on the fiscal position vary across economic groups (figure 1.21). With the decline in oil prices and attendant fall in exports due to weak supply response to compensate for the price effect, most **oil-exporting countries** saw their fiscal positions deteriorate in 2024. The average fiscal deficit for the group stood at 5.5 percent of GDP from 4.4 percent in 2023. Only a few countries—Republic of Congo, Equatorial Guinea, and South Sudan—maintained a fiscal surplus but at lower levels than the previous year and the February 2025 MEO forecasts. Fiscal deficits for **other resource-intensive countries** rose further, albeit marginally, at 4.2 percent of GDP from 4.0 percent the previous year. This group presented a mixture of fiscal outcomes—some countries narrowed their deficits, but this was not enough to offset large increases in other countries. Economies in this group are either mineral exporters or those dependent on exports of agricultural commodities.

Non-resource-intensive economies recorded an improvement in their fiscal positions, largely benefitting from lower energy import bills. On average, the fiscal deficit for this group narrowed slightly from 4.9 percent of GDP in 2023 to 4.1 percent in 2024. The improvement in performance was largely driven by accelerated reductions in the fiscal deficits of eSwatini and Guinea-Bissau—two of the countries with the largest deficits in 2023 but that managed to bring them down significantly to within reach of the traditional macroeconomic convergence threshold of 3 percent of GDP. For instance, eSwatini virtually eliminated its large fiscal gap of nearly 5 percent of GDP, achieving a near-balanced position at –0.1 percent of GDP. In Guinea-Bissau, the deficit more than halved to 3.8 percent in 2024 from 8.6 percent, underpinned by its commitment to the reform program aimed at reigning in persistent fiscal pressures.

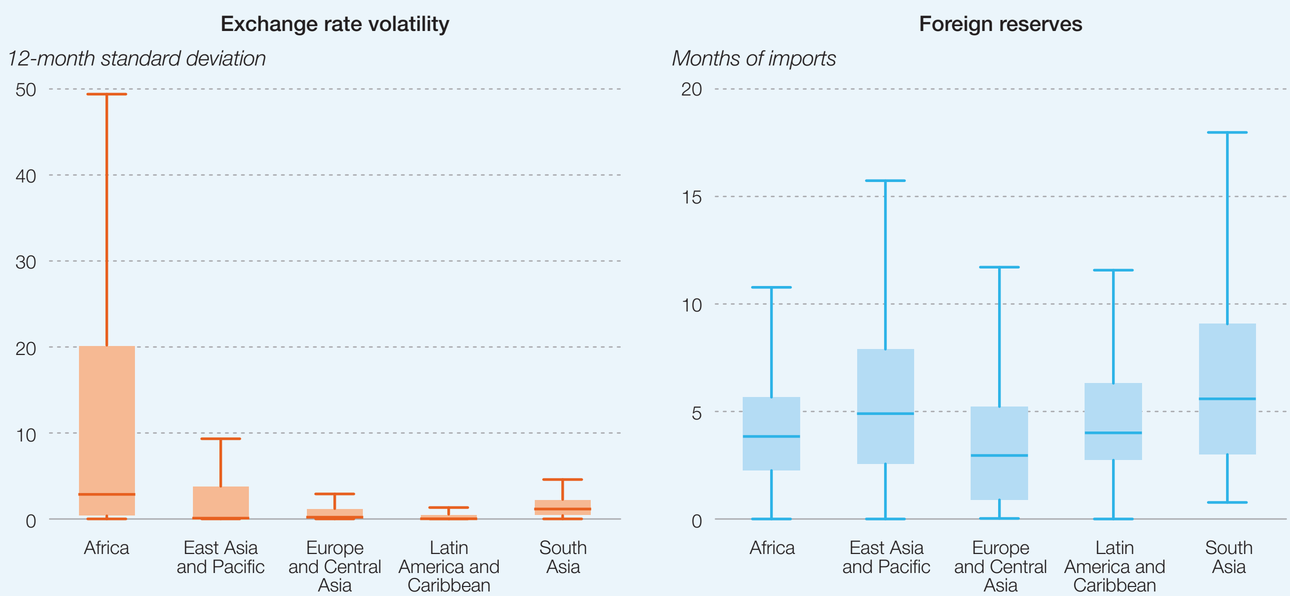
BOX 1.4 **The buffer effect of reserves against exchange rate volatility in Africa**

Over the past decade, global uncertainty has increased sharply, leading to high exchange rate volatility. National currencies are more volatile when domestic economic, institutional, and political fundamentals are fragile. Over 2015–23, exchange rate volatility[1] in Africa was higher than in other world regions (box figure 1.4.1). Volatility increases uncertainty for investors, businesses, and consumers, disrupting financial planning and long-term investment and encourages capital flight.

Countries can mitigate volatility and pressures on their currencies when they have sufficient external reserves. However, the room for policy maneuver in Africa is limited due to low foreign exchange reserves. Africa's average foreign exchange reserves stood at 5.5 months of imports cover between 2015 and 2023, compared with 4.3 months for Europe and Central Asia, 5.9 months for Latin America and the Caribbean, 6.7 months for South Asia, and 8.0 months for East Asia and the Pacific.

In Africa, some currencies exhibit particularly high volatility (box figure 1.4.2). The list shows a mixture of net resource-intensive and non-resource-intensive economies, but economic uncertainty, market distortions, and overreliance on single commodity exports broadly explain the high volatility of the exchange rate in most countries.

BOX FIGURE 1.4.1 **Exchange rate volatility and foreign reserves, average 2015–23**



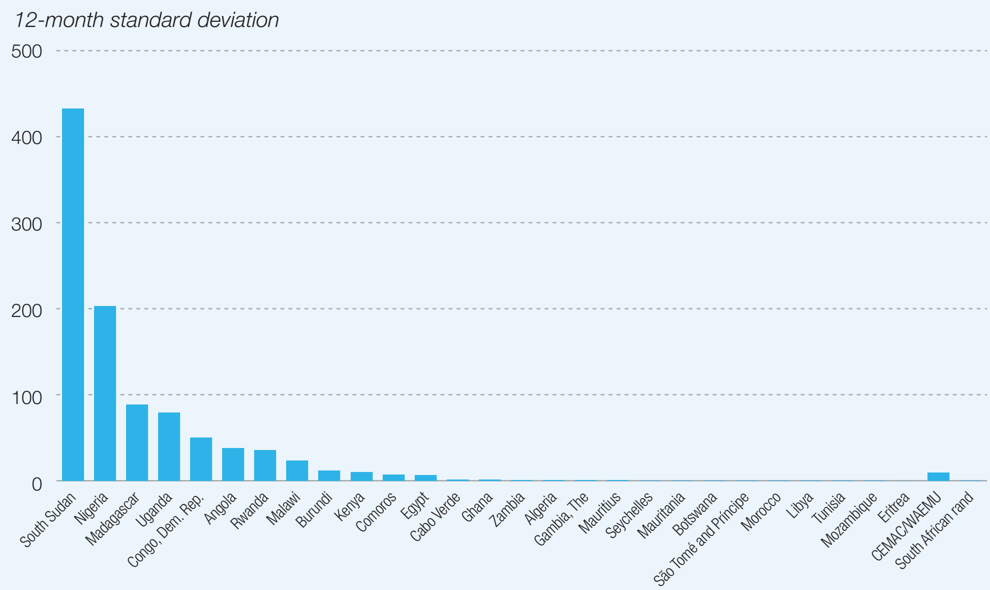
Source: AfDB staff using data from Milesi-Ferretti (2024) and the IMF.

(continued)

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 (figure 1.22). At a disaggregated level, the average fiscal deficit for net oil exporters is projected at 5.8 percent in 2025 and could narrow to 5.5 percent in 2026, as oil prices adjust to rising global uncertainty despite the production increases announced by OPEC+ (figure 1.23). More fiscal stability is projected for other resource-intensive economies, at 4.0 percent of GDP in 2025 and further narrowing is expected in 2026, at 3.8 percent in 2026. The fiscal outlook for countries in this group reflects additional measures and debt restructuring efforts in Ghana and Zambia coupled with improved economic conditions as the effects of global uncertainty taper off. Fiscal benefits extend to non-resource-intensive economies, whose deficit is projected at 4.0 percent of GDP in 2025 and

BOX 1.4 The buffer effect of reserves against exchange rate volatility in Africa *(continued)*

BOX FIGURE 1.4.2 Exchange rate volatility in Africa, 2024



Note: CEMAC = Central African Economic and Monetary Community; WAEMU = West African Economic and Monetary Union.

Source: AfDB staff using data from the IMF.

To reduce the volatility of national currencies, countries must strengthen their economic fundamentals and promote political stability. Developing local manufacturing industries to reduce dependence on imports and increase value addition to agriculture products can help to limit the volatility in exchange rates. Higher export receipts and lower demand for imports will bolster accumulation of foreign currency reserves. High reserve buffers provide headroom for central bank intervention in the foreign exchange market to limit periodic non-market-driven exchange rate volatility.[2] Controlling budget deficits, increasing the transparency of monetary policy, and ensuring the clarity of its communication by the central bank—as well as managing market expectations—are also ingredients to limit impact of excessive speculation on currency fluctuations. While restrictions on short-term capital movements may be necessary in some cases to reduce pressures on the currency, this should be done cautiously to avoid harming the attractiveness of foreign investment. Finally, strengthening regional integration through the formation of monetary unions can be a viable solution to limit volatility.

Notes

1. For a given year, exchange rate volatility is calculated as the standard deviation of the monthly exchange rates of the national currency against the dollar.
2. See Coulibaly et al. (2024).

3.6 percent of GDP in 2026, approaching the proverbial 3 percent convergence threshold.

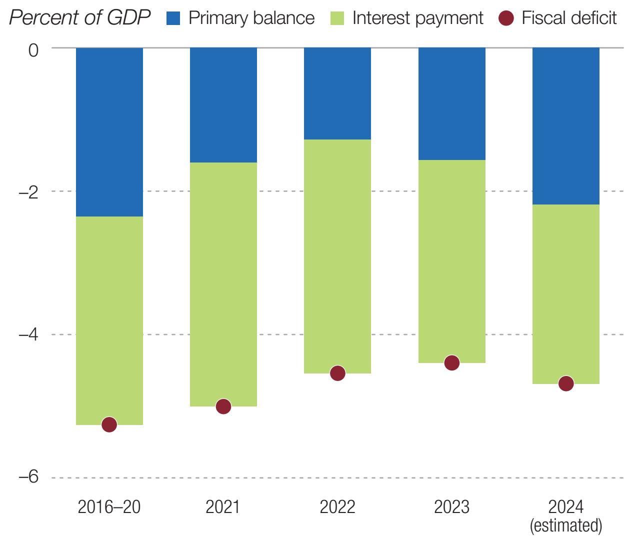
With slower growth projected in tourism-dependent countries in 2025, bringing the fiscal deficit down could be challenging without drastic cost to the economy. In 2025, the deficit for this country group may deteriorate initially to 6.2 percent of GDP but sharply recover to 4.1 percent of

GDP in 2026, on favorable prospects of improved economic conditions and tourism revenues. Regardless of the resource dependence, all countries could post widening fiscal deficits, much higher than initially projected in the 2025 MEO. The deviation in projected deficits in varying degrees, from 0.9 percentage points in tourist-dependent economies due to 0.1 percentage points for their non-resource dependent counterparts. The same pattern obtains in 2026.

Countries dependent on international development assistance to fund their budgets will find it difficult to cut expenditure in the face of aid cuts announced by several bilateral partners, ranging from 18 percent in France to 80 percent in the United States, mainly through USAID. Foreign aid funds about 40 percent of the national budget for low-income countries in Africa. The figure is higher for those in states of fragility, given their constrained capacity to raise revenues due to institutional weaknesses amid immense spending pressures. Discretionary expenditure may be easier to eliminate or rationalize, but statutory obligations, including interest payments on debt, will be difficult.

In Angola, Egypt, Ghana, Kenya, Somalia, and Zambia, interest payments represented more than 20 percent of total expenditure on average over the last five years. Debt restructuring efforts in Ghana and Zambia could, however, reduce debt service payments further bolstering fiscal positions

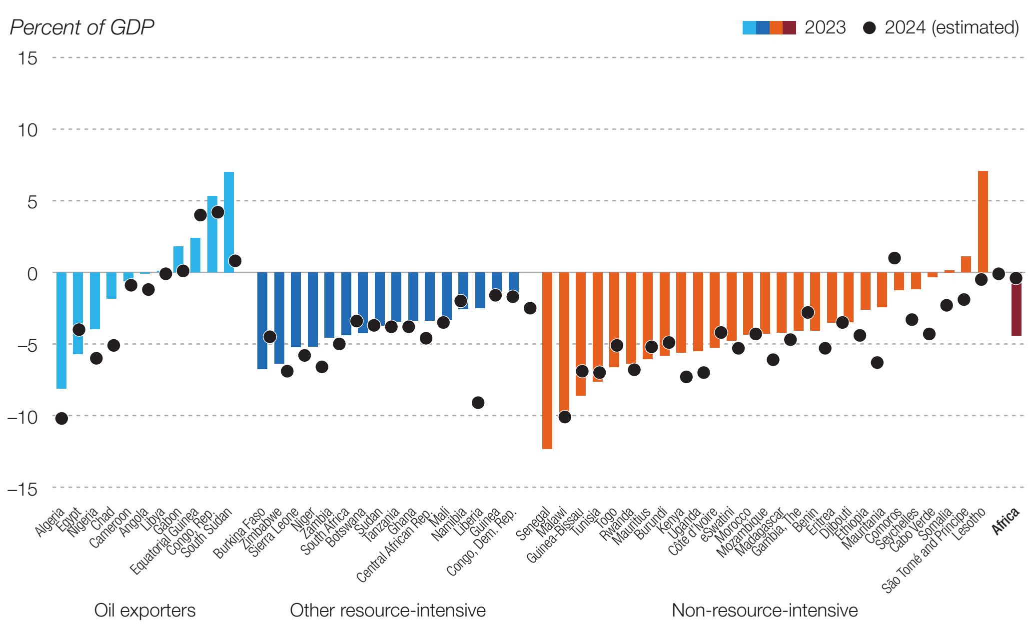
FIGURE 1.20 **Overall fiscal balance and contributing factors, 2020–24**



Note: Interest payments are expressed in negative values. They are a burden on governments.

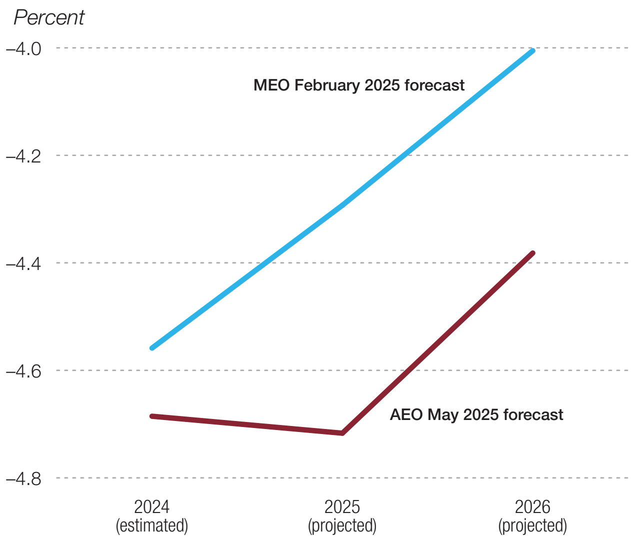
Source: African Development Bank statistics.

FIGURE 1.21 **Fiscal balance by country, 2023–24**



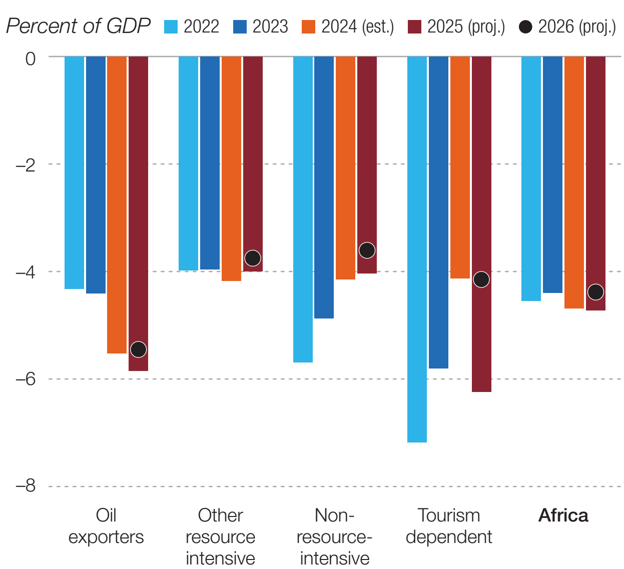
Source: African Development Bank statistics.

FIGURE 1.22 Change in fiscal deficits due to the ongoing global uncertainties



Source: African Development Bank statistics.

FIGURE 1.23 Fiscal balance as a share of GDP by country grouping, 2022–26



Source: African Development Bank statistics.

but this will depend on revenue performance. And several countries[21] recently concluded agreements with the IMF on economic reforms, with fiscal consolidation as a key component. The initial effects of these measures could be felt in late 2025, and most impact is expected the following year. Further fiscal consolidation should therefore focus on improving spending quality to sustain the gains and avoid abrupt spending cuts in critical productive sectors of the economy.

Enhancing domestic resource mobilization is critical to building fiscal space and resilience to shocks

Effective domestic resource mobilization (DRM) is pivotal to expanding a country's fiscal space. In a growth-constrained environment, however, the increase in revenue from raising taxes may constrict aggregate demand and hurt the very source of taxation. In Africa, where effective tax rates may be higher than observable nominal rates due to implicit taxation,[22] broadening the tax base may have higher revenue-generating capacity than an increase in tax rates. And as detailed in chapter 2, Africa has some headroom to expand its revenue base, including through rationalizing investment expenditure, abolishing or streamlining distortionary tax rebates, and adopting digitalization to improve efficiency in revenue collection.

Africa can collect more revenues through improved efficiency, with nontax revenues rising by 2 percent of GDP. This alone could push the continent's total revenue-to-GDP ratio to about 22 percent. While this rate is below that in comparator regions, such as East Asia and the Pacific (26.2 percent) and Latin America and the Caribbean (28.6 percent), it highlights immense potential and opportunities where Africa can further expand its fiscal space. Revenue collection can be further enhanced by improving compliance with existing legislation and tackling tax evasion. Revenues should be seen not only from the resource perspective but as a tool for development.

Stronger and more predictable domestic revenues improve fiscal credibility and bolster local ownership of the country's development agenda and policymaking and reduce aid dependence. Improved domestic resource mobilization also improves a country's creditworthiness, creating additional scope to take on more development financing on affordable terms. Strategies and the potential gains from strengthening resource mobilization are discussed in detail in chapter 2. Broadly, however, in a shifting aid landscape induced by policy reordering and nationalistic approach to development, African countries should no longer rely on foreign assistance to finance their development. They need greater fiscal and financial autonomy to decouple its development financing from dependence on international aid and foreign debt.

Resource mobilization is but only one angle to improve fiscal space. It should go hand in hand with improving the quality and efficiency of public expenditure and provision of social services to foster stronger fiscal pact or social contract[23] between government and taxpayers. The crux of the fiscal pact is that domestically mobilized resources must be appropriated in a way that improves citizen access to social benefits, efficiently and in a timely manner. But African countries face low spending efficiency, implying that similar economic outcomes could be attained with significantly lower expenditure (box 1.5). Moreover, by increasing the returns on public expenditure through greater spending efficiency, governments can stimulate stronger economic growth, which in turn broadens the revenue base and eases pressure on temptations to raise additional public finances through higher taxes.

CURRENT ACCOUNT BALANCE

Heightened trade tensions and global uncertainty could shrivel Africa's exports, widening external imbalances

The global economic environment has changed markedly, as countries pivot to protectionist policies, shocked by the imposition of wide-ranging tariffs by the United States and counteractive retaliatory measures, especially by China. The growing uncertainty could weaken global demand and

Domestically mobilized resources must be appropriated in a way that improves citizen access to social benefits, efficiently and in a timely manner

BOX 1.5 **The fiscal multiplier in Africa**

One of the major challenges Africa faces is ensuring that the resources mobilized by taxation or debt are used with the greatest efficiency for its development. A government spending more efficiently strives to achieve "more bang for the same buck" by reducing corruption and avoiding frivolous spending on projects with low marginal gains.

The fiscal multiplier, which evaluates the response of GDP to a change (increase or decrease) in public spending or taxation, makes it possible to understand the effectiveness of fiscal policy. When an increase in government spending by one monetary unit results in a GDP response of between 0 and 0.5 monetary units, the effectiveness of fiscal policy is considered low. For a multiplier effect between 0.5 and 1, the effectiveness of fiscal policy is considered moderate, and above 1, it is considered high. Several models have been used to assess fiscal multiplier effects of public spending. The size of the fiscal multiplier is close to 1 on average from existing empirical studies but the amplitude ranges from –1.75 to 3.90 depending on the studies, methodologies, samples and types of fiscal shock.[1]

Focusing on general government expenditure, we use the widely used structural vector autoregression (VAR) approach to study the effectiveness of fiscal policy in Africa. The results show that a 1 percent increase in general government spending leads to a 0.08 percent increase in GDP, with a cumulative effect of 0.13 percent after two years (box figure 1.5.1). This GDP response is about 10 times lower than the average found in the literature, indicating low efficiency of public spending in Africa. The weakness in the GDP response to a spending shock is because part of this spending is used to import goods at the expense of local production. Indeed, for a public spending shock of 1 percent, the response of imports (0.16 percent) is greater than that of private investment (0.13 percent) and exports (0.07 percent).

An analysis of the efficiency of public spending according to the economic cycle, using state-dependent local projections,[2] shows that the multiplier of public spending is three times larger

(continued)

BOX 1.5 The fiscal multiplier in Africa *(continued)*

BOX FIGURE 1.5.1 Effects of a general government expenditure shock in Africa

Note: These results are obtained from a structural VAR estimation for a sample of 49 African countries over 1980–22. The variables considered are expressed in real and per capita terms. As these variables are nonstationary, the Hodrick-Prescott filter was used to extract the stationary components used in the regressions. Individual fixed effects are included, and the Cholesky identification method was used to identify (independent) structural shocks. The confidence intervals for impulse response functions were obtained based on 1,000 bootstrap replications.
Source: AfBD staff computations.

BOX 1.5 **The fiscal multiplier in Africa** *(continued)*

in a recession than in an expansion—0.13 and 0.04, respectively (see annex A.1). However, the multiplier effect fades faster in recession (after one year) than in expansion (after two years). This reveals the importance of calibrating public spending according to the economic cycle. While it is important for public authorities to provide procyclical responses during a recession through higher public spending to shore up the economy, such expenditure should be frontloaded for stronger impact, so long as the economy has sufficient absorptive capacity for increased spending.

African countries could improve the efficiency of their public spending through several levers, including:

- *Prioritizing capital expenditure and public spending quality.* Empirical studies show that capital expenditure has a higher multiplier effect than current expenditure. The more that capital expenditures are directed towards strategic sectors with high potential for creating jobs and stimulating the local economy—such as infrastructure, education and the digitalization of public services—the higher the economic benefits will be. Investments in human capital—training workers, improving STEM skills, and offering vocational training—increase labor productivity and improve the efficiency of public spending (see chapter 2 on human capital).
- *Eliminating waste.* This requires improving the quality of governance to ensure effective management of public resources. Critical areas include reducing corruption and improving transparency through effective regulatory oversight, especially in procurement practices and prudent project selection and appraisal. Control institutions must also be strengthened by ensuring that control agents are well trained and have the resources (digital tools, databases, budgets) to do their work effectively. When public funds are deployed judiciously to support productive investment, the impact on the economy is greater.
- *Fostering macroeconomic stabilization and strengthening public-private partnerships.* For public spending to have a high multiplier impact, a stable economy is crucial. A balance between monetary and fiscal policy, which avoids excessive inflation or unsustainable budget deficits, creates a conducive environment to engender economic growth. Rigorous public debt management policies and the establishment of fiscal buffers can also foster macroeconomic stability. And promoting PPPs could allow governments to maximize the impact of public spending by transferring the risk to the private sector and to crowd-in investment, freeing public resources for critical social services.

Notes

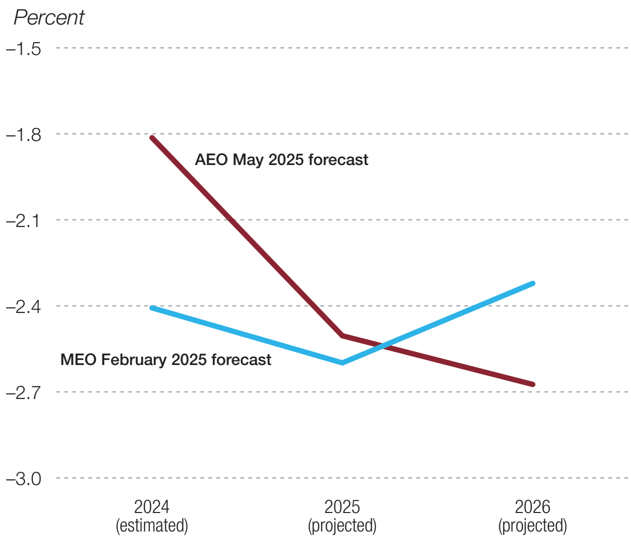
1. Gechert 2015.
2. Albert 2012.

potentially shrivel growth of Africa's trade, both in volume and value. For countries with large trade exposure to the United States, the impact will be direct and immediate, depending on the magnitude of the tariffs after the 90-day pause announced by the U.S government. Africa could also face substantial indirect effects, through third-party trade relations, including the European Union and China, two of the continent's main trading partners.

Tracking these effects at an aggregate level is difficult but the material impact could be on the magnitude of the average current account. In 2024, the average deficit of the external account was estimated at 1.8 percent of GDP (figure 1.24), but this is now projected to widen to 2.5 percent of GDP in 2025 and further to 2.6 percent in 2025–26. The projected deterioration is 0.1 percentage point wider than the February 2025 MEO forecast (figure 1.25). Two factors explain the weakening in Africa's external position. China's demand for commodity imports is on the decline and, with trade tensions, could weaken further, putting downward

The global economic environment has changed markedly, as countries pivot to protectionist policies

FIGURE 1.25 **Change in Africa's current account deficits, 2024–26**

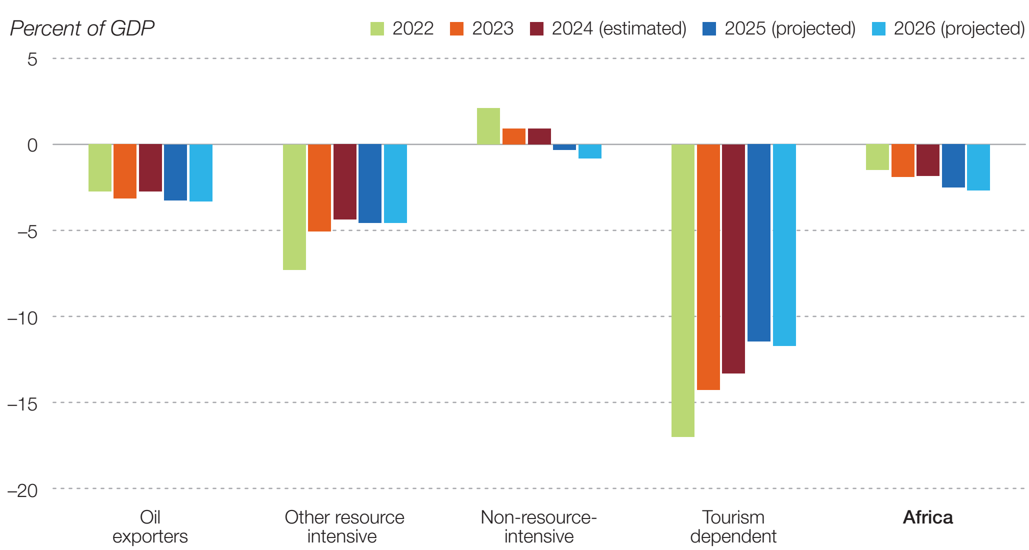


Source: African Development Bank statistics.

pressure on commodity prices, including metals and minerals, Africa's main commodity exports. While imports might be constrained in Africa, 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, should they materialize. The impact could also 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 on aggregate global demand, many countries in Africa dependent on trade are likely to record reduced export earnings. Oil-exporting economies enjoyed a small current account surplus in 2024, estimated at 0.9 percent of GDP, but this will turn into a deficit of 0.3 percent in 2025 and 0.8 percent in 2026, weighed by lower oil revenues as the global price of crude is projected to decline over the next two years. Projected global oil demand for 2025 has more than halved from 730 kb/d from 300 kb/d.[24]

The estimated external balance position for 2024 and projection for 2025 for oil-exporting countries as a group represent an upward revision relative to the 2025 MEO forecast of 1.1 and 1.0 percent of GDP, respectively. For oil-exporting countries that represents a downward revision of 0.7 percent of GDP for 2024 and 0.4 percent for 2026. This revision reflects the effects of growing uncertainty, which weakens the outlook for oil export revenues for these countries. The trend is similar for other country groups but with different magnitudes. For other resource-intensive economies, the external current account deficit is projected at 3.2 percent of GDP in 2025 and 3.3 percent in 2026. Relative to the MEO 2025

FIGURE 1.24 **Current account balance by country group, 2022–24**



Source: African Development Bank statistics.

forecast, these figures represent a downward revision of 0.4 percentage points for 2025 and 0.5 percentage points for 2026. The external imbalance for non-resource-dependent economies could widen over the forecast period: from 4.4 percent of GDP in 2024 to 4.6 percent of GDP in 2025 and 4.5 percent a year after. The outlook for the current account deficit for 2025 has been revised downwards relative to the 2025 MEO forecast by 0.3 percentage points while that for 2026 was revised upwards by 0.1 percentage point. The average current account deficit for the group reflects demand for capital goods and industrial inputs for large investment projects, mainly in energy and transportation. Continued depreciation of national currencies in these countries has also pushed their import bills higher.

Tourism-dependent economies, with the largest current account deficits, have experienced sustained weakening of their external position since Covid-19. Although the deficit is estimated to narrow from 13.3 percent of GDP in 2024, the outlook for the medium term highlights an elevated position. The deficit is projected at 11.5 percent of GDP but could widen further to 11.7 percent the following year. The slight improvement shows annual growth in international tourism arrivals estimated at between 3 and 5 percent.[25] These projections represent an upward revision of the current account deficits reported in the MEO 2025 by 1 percentage point of GDP, due to the increase in global uncertainty which could slow the dynamics of tourism demand.

Across Central Africa, lower oil revenues and higher public infrastructure investment spending will drive the region's average current account. Food imports could also increase the import bill, especially for net food importing countries. Although some countries are likely to enjoy small surpluses or posit marginal improvements in their deficits, the broader picture is one of deterioration relative to 2024. The deficit is projected at 3.2 percent of GDP in 2025, with a marginal improvement expected a year later to 3.1 percent, about 0.8 percentage points (figure 1.26). This is nearly twice the average deficit projected in the 2025 MEO for each year.

East Africa's growth, while buoyant and from more diversified sources, is overshadowed by political instability and growing imbalances—high inflation and large fiscal deficits across the region. These factors, coupled with rising food and energy imports and public infrastructure investment, will further weaken the region's current account deficit from 3.9 percent in 2024 to an average of 4.2 percent of GDP in 2025–26, unchanged from the average reported in the 2025 MEO projection. Growing internal and external weaknesses in a majority of countries in the region will be insufficient to offset the large surpluses expected in Djibouti (20.9 percent of GDP) and Eritrea (13.2 percent of GDP). The region has the continent's largest current account deficit.

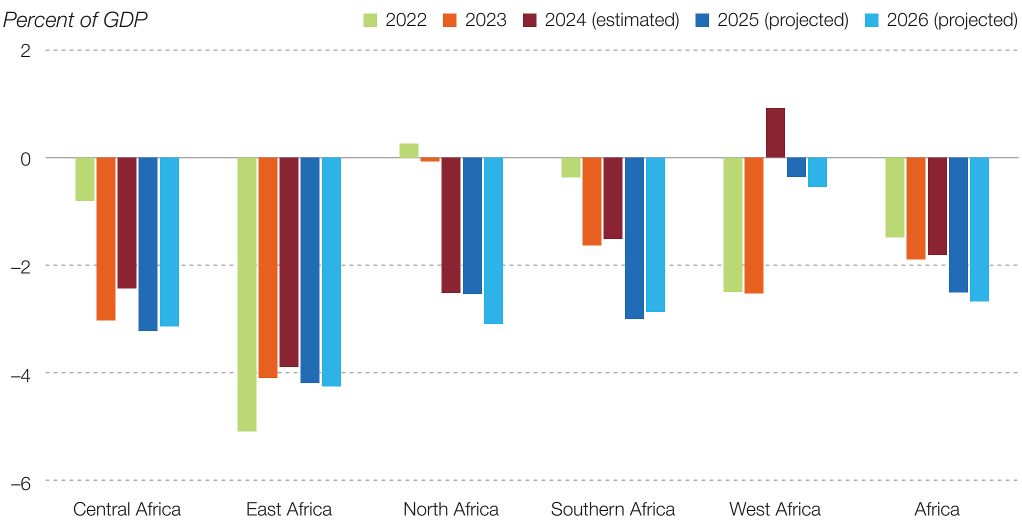
North Africa's post-pandemic stronger external position is fading. The logistical challenges in the Suez Canal, induced by geopolitical tensions and recurrent attacks to shipments and weaker domestic macroeconomic conditions in some large economies, have imposed significant costs for the region. This weighs heavily on the external balance, with the deficit projected to reach 2.5 percent of GDP in 2025 and 3.1 percent in 2026. While this is within the bounds of 2024 (2.5 percent of GDP), it masks huge imbalances at country level—large deficits in some countries and surplus in Libya supported by higher targeted oil production of 2 mb/d in the medium term. The projected deficit for 2025 is an improvement relative to the 2025 MEO forecast of 3.2 percent of GDP while that for 2026 depicts a deterioration.

Two factors explain the weakening in Africa's external position. China's demand for commodity imports is on the decline and, with trade tensions, could weaken further, putting downward pressure on commodity prices

The drought in Southern Africa exerted a heavy toll on the region—stoking inflationary and exchange rate pressures for some countries, reducing the region's exports, and curtailing domestic energy production. It also raised the demand for food imports and alternative energy sources to cover the shortfall in the most affected countries. This adds to planned capital imports related to Mozambique's LNG project. Combined, these factors have translated into a weaker external position. The current account deficit for the region is projected to double in 2025 to 3.0 percent. Although this will narrow to 2.9 percent in 2026, it remains higher than the estimate for 2024 and weaker than the 2025 MEO projected position.

Better than expected oil output and reduced imports of refined petroleum in Nigeria, aided by

FIGURE 1.26 Current account balance by region, 2022–26



Source: African Development Bank statistics.

Africa needs to strengthen regional trade, capitalizing on the benefits offered by the AfCFTA

increased local production at the Dangote refinery, buoyed the country's external position, mitigating the impact of exchange rate depreciation and high inflation. The country's estimated current account surplus of 9.2 percent of GDP in 2024 could, however, decline to 4.7 percent in 2025 and 3.9 percent the following year, as effects of global uncertainty increase in intensity. Nigeria's declining current account surplus could weaken the West Africa average to –0.4 and –0.5 percent of GDP in 2025 and 2026, but their magnitude will be smaller than the –0.9 percent and –0.6 percent respectively projected in the 2025 MEO.

A disaggregation of the current account into private and public savings shows that fiscal deficits have a significant impact on current account dynamics, particularly since the 2008 financial crisis (figure 1.27). This persistent fiscal deficit impact is partly due to the reversal of the commodity price cycle that began in 2009 and intensified during 2015–20. Added to this is the burden of spending to counter the various overlapping crises since 2020. Private savings increase during periods of crisis or heightened uncertainty. Since the Covid-19 pandemic, net private savings have contributed to the stabilization of Africa's current account deficit despite the persistent fiscal deficit. In 2024, the accumulation of private savings partly offset net public dissaving arising from increased government spending. The fiscal deficit is expected to improve over the next two years, potentially through fiscal consolidation measures, while net private savings are expected to decline due to an increase in private investment, which is expected to surpass private savings. This could bring the current account deficit to 2.5 percent of GDP in 2025 and 2.7 percent in 2026.

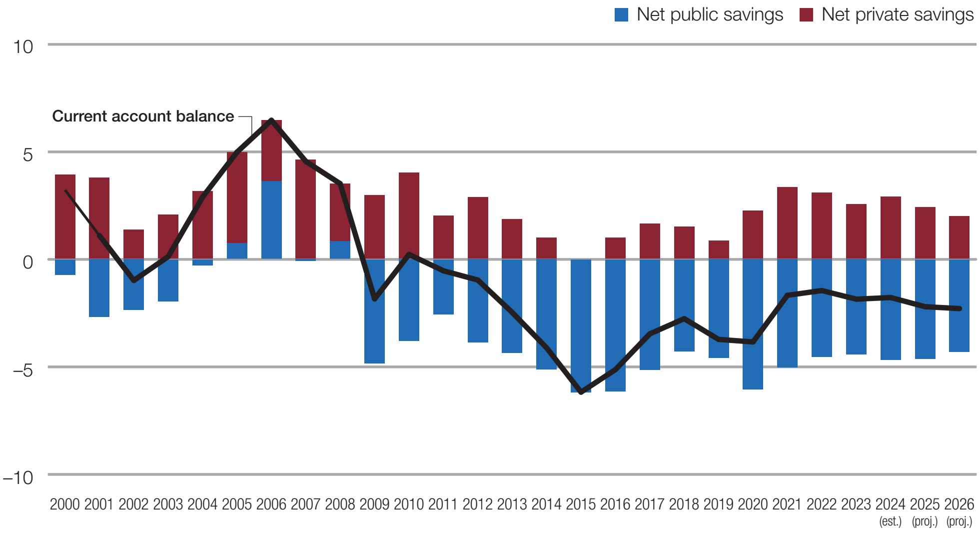
From a historical perspective, Africa's current account surplus at the beginning of the century has given way to a persistent deficit since 2009. To overcome this structural deficit, Africa needs to strengthen regional trade, capitalizing on the benefits offered by the AfCFTA. To achieve this, the free movement of people and regional migration are fundamental (box 1.6).

EXTERNAL FINANCIAL FLOWS, IMPLICATIONS, AND OUTLOOK

Although external financial flows to Africa rebounded in 2023, the wave of aid cuts and global uncertainty could reduce inflows in the short to medium term

Total external financial flows to Africa—foreign direct investment (FDI), portfolio investments, official development assistance (ODA), and remittances—amounted to $204.6 billion in 2023, about 7 percent of Africa's GDP for that year. Except for portfolio investment, other external financial flows

FIGURE 1.27 Current account, public and private savings in Africa, percent of GDP, 2000–26



Source: African Development Bank statistics.

BOX 1.6 Impact of intra-African migration on intra-African trade and Africa's current account

In 2024, 45.7 million Africans were living outside their country of origin, according to United Nations estimates. Of these, 25 million lived in Africa, representing an intra-African migration rate of approximately 55 percent, higher than that of Latin America and the Caribbean (29 percent) but lower than that of Asia (62 percent) and Europe (74 percent). As a percentage of the population, the regional migration rate in Africa (1.7 percent) was below the global average (3.7 percent).

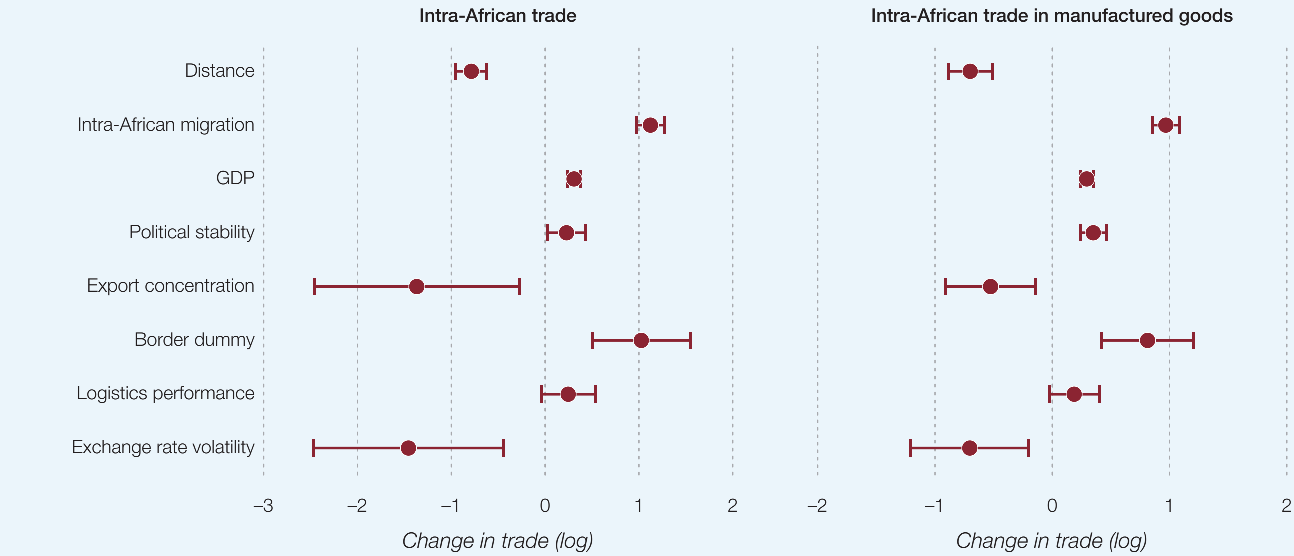
Increasing mobility within Africa is crucial to reaping benefits from the African Continental Free Trade Area (AfCFTA), even more desirable in the context of escalating trade tensions and anti-migration sentiments in the world. Results from a gravity model confirm the positive effect of intra-African migration on intra-African trade: a 1 percent increase in rate of intra-African migration leads to a 1.13 percent increase in the intra-African trade rate. Intra-African trade in manufactured goods also increases by 0.97 percent (box figure 1.6.1).

Through its effects on trade, regional migration bolsters the current account.[1] A 1 percent increase in the intra-African immigration rate leads to a 1.8 percent improvement in the trade balance and results in a 0.8 percent improvement in Africa's current account (box figure 1.6.2). These net positive effects are explained by the fact that by increasing intra-African trade, intra-African immigration reduces the extroversion of African trade, a source of structural external deficits. Moreover, intra-African migration is a source of demographic vitality and improvement in labor productivity for host countries.[2] For sending countries, migration reduces pressure on the labor market, but as a source of remittances bolsters the current account.

(continued)

BOX 1.6 Impact of intra-African migration on intra-African trade and Africa's current account *(continued)*

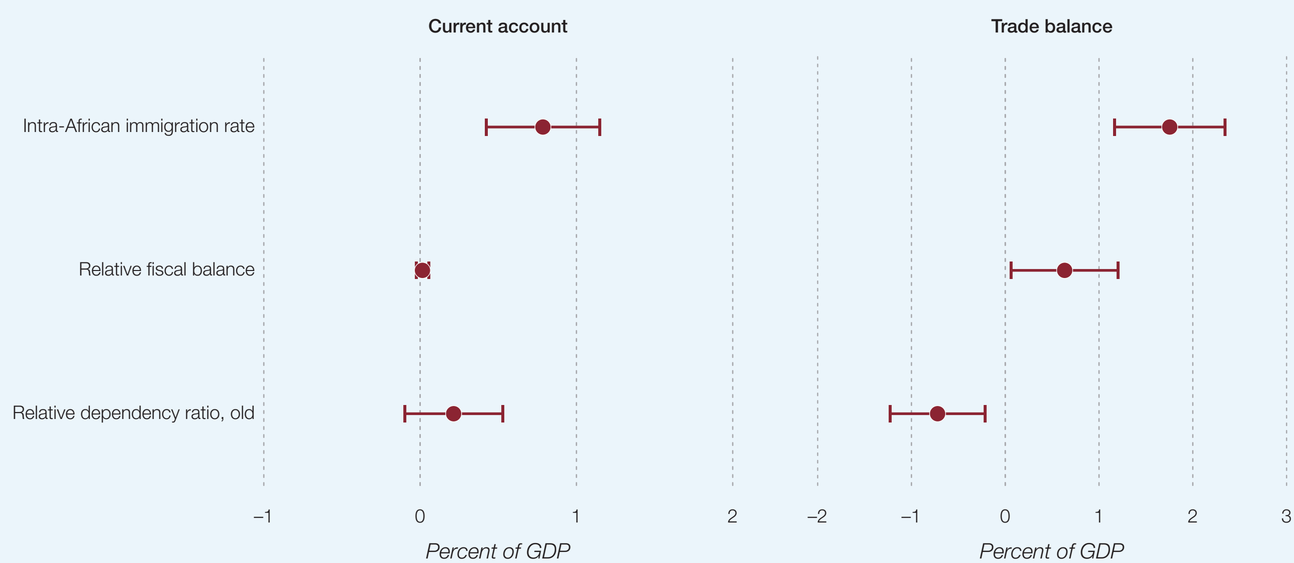
BOX FIGURE 1.6.1 Effects of openness to intra-African migration on openness to intra-African trade



Note: These results are derived from the estimation of a gravity model covering 54 African countries over 2000–22. The regressions are performed on nonoverlapping 5-year average data using the PPML estimator. Intra-African trade is the sum of intra-African imports and exports divided by GDP. Intra-African migration is the sum of intra-African immigration and emigration divided by population. Intra-African migration and trade are bilateral data. The control variables have signs consistent with expectations and the literature. Their coefficients are not commented on due to page limits.
Source: AfDB staff calculations.

These findings demonstrate the potential benefits of regional migration in Africa. African countries should accelerate the ratification of the African Union's Free Movement of Persons Protocol. Visa free protocols, implemented by countries such as Benin, Gambia, Kenya, Rwanda, and the Seychelles, can help shore up intraregional migration.

BOX FIGURE 1.6.2 Effect of intra-African immigration on the external sector in Africa



Note: Regressions are performed using the gravity-based 2SLS estimator. A selection of control variables is reported here, with a focus on intra-African immigration.
Source: Amusa, Gnimassoun, and Simpasa 2025.

Notes: 1. Amusa et al. 2025. 2. Gnimassoun 2025.

declined in 2023 amid persistent global economic and investment uncertainties (figure 1.28).

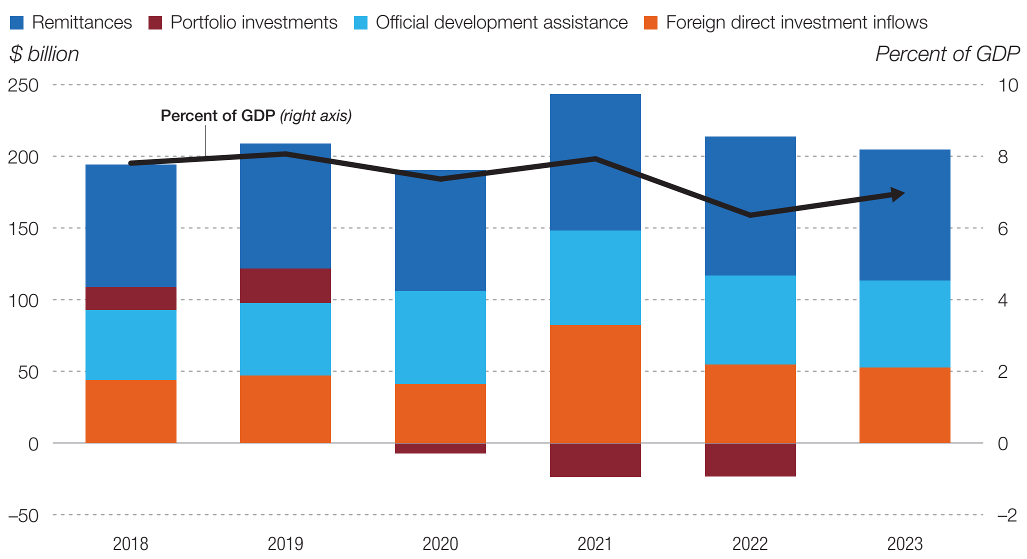
Portfolio investment was the main driver of the rebound in total external financial inflows in 2023. Portfolio flows reversed, from net outflows of $23.1 billion to net inflows of $322.9 million, an improvement of more than 100 percent. This turnaround reflects a gradual easing of global financial conditions relative to the previous year, as investors began to adjust to evolving global conditions following the supply chain disruptions and tighter financial conditions in 2022. Portfolio investment to Africa has historically been shaped by global and domestic macroeconomic conditions. Before the Covid-19 pandemic, Africa benefitted from sustained net portfolio inflows, supported by accommodative monetary policies in advanced economies and relatively stable domestic macroeconomic conditions. Between 2010 and 2015, inflation averaged 7.6 percent, one of its lowest rates, and fiscal deficits remained below 4 percent of GDP, well within the bounds of fiscal discipline requirements. The pandemic and subsequent global shocks reversed this trend, triggering sustained net outflows as investors reallocated capital to safer markets. Several African countries attracted portfolio inflows as effects of the pandemic tapered off. For instance, in 2023, Nigeria attracted $6.2 billion in net inflows—largely due to significant increase in central bank open market operations to mop up excess liquidity and alleviate exchange rate pressures—sustaining a positive trend since 2021. Ghana and Morocco also recorded significant turnarounds, shifting from negative to positive net inflows of $2.5 billion and $2.4 billion, respectively.

Foreign direct investment flows to Africa weakened further in 2023, mirroring broader global and developing-country trends. The continent recorded a 3.4 percent annual decline in FDI inflows to $52.6 billion. While this contraction exceeded the 2 percent decline in global FDI flows, it was half the rate of contraction for developing countries overall. More than half of African countries recorded reduced inflows in 2023, with some large economies the most affected. The dynamics of FDI to Africa highlight the asymmetric nature foreign capital—and although global conditions matter, domestic factors also play an important role.

Broadly, however, the recent decline in FDI reflects a combination of factors. Sluggish global growth has dampened investor confidence and reduced expansion opportunities, as foreign investors adopt more cautious strategies amid uncertain global demand. And elevated global interest rates have increased the cost of financing, thereby discouraging cross-border investment. For Africa, these challenges are further compounded by global supply chain realignments, with firms increasingly prioritizing friend-shoring or

Total external financial flows to Africa—foreign direct investment (FDI), portfolio investments, official development assistance (ODA), and remittances—amounted to $204.6 billion in 2023

FIGURE 1.28 External financial flows to Africa, 2018–23



Source: African Development Bank statistics.

near-shoring strategies over distant investments. This underscores the importance of deeper regional integration for Africa to attract FDI in the current uncertain global investment climate. Africa needs to leverage the AfCFTA for a larger, more predictable market that encourages intra-African investment. In addition, promoting strategic sectors, such as green energy, digital infrastructure, and agro-industrial value chains, can align with the interests of investors seeking sustainable and resilient supply networks. With growing competition for FDI, African countries need to intensify efforts to improve the business investment through economic and governance reforms beyond conventional tax incentives (see detailed analysis of these issues in chapters 2 and 3).

Total ODA to Africa declined by nearly 3 percent. This followed a 6 percent contraction in 2022

Remittances are Africa's most stable source of external financial flows. Yet, recent global dynamics are reshaping these flows. In 2023, remittance flows to Africa contracted by 6.2 percent to $91.1 billion. The decline reversed a two-year increase after Covid-19 and could reflect valuation effects. The strengthening of the US dollar reduced the dollar value of transfers in source countries. This reflects more than the impact of shocks since remittances tend to be resilient to external shocks relative to other external financial flows (box 1.7). Instead, remittances tend to be procyclical, declining (increasing) in periods of economic boom (downturn) in destination countries. They are also affected by structural factors such as transfer costs in source countries and economic openness in destination countries, and they can contribute substantially to the development of local African economies. They smooth consumption in lean economic times and, if well harnessed, can be an important source of financing Africa's transformation (see chapter 2).[26]

The changing global aid landscape will significantly impact **official development assistance** to Africa. The announced aid cuts, led by the United States Agency for International Development, reflect a downward trend over the two years, following a sharp increase of nearly 30 percent in 2020, to shore up Africa's response to Covid-19. In 2023, total aid flows from Development Assistance Committee (DAC) countries to Africa stood at $35.9 billion, with more than 40 percent coming from the United States. Total ODA to Africa declined by nearly 3 percent. This followed a 6 percent contraction in 2022. This downward trend is occurring despite mounting development financing needs across the continent. It partly reflects fiscal constraints in major donor countries, and with projected weak global economic growth, ODA flows to Africa are likely to remain depressed.

Looking ahead, projections suggest that ODA from the 17 largest DAC donor countries to all recipients will decline by a total of $39.84 billion in 2025, driven primarily by cuts from the two largest donors: the United States and Germany.[27] Modest increases expected from Japan, South Korea, and Italy will be insufficient to offset these losses. Between 2021 and 2023, African countries received an average of about 18 percent of aid flows from these 17 donors. If this share holds in 2025, Africa would face a nearly 12 percent drop in aid from the 17 largest DAC donors compared with 2023. This would translate into a 7 percent decline in total aid inflows, equivalent to $4.2 billion, if aid from all other donors remains relatively stable. To put this into perspective, the projected decline exceeds the combined GDP of Comoros, Guinea-Bissau, and São Tomé and Príncipe in 2023. These developments heighten the risk of a funding squeeze for many of Africa's low-income countries, which remain heavily dependent on external aid to finance their national budgets. As the analysis in chapter 2 shows, aid cuts will especially affect Africa's low-income countries, where ODA contributes significantly to financing the budget.

DEBT DYNAMICS IN AFRICA AND IMPLICATIONS FOR DEVELOPMENT FINANCING

Africa's debt dynamics and vulnerabilities

Fiscal consolidation measures are helping to stabilize public debt ratios, though they remain above the prepandemic level

Following the surge in debt in 2020–21 related to the Covid-19 pandemic shock and subsequent tightening of global financial conditions, African countries are eager to restore the sustainability of their public finances and rebuild their fiscal buffers. Indeed,

BOX 1.7 **Uncertainty increases the risk of external financial flows**

The sustainability of external financial flows to Africa is increasingly threatened by recurrent shocks and heightened global uncertainty. In the first quarter of 2025, global uncertainty was three times higher than the same period in 2024.[1] Uncertainty is detrimental for the stability of macroeconomic conditions and leads to delayed or reduced investment in response to perceived instability.[2] Historical patterns suggest that spikes in global uncertainty typically reduce capital flows. For instance, amid heightened geopolitical tensions and global economic shocks in 2022, FDI into Africa fell by more than one-third. The current trend has prompted investors to reassess their exposure to African markets. And economic disruptions caused by heightened uncertainty have led to a recalibration of domestic policy in donor countries, resulting in aid cuts to African countries.

Empirically, the relationship between uncertainty and external financial flows can be assessed using the following linear model:

$$flows_{it} = \beta_0 + \beta_1 uncertainty_{it} + X\beta + \varepsilon_{it}$$

In this equation, $flows_{it}$ represents one of the three types of financial flows (remittances, FDI, ODA) for country i in year t; $uncertainty_{it}$ is captured by the World Trade Uncertainty index:[3] a higher number means higher uncertainty and vice versa; X is the vector of control variables including the log of GDP per capita, institutional quality measured by the quality of rule of law, and natural resource rents in percent of GDP. The model is estimated using the fixed effects estimator and controls for other common shocks across countries through year dummies.

BOX TABLE 1.7.1 **Estimation results**

	(1) FDI	(2) ODA	(3) Remittances
Uncertainty (log)	–50.96** (19.62)	–0.71** (0.33)	7.81* (4.12)
GDP per capita (log)	422.24** (157.05)	–2.41* (1.20)	35.12** (15.75)
Political stability	–32.37 (26.57)	–1.43** (0.65)	7.10 (5.63)
Rents (percent of GDP)	–5.12 (3.09)	0.03 (0.02)	–0.32 (0.30)
Observations	485	489	493
R-squared	0.05	0.14	0.09
Countries	45	45	45
Country FE	Yes	Yes	Yes
Year FE	Yes	Yes	Yes

Note: Robust standard errors in parentheses. *** $p<0.01$, ** $p<0.05$, * $p<0.1$. The estimations cover 45 African countries over the period 2010–23. Data on uncertainty are from the World Uncertainty Index database, and data on financial flows and the control variables are either for AfDB statistics or the World Bank's World Development Indicators. FDI and remittances are expressed in per capita terms, while ODA is expressed as a percentage of GDP.

Estimation results confirm the deleterious impact of uncertainty on FDI and aid. A 10 percent increase in global uncertainty could reduce FDI per capita by $5.1 and ODA by about 0.1 percentage point of GDP. The response of aid to uncertainty reinforces the argument that African countries cannot depend on external aid to finance their development agendas. Aid flows are largely shaped by uncertainty in economic and political conditions in donor countries, factors over which African countries have little to no influence. For FDI, while global uncertainty can be perceived as a broadly common shock, countries can position themselves as attractive destinations for foreign investment, even in times of global stress. This can help mitigate the detrimental effect of uncertainty on FDI.

Migrant remittances respond procyclically to higher uncertainty. This finding reinforces the countercyclical nature of remittances and the strong family-support motivations behind these transfers. In some cases, remittances have increased in response to major global or regional shocks, in contrast to other flows that are typically countercyclical in nature. Notable examples include a 10 percent increase in remittances during the 2008 global financial crisis, an 11 percent rise in 2014 during the Ebola outbreak and the commodity price slump.

Notes

1. Based on the World Uncertainty Index (WUI).
2. The ultimate impact will depend partly on how investors interpret similar risks in other affected regions.
3. Ahir, Bloom, and Furceri 2022.

many countries have taken revenue-side fiscal consolidation measures since the end of the pandemic (table 1.1). Several others have undertaken expenditure restraint measures, involving partial or full subsidy removal. For countries in debt distress or at high risk of debt distress, fiscal consolidation is the sine qua non for debt restructuring to achieve sustainability to return to fiscal fitness. These measures have entailed limiting external borrowing to concessional loans (figure 1.29). The median debt-to-GDP ratio is thus estimated to decline from 66.3 percent in 2023 to 65.5 percent in 2024 and projected to stabilize at below 65 percent in 2025 and 2026. Even so, debt ratios remain above prepandemic levels of 50 percent in 2015–19.

Of the continent's 54 economies, debt ratios are below prepandemic levels in 15 (figure 1.30). Debt ratios in most of these countries have declined substantially owing to steep consolidation measures aimed at creating additional fiscal space for investment in critical areas of development. For instance, relative to 2023, Angola's debt-to-GDP ratio fell by about 42.1 percentage points in 2024, the largest decline. This was followed by São Tomé and Príncipe, at about 40 percentage points.

The risk of a systemic debt crisis is contained in Africa, but vulnerabilities continue to linger

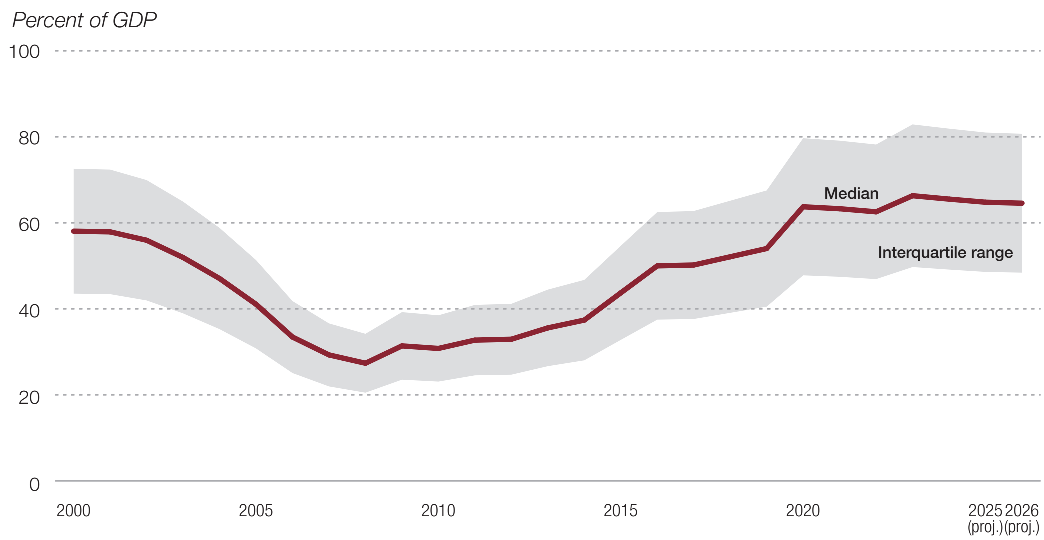
Africa has broadly escaped a systemic debt crisis with the containment of growth in public debt. But there are lingering and elevated debt vulnerabilities. These risks mainly stem from high global interest rates, at which most of Africa's commercial debt was contracted, and exchange rate depreciations, which raise the cost of debt service. Even with the measures taken to contain public expenditure, the primary deficit remains an important driver of

TABLE 1.1 **Revenue measures introduced in selected African countries, 2020–24**

Country	Year	Measure
Burundi	2023	Introduction of tax of 5% for hotels and restaurants and 22% on mobile financial services
Cameroon	2022	Introduction of a 0.2% tax on the transfer and withdrawal of money via mobile wallets
Congo, Rep.	2020	Introduction of e-stamp duty of 50 CFA francs per (data) postpaid invoice
Congo, Dem. Rep.	2020	Introduction of a new tax on mobile consumers, comprising an annual payment of \$1 for 2G handsets and \$7 for 3G/4G handsets
Ethiopia	2023	Introduction of new taxes on telecommunication services of mobile and wireless telephone (internet, voice, and SMS) at 5%
Ghana	2021	Introduction of 1% on value of goods (Covid-19 Health Recovery Levy), similar to a VAT/GST (value-added tax/gross sales tax)increase
	2022	Introduction of a new 1.5% tax on all electronic transactions above 100 cedi (\$13, £11) effective May 1, 2022
Guinea	2021	Increase of mobile marketing tax from 400 Guinean francs (GNF) to 640 GNF per connection per year; increase of excise duty on voice calls from 1 to 2 GNF per second
Kenya	2021	Increase of excise duty on mobile services from 15% to 20%
	2024	Phaseout of preferential corporate tax rates applicable to special economic zones and export processing zones, with rate at zero
	2024	Authorities are considering, in the Medium-Term Revenue Strategy (2024/25–2026/27), a proposal to reduce corporate income tax from 30% to 25%.
Lesotho	2020	Increase of VAT from 12% (reduced rate) to 15% (general rate)
Mauritania	2020	Increase of customs duty on scratch cards for telephones from 15% to 30%
	2023	Increase of VAT on telecommunications from 16% to 18% plus special income tax of 5% on telecoms companies
Nigeria	2020	Increase of VAT rate from 5% to 7.5%
	2022	National Health Insurance Authority Act 2022 imposed a telecommunications tax of not less than 1 kobo per second on GSM (Global System for Mobile Communications) calls.
	2022	Introduction of 5% excise duties on telecommunications services (postpaid and prepaid)
Rwanda	2023	Rwanda income bracket in Rwandan francs and tax rate: 0–60,000: exempt from tax; 60,001–100,000: 10%; 100,001–200,000: 20%; ≥ 200,001: 30%
Sierra Leone	2020	Increase of excise duty on incoming international calls from \$0.09 to \$0.14 per minute
Tanzania	2021	Introduction of levy on airtime recharge ranging from 5 Tanzania shillings (TZS) to 223 TZS, depending on recharge value
	2021	Introduction of levy on mobile money transfer and withdrawal transactions from TZS 10 to TZS 10,000
Uganda	2021	Introduction of 12% excise duty on data from 1 July 2021

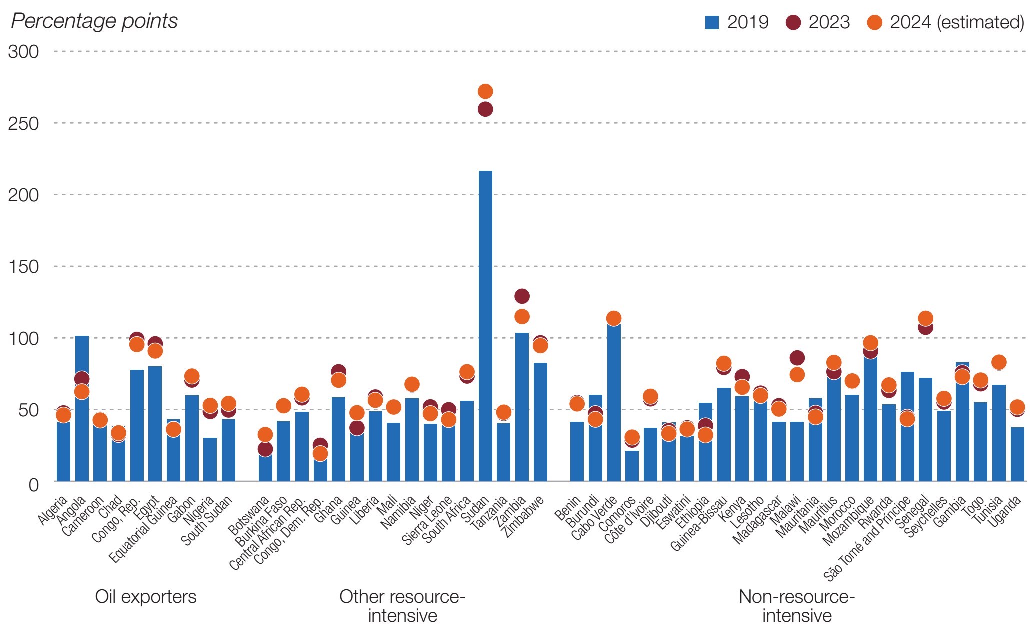
Source: GSMA, PwC, and EY 2023.

FIGURE 1.29 Gross government debt, 2010–25



Source: Staff calculations based on the World Economic Outlook database.

FIGURE 1.30 Change in debt-to-GDP ratios, 2019–24



Source: Staff calculations based on the World Economic Outlook database.

Africa has broadly escaped a systemic debt crisis with the containment of growth in public debt. But there are lingering and elevated debt vulnerabilities

debt, followed by interest payments and low GDP growth. These factors disrupted Africa's dynamics in 2020 (figure 1.31). Since 2022, the relative contribution of the primary balance has declined, ceding its weight to exchange rate depreciations, while interest payments remain strong. The growing prominence of exchange rate effects to Africa's debt dynamics presents a serious risk. With more than 70 percent of African debt denominated in foreign currencies, mainly the US dollar, recent exchange rate depreciations have amplified debt vulnerabilities. The full impact of exchange rate effects on debt creation has been mitigated Africa's relatively strong GDP growth rate with inflation playing an additional moderating lever to the build-up of debt risks. In 2021–23, the cumulative contribution of real GDP growth fully offset the impact of interest rates, resulting in significant reduction in public debt during this period (see figure 1.29). Other debt-creating measures such as off-budget operations, subventions to prop up state-owned enterprises, and arrears settlements also contributed to debt development.[28]

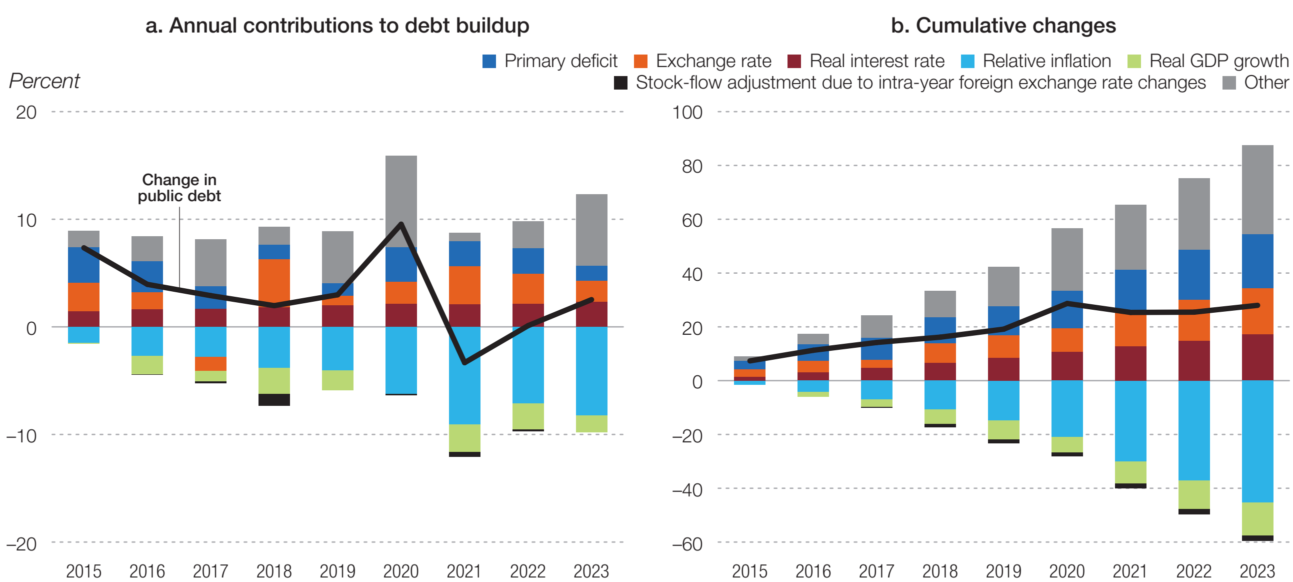
The number of countries in debt distress has ranged between seven and nine since 2021.[29] In March 2025, seven countries were in debt distress (figure 1.32). These included the three undergoing debt restructurings (Ethiopia, Ghana, and Zambia). Since 2021, the number of countries in debt distress has stabilized at between seven and nine, but many countries at low risk of debt distress since 2010 have been downgraded to either moderate or high risk of debt distress. Meanwhile ratings upgrades have been fewer, if not none. In 2010, 11 countries were rated as being at low risk of debt distress. A decade later, only 2 maintained that rating and since 2021, no African country was rated at low risk of debt distress, partly because many countries slipped into moderate or high risk of debt distress during the pandemic.

Strong commitment to fiscal consolidation is key to graduating to lower levels of risk and regaining debt sustainability. Two countries stand out in modern history in Africa: Gambia and Ghana, which, in 2024 were classified in debt distress—graduated to a high-risk rating in March 2025. For Ghana, the upgrade, while not fully escaping the high risk, demonstrates the country's progress in debt restructuring to restore fiscal credibility. Fiscal consolidation is critical to reduce primary balances and offset the debt creating impact of interest rate-growth differential (box 1.8).

Shifting debt towards commercial borrowing and domestic borrowing brings an additional source of vulnerability

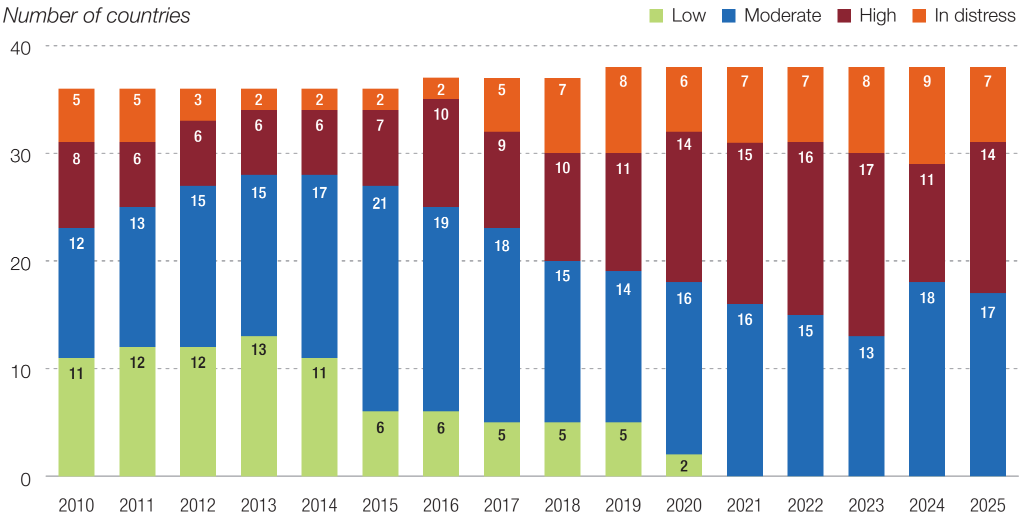
Africa's public debt is predominantly commercial, with attendant risks. Market borrowing accounts for 70 percent of Africa's public and publicly guaranteed external debt.[30] A reversal of capital flows could therefore expose African countries to exchange rate and interest rate risks. Reliance on domestic debt has also increased since 2010 (figure 1.33). The share of domestic public debt increased by nearly 9 percentage points from 29 percent in 2010 to 38 percent in 2023. Accumulation of domestic public debt rose sharply, by nearly 4 percentage points, during Covid-19 due to spending shocks to fund pandemic mitigating

FIGURE 1.31 Decomposition of drivers of Africa's debt, 2010–23



Source: African Development Bank statistics.

FIGURE 1.32 **Evolution of risk of external debt distress, 2010–25**



Note: As of 31 March 2025.

Source: Staff calculations using IMF Low-Income Country Debt Sustainability Analysis.

Strong commitment to fiscal consolidation is key to graduating to lower levels of risk and regaining debt sustainability

BOX 1.8 Impact of interest-growth differentials on public debt in Africa

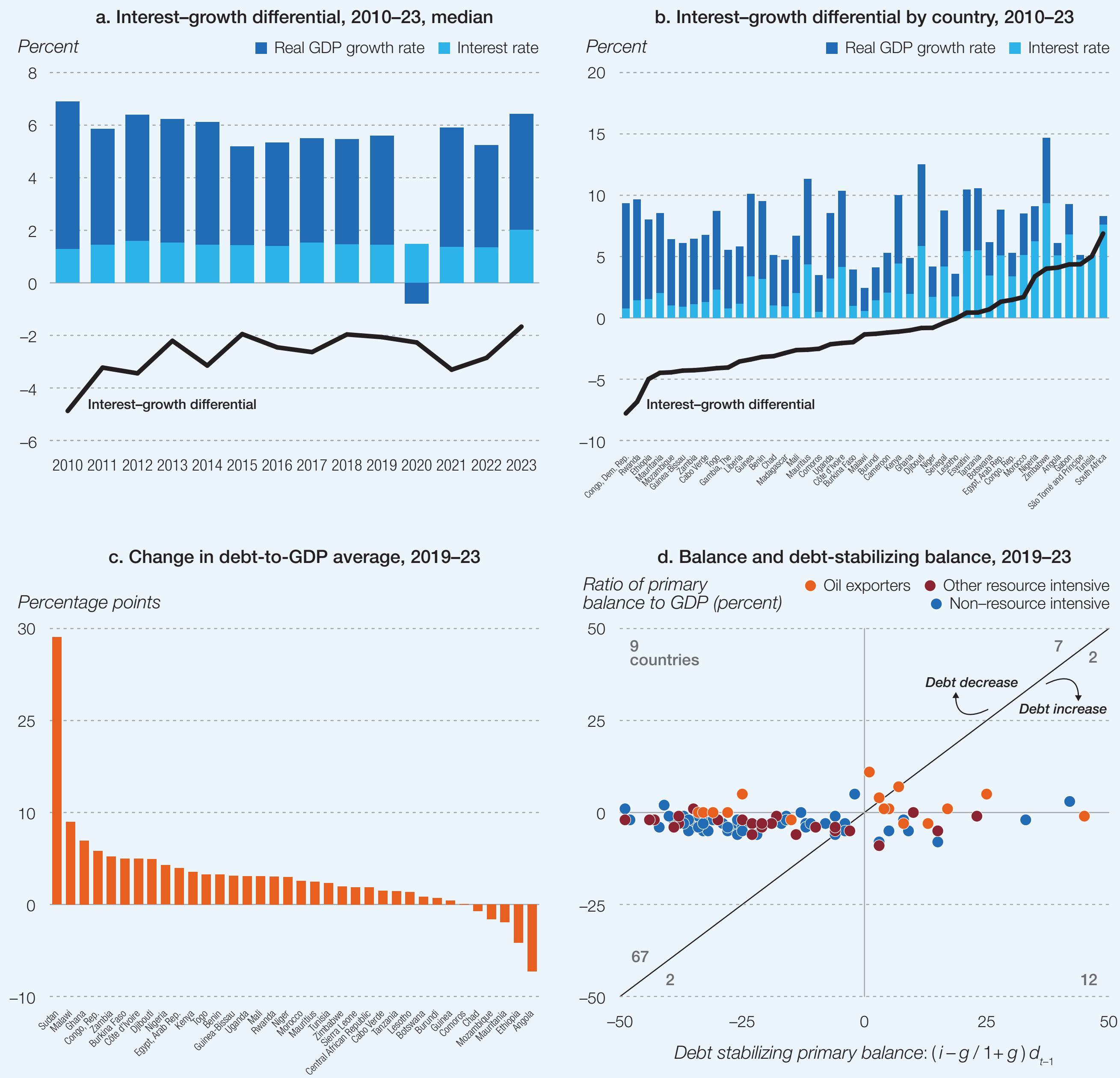
The median interest-growth differential in Africa increased gradually from –4.9 percent in 2010 to –1.7 percent in 2023 (box figure 1.8.1a).[1] In 2010–2019, high GDP growth and low global interest rates explained the large negative interest-growth differential. A couple of factors contributed to this. During the pandemic, GDP growth was weak, and the tightening of global financial conditions that started in 2022 saw interest rates rise while growth faltered. This contributed to a reduction in the median negative interest-growth differential to –1.7 percent in 2023. However, there is wide dispersion in the differential, ranging between –7.8 percent in the Republic of Congo to +6.9 percent in South Africa (box figure 1.8.1b).

For most countries, the negative interest-growth differential was sufficient to put Africa's debt on a declining path in 2022–23, as in Angola, Ethiopia, Mauritania, Mozambique, and Chad (box figures 1.8.1c and d). A slowdown in economic growth or rise in interest rates could easily reverse this. Government fiscal profligacy that leads to accumulation of too much debt, especially on commercial terms, could also negate the gains. Reductions in debt-to-GDP ratios may also not necessarily lead to increased fiscal space. Debt interest and amortization payments are not necessarily tied to the size of GDP but are made from government revenue. So despite debt-to-GDP ratio being low, a country can still face a high debt burden if substantial shares of revenues are channeled towards debt service payments. Nigeria presents a classic case in point. In 2025, the country's public debt was projected at 47 percent of GDP. In contrast, three-quarters of federal government revenues were projected to be spent on federal government interest payments.[2]

(continued)

BOX 1.8 **Impact of interest-growth differentials on public debt in Africa** *(continued)*

BOX FIGURE 1.8.1 **Interest-growth differential in Africa**



Source: African Development Bank staff calculations using data from World Bank International Debt Statistics and African Development Bank statistics.

Notes

1. Due to data restrictions, the interest rate used in this analysis is the average interest on new external debt commitments.
2. IMF 2024c.

measures and limited access to international markets. In addition, while external debt has trended down since 2021, domestic debt rose by 2.5 percentage points of GDP in 2021–23. The bulk of the debt is held in treasuries by commercial banks. This has two implications. First, it crowds out private sector credit as governments compete for funds in the market, bidding up interest rates. Second, most of the debt issued in the primary market is held until maturity, without secondary trading. This prevents the development of domestic debt markets and perpetuates crowding out. Shallow domestic financial markets have limited capability to absorb the shocks so capital reversals could have destabilizing impacts on financial markets and the economy more generally. Government defaults on domestic debt would have similar effects and attempts to restructure could lead to capital losses for the banking sector.[31]

IMPLICATIONS OF ELEVATED DEBT VULNERABILITIES ON AFRICA'S DEVELOPMENT FINANCING NEEDS

Fiscal space has tightened due to growing high debt service payments

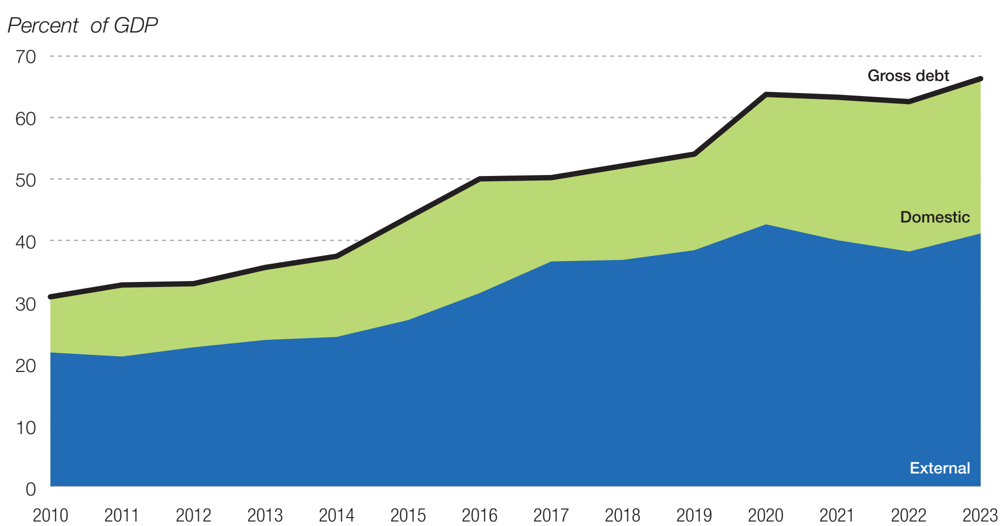
Total debt service payments to revenue have risen sharply from 11.99 percent in 2022 and was estimated at 19.36 percent for 2024. It is projected to rise to 16.25 percent in 2025 (figure 1.34). The trend in total debt service mirrors dynamics in interest payments. Interest payments as a share of government revenue accelerated over the same period, peaking in 2024. Interest payments are, however, projected to decline in 2025–26, subject to uncertainty on the path of interest rates and exchange rate fluctuations. Rising debt burdens and liquidity pressures have led to reduced public spending on critical areas of development. In 2010–19, for instance, average public expenditure on education in Africa was 3.6 percent of GDP, below the world average of 4.2 percent. Public spending on health was even lower at 1.8 percent.[32] Regaining fiscal fitness and putting debt on a sustainable path would dictate a reprofiling of debt maturities.

Global trade tensions and uncertainties have sparked a sell-off of African Eurobonds

Global financial conditions were easing since the beginning of 2024, and African sovereign yield spreads were trending down. Several countries returned to international markets issuing a cumulative $22.65 billion from January 2024 to March 2025, at an average maturity of over nine years and 9 percent interest rate. With significant debt service payment falling due in 2024 and 2025,

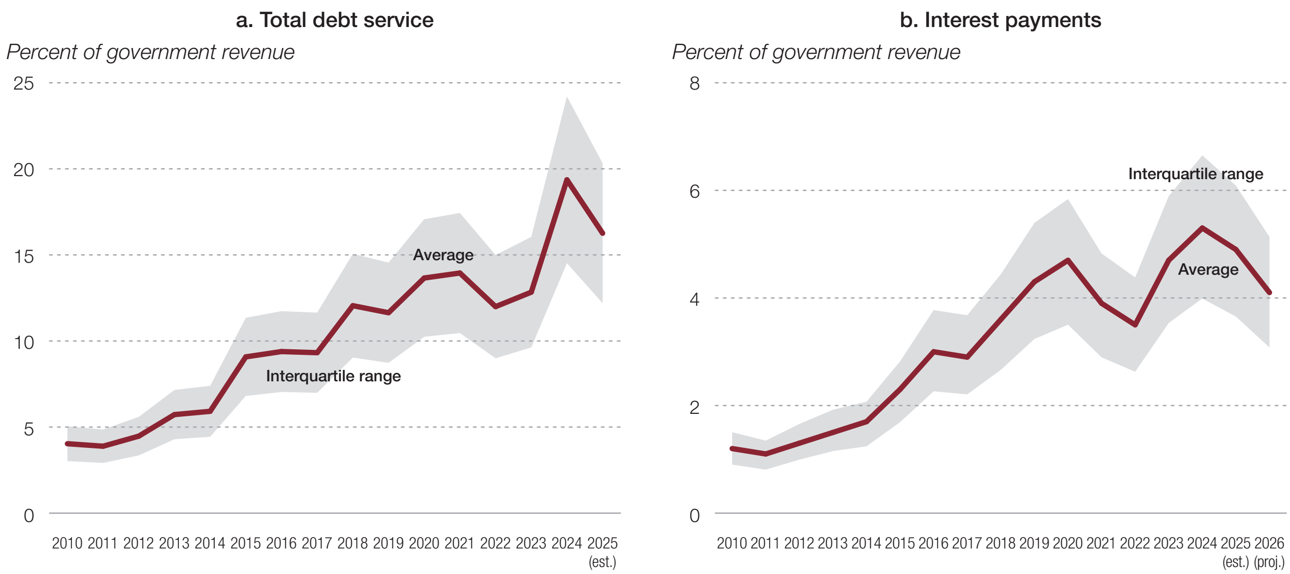
Interest payments are projected to decline in 2025–26, subject to uncertainty on the path of interest rates and exchange rate fluctuations

FIGURE 1.33 Composition of public and publicly guaranteed debt, 2010-23



Source: Staff calculations using data from World Bank International Debt Statistics.

FIGURE 1.34 Public external debt service and interest payments



Source: Staff calculations using data from World Bank International Debt Statistics.

most new issuances are refinancing earlier ones. For instance, Côte d'Ivoire's 10-year note issuance of $1.75 billion in March 2025 was meant to buy back Eurobonds maturing in 2028 ($300 million) and 2032 ($400 million).

Raging trade tensions could exacerbate Africa's debt vulnerabilities. A sell-off of African Eurobonds is under way as spreads on their bonds have widened, tracking the turbulence in global markets. The Africa sovereign bond index was down 2.9 percent at the end of March 2025, higher than a decline of 2.73 percent in the emerging market bond index. Yields on Eurobond issuances for Gabon, Angola, and Mozambique ranked among underperforming economies, down 7.31 percent, 6.71 percent, and 4.59 percent, respectively. Tunisia, Egypt, and Rwanda recorded lower yield rate declines ranging from 0.01 percent through to 0.80 percent and 1.16 percent, respectively. The attractiveness of Côte d'Ivoire's bond notes has waned, despite a successful issuance in March 2025. The country's spread widened within a few weeks of issuance, affected by market turbulence stocked by global trade tensions. The 2033 maturity bond widened by 40 basis points while the 2028 maturity widened by 71. This performance reflects growing risk sentiments than market fundamentals, deemed reasonably strong. Economic growth is projected at 6.5 percent, inflation at 2.9 percent, and the fiscal deficit at 3.0 percent of GDP, meeting the macroeconomic convergence threshold for WAEMU, the regional bloc.[33]

A new monetary tightening cycle could materialize if global inflation, stoked by high tariffs, rises above targets. In that instance, central banks in advanced economies may raise interest rate to subdue inflationary pressures. In addition, if the high tariff regime generates a trade surplus for the United States, this strengthens the US dollar. Inevitably, borrowing costs and debt service payments will increase further, limiting African countries' access to global capital markets. The high tariff regime could have two possible adverse outcomes for African countries—direct and indirect. A direct impact could occur for countries with large trade exposure to the United States. Indirectly, the impact would be through second-round effects, transmitted through trade with third parties that have exposure to the United States. For instance, high tariffs imposed on China could reduce demand for Africa's commodities. Both effects could lead to a widening of current account deficits and declines in foreign exchanges reserves of affected countries.

The picture could dim due to liquidity pressures with debt service in 2025 projected around $89 billion. More than half of debt service—$45.3 billion (51 percent)—is owed to private creditors (figure 1.35a). Multilateral development banks and bilateral creditors account for 27 percent and 22 percent, respectively. Principal repayments could exceed $61 billion in 2025, representing around 69 percent of total debt service (figure 1.35b).

Debt service pressure is concentrated in countries with low revenue generating capacity

Low revenue generating capacity has imposed a burden for debt service on Djibouti, Guinea-Bissau, São Tomé and Príncipe, and Zambia. Mounting amortization pressures have eroded fiscal space in most of these countries, some already in debt distress. A restructuring of debt could lengthen maturity and bolster payment capacity whilst allowing countries to pursue growth promoting policies and revenue generation. Countries with high debt amortization burdens and elevated external debt levels but relatively expanded revenue base can manage to pay for their debt without compromising investment in critical sectors. About one-third of countries with low external amortization and debt levels also have high tax revenue generating capacity (figure 1.36).

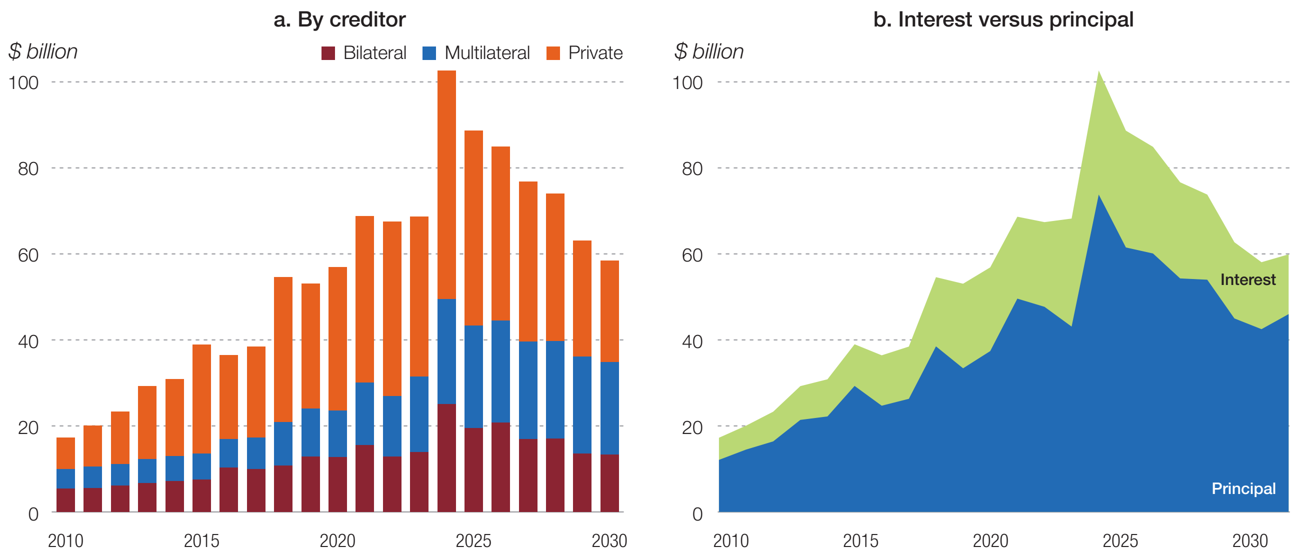
External debt refinancing needs and rollover risks are on the rise

Interest burdens, principal repayments, and primary deficits provide insights into drivers of debt vulnerabilities, including high rollover risks, and financing needs (figure 1.37). From a historical perspective, external debt refinancing needs started to rise in 2011, when many African made their debut in the Eurobond market. Debt service burden increased in tandem with debt levels. This period was also characterized by a widening of fiscal deficit, reducing government capacity to service debt and increasing refinancing needs. Favorable global financial conditions preceding the Covid-19 outbreak, and investors' search for higher returns allowed countries to roll over their debt. However, debt rollovers occurred at the cost of further accumulation of repayment obligations. In 2025, African countries will require an estimated $102.4 billion to refinance external debt. Looking ahead, external refinancing needs are set to decline to $84 billion in 2026. The projected decline is, however, subject to uncertainties and underscores the need for resolute actions to improve domestic resource mobilization to increase Africa self-reliance and build resilience to external shocks.

POLICY RECOMMENDATIONS

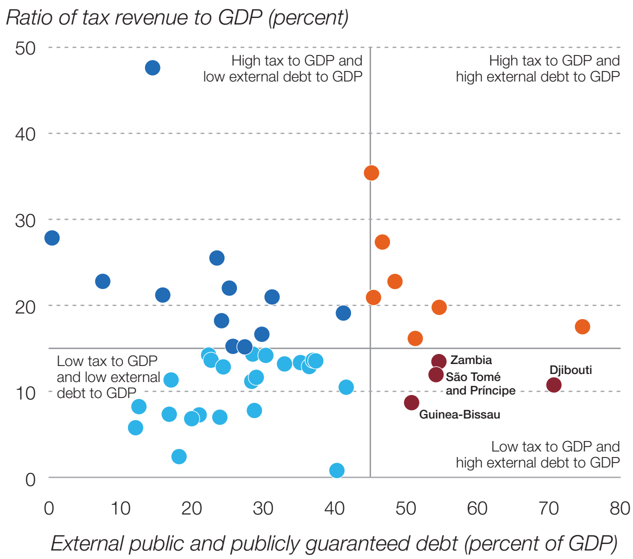
Although Africa's economic prospects have improved despite multiple shocks, the economic resilience of countries is being tested by yet

FIGURE 1.35 Composition of debt service, 2010–30



Source: Staff calculations using data from World Bank International Debt Statistics.

FIGURE 1.36 **Tax-to-GDP ratio versus external public and publicly guaranteed debt**



Source: Staff calculations using data from World Bank International Debt Statistics.

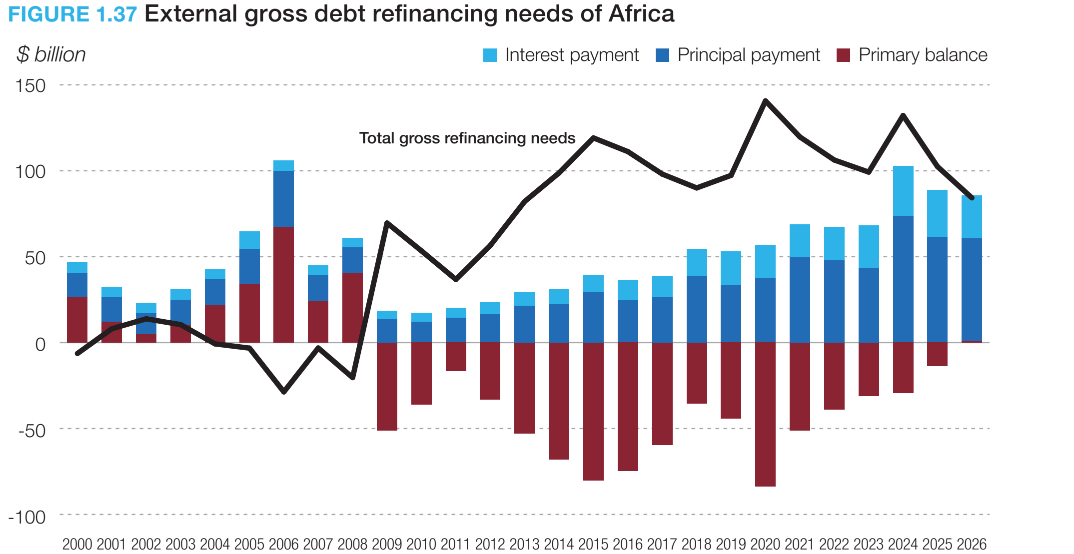
another shock. The disruption in global trading system due to imposition of tariffs by the U.S and retaliatory actions by Canada and China, among others, has stirred uncertainty. African economies will continue to face macroeconomic challenges, including volatile growth, persistent inflationary pressures, high debt vulnerabilities, and potential reversals of capital flows. With safety margins and buffers narrowed by debt service burdens and low domestic resource mobilization, many countries are in a weaker position to absorb shocks, calling for resolute actions. Mutually reinforcing monetary, fiscal, exchange rate, and structural policies will be required to achieve the twin objectives of stimulating growth and reducing inflation. While a broad range of stimulative policies is required, there is a need for better coordination and sequencing of these policies in the short, medium, and long terms, and—whenever there is limited policy space for maneuver—support of the international community would be warranted.

Short-term policy recommendations

In the short term, measures 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,

FIGURE 1.37 **External gross debt refinancing needs of Africa**



Source: Staff calculations using data from World Bank International Debt Statistics and World Economic Outlook database.

monetary policy should remain contractionary, supported by strong commitments 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.

- *Fiscal prudence, debt productivity, governance, and institutional reforms should remain necessities.* 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 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 resulting 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. 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. Further, 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 Zambia and Ghana 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 timely, accountable, fairer, more coordinated, and transparent 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. But countries have even 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, infrastructure, and agriculture, leading to productivity losses in many sectors of the economy. They also lower government revenue by destroying part of the tax base

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

while raising military expenditures. On average, annual growth in African countries in conflict is about 2.5 percentage points lower than their relatively stable counterparts, and the cumulative impact on per capita GDP increases over time. 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.

Investment in public infrastructure will catalyze innovation and technological spillovers and open the economy to private participation

Medium- to long-term policy recommendations

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

- *Mobilizing private sector investments in key sectors.* Private investment can be unlocked through efficient government debt-financed public investments in areas such as transportation and energy infrastructure to 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 country 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—saving the country's scarce foreign exchange. Similarly, improving domestic refinery capacity of petroleum products in oil-producing countries can help reduce reliance on global supply chains, and 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 enterprises in Africa should be prioritized. This could foster forward and backward linkages with smaller firms and facilitate the deepening of domestic markets, enhance intraregional trade especially in manufactured manufacturing products based on countries' comparative and competitive advantages, and reduce vulnerability to recurrent shocks in global value chains.[34] For example, countries could enact legislation for public procurement to prioritize goods and services made in African countries, at least to agreed percentages and quality standards. This will help to create jobs, boost intraregional trade, and reduce vulnerability to global trade shocks. Overall, policies that can build productive capacities in domestic markets are a win-win for regional integration, economic resilience, and global sustainability.
- *Franchising policies.* Promoting franchising policies can help countries to complement local content policies, leverage the technological know-how of foreign firms, 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 continue their 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, skill enhancement for value addition, and technology transfer in the

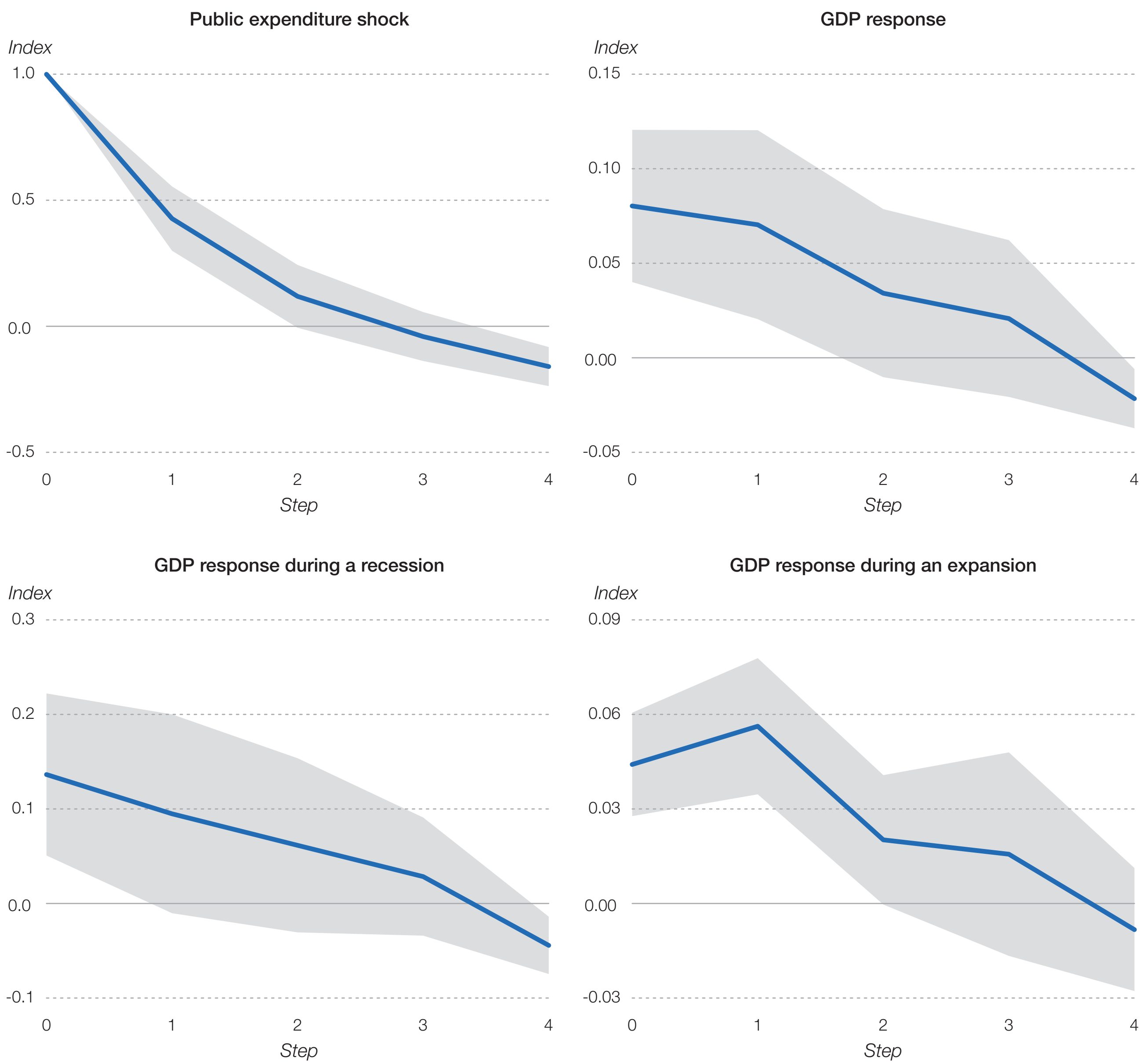
requisite franchising models that best serve their interests and are appropriate to their contexts.

- *Sustainable management of natural and human capital.* To make Africa's capital work better for Africa's development, countries must exercise full ownership of their natural and human capital and management sustainably to drive productivity growth and well-being of citizens. The need is urgent for African countries to move away from transferring legal ownership of natural resources to foreign companies through poorly designed mining concession agreements and unfettered emigration of skilled professionals. Franchising policies can enable countries to refocus on minerals development agreements that offer win-win for domestic and international Investors (public and privatized domestic interest). Where possible, preferred procurement policies should prioritize domestic investors at least to an agreed percentage to encourage growth of local enterprises through effective partnerships and technology transfer programs with the foreign companies that currently dominate the sector across African countries.
- *Regional economic integration and trade.* In the current global environment, full domestication and implementation of the AfCFTA to deepen regional integration and increase intraregional trade has become an urgent necessity. Accelerating 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.
- *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.

Full domestication and implementation of the AfCFTA to deepen regional integration and increase intraregional trade has become an urgent necessity

ANNEX 1.1
ESTIMATING THE STATE-DEPENDENT EFFECT OF THE GENERAL PUBLIC EXPENDITURE MULTIPLIER

ANNEX FIGURE 1.1.1 Estimating state-dependent effects



Note: The state-dependent effect of general government spending is estimated using the local projections approach of Auerbach and Gorodnichenko (2013). The business cycle is a binary variable that takes the value 1 in recession—when the GDP per capita growth rate is less than zero—and 0 otherwise, that is, in expansion. About one-third (32.5 percent) of the observations are recessions. The regressions include country and year fixed effects.
Source: Staff calculations.

ANNEX 1.2
STATISTICAL APPENDIX

ANNEX TABLE 1.2.1 Real GDP growth

Percent

	2023	2024 (estimated)	2025 (projected)	2026 (projected)
Central Africa	**4.4**	**4.0**	**3.2**	**3.9**
Cameroon	3.2	3.6	3.7	4.1
Central African Rep.	0.7	0.9	1.6	2.9
Chad	4.0	1.5	1.6	3.0
Congo, Rep.	2.0	2.8	3.5	3.4
Congo, Dem. Rep.	8.6	6.2	4.8	5.3
Equatorial Guinea	–5.1	1.7	–4.0	0.2
Gabon	2.4	3.1	2.3	2.1
East Africa	**1.3**	**4.3**	**5.9**	**5.9**
Burundi	3.3	3.9	3.7	3.9
Comoros	3.1	3.5	4.0	4.6
Djibouti	7.4	6.6	6.3	6.6
Eritrea	2.8	2.9	3.2	3.3
Ethiopia	6.6	7.3	8.0	7.0
Kenya	5.6	4.6	5.0	4.8
Rwanda	8.3	8.9	7.8	7.5
Seychelles	2.3	2.9	3.5	3.7
Sudan	–37.5	–12.8	–0.6	1.3
South Sudan	2.5	–27.6	4.0	12.1
Tanzania	5.1	5.6	5.9	6.0
Uganda	4.9	6.3	6.2	7.5
Somalia	4.2	4.0	3.9	4.0
North Africa	**3.8**	**2.6**	**3.6**	**3.9**
Algeria	4.1	3.9	3.6	3.4
Egypt	3.8	2.4	3.6	4.3
Libya	9.1	–3.1	6.9	2.9
Mauritania	6.5	5.1	4.5	5.0
Morocco	3.4	3.2	3.9	3.7
Tunisia	0.4	1.4	1.9	2.3
Southern Africa	**1.8**	**1.9**	**2.2**	**2.5**
Angola	1.1	4.4	3.0	3.6
Botswana	3.2	–3.0	0.8	2.5
Lesotho	1.8	2.4	1.1	0.5
Madagascar	4.2	4.2	3.8	4.0
Malawi	1.9	1.8	3.0	3.8
Mauritius	5.0	4.7	3.0	3.0
Mozambique	5.4	1.8	2.7	3.5
Namibia	4.4	3.7	2.6	3.9
São Tomé and Príncipe	0.4	0.9	2.7	4.4
South Africa	0.7	0.6	0.8	1.2
eSwatini	5.0	4.7	6.5	4.7
Zambia	5.4	4.0	6.2	6.0
Zimbabwe	5.3	2.0	6.0	4.0
West Africa	**3.6**	**4.5**	**4.3**	**4.3**
Benin	6.4	7.5	6.4	6.8
Burkina Faso	3.0	4.7	5.0	5.7
Cabo Verde	5.4	7.3	5.3	4.9
Côte d'Ivoire	6.5	6.1	6.3	6.3
Gambia, The	5.3	5.8	5.7	5.0
Ghana	3.1	5.7	4.5	4.8
Guinea	5.7	4.1	5.7	5.8
Guinea-Bissau	4.4	5.0	5.6	5.8
Liberia	4.6	4.8	5.3	5.3
Mali	4.7	5.0	5.6	6.0
Niger	2.7	10.6	7.0	6.2
Nigeria	2.9	3.4	3.2	3.1
Senegal	4.3	6.9	10.3	7.1
Sierra Leone	5.7	3.9	4.4	4.8
Togo	6.4	5.8	5.8	5.9
Africa	**3.0**	**3.3**	**3.9**	**4.0**

ANNEX TABLE 1.2.2 Outlook for key macroeconomic indicators, 2025–26

	Real GDP growth		Real GDP per capita growth		Inflation		Current account balance		Fiscal balance	
Country	2025	2026	2025	2026	2025	2026	2025	2026	2025	2026
Algeria	3.6	3.4	2.2	2.1	4.0	3.5	–1.0	–2.3	–12.0	–12.2
Angola	3.0	3.6	–0.1	0.6	23.4	17.7	2.7	2.2	–1.7	–2.1
Benin	6.4	6.8	3.9	4.4	1.6	1.9	–5.9	–5.3	–3.0	–2.6
Botswana	0.8	2.5	–0.8	0.9	3.3	3.4	–7.6	–7.3	–9.3	–8.7
Burkina Faso	5.0	5.7	2.7	3.4	2.1	1.7	–5.2	–5.0	–5.3	–5.3
Burundi	3.7	3.9	1.1	1.5	39.1	30.9	–8.7	–8.3	–5.1	–4.4
Cabo Verde	5.3	4.9	4.8	4.4	1.4	1.8	–2.7	–3.1	–2.5	–1.7
Cameroon	3.7	4.1	1.0	1.5	3.9	3.6	–2.7	–2.9	–0.6	–0.3
Central African Rep.	1.6	2.9	–1.8	–0.5	2.1	2.1	–6.9	–6.5	–2.9	–2.1
Chad	1.6	3.0	–3.5	–0.5	4.0	3.7	–9.4	–8.9	–1.4	–1.3
Comoros	4.0	4.6	2.1	2.8	2.2	2.2	–4.5	–4.7	–2.7	–2.5
Congo, Rep.	3.5	3.4	1.1	1.0	2.9	3.2	1.5	1.5	2.8	2.4
Congo, Dem. Rep.	4.8	5.3	1.5	2.0	8.6	7.1	–4.7	–4.1	–3.0	–2.7
Côte d’Ivoire	6.3	6.3	3.8	3.9	2.8	2.4	–2.6	–3.0	–3.0	–3.0
Djibouti	6.3	6.6	4.9	5.3	2.2	2.2	20.9	20.5	0.1	–0.2
Egypt	3.6	4.3	1.8	2.7	24.2	15.7	–5.7	–5.0	–7.2	–5.2
Equatorial Guinea	–4.0	0.2	–6.4	–2.2	2.4	2.6	–3.7	–4.1	–1.2	–1.6
Eritrea	3.2	3.3	1.3	1.3	5.0	4.9	13.2	12.7	–3.0	–2.9
eSwatini	6.5	4.7	5.5	3.7	4.6	4.2	1.9	2.0	–1.9	–2.2
Ethiopia	8.0	7.0	5.4	4.4	15.4	11.7	–1.5	–1.5	–1.8	–1.9
Gabon	2.3	2.1	0.1	–0.1	1.7	2.3	2.0	1.3	–3.8	–4.0
Gambia	5.7	5.0	3.4	2.7	9.4	6.4	–2.5	–1.9	–1.7	–1.3
Ghana	4.5	4.8	2.6	3.0	15.5	9.0	2.6	1.4	–3.5	–3.0
Guinea	5.7	5.8	3.2	3.5	6.4	6.5	–9.3	–9.1	–2.3	–2.4
Guinea-Bissau	5.6	5.8	3.4	3.7	2.7	1.9	–4.9	–3.8	–3.6	–1.7
Kenya	5.0	4.8	3.0	2.8	3.9	4.5	–3.0	–3.4	–5.0	–4.0
Lesotho	1.1	0.5	0.0	–0.7	4.7	5.0	–5.1	–6.5	–0.3	0.3
Liberia	5.3	5.3	3.1	3.1	8.3	7.4	–20.1	–17.4	–3.5	–2.6
Libya	6.9	2.9	5.9	1.8	3.8	3.4	8.5	4.8	5.2	4.1
Madagascar	3.8	4.0	1.3	1.6	7.0	6.7	–6.1	–6.4	–3.9	–4.0
Malawi	3.0	3.8	0.4	1.2	23.8	15.8	–17.9	–16.9	–9.3	–8.6
Mali	5.6	6.0	2.6	3.1	2.8	2.3	–5.4	–3.6	–2.8	–2.4
Mauritania	4.5	5.0	1.6	2.2	2.3	2.2	–8.0	–7.8	–1.1	–1.0
Mauritius	3.0	3.0	3.2	3.3	2.9	2.8	–4.9	–4.8	–6.8	–4.7
Morocco	3.9	3.7	2.9	2.8	2.0	2.3	–2.1	–2.6	–3.6	–3.3
Mozambique	2.7	3.5	–0.2	0.6	4.8	5.2	–40.0	–36.7	–5.4	–4.5
Namibia	2.6	3.9	1.6	1.8	3.9	4.1	–16.2	–15.7	–3.4	–2.5
Niger	7.0	6.2	3.7	3.0	4.9	3.9	–5.7	–5.0	–3.2	–2.6
Nigeria	3.2	3.1	1.1	1.0	24.7	17.3	4.7	3.9	–4.0	–4.2
Rwanda	7.8	7.5	5.7	5.3	4.6	4.9	–12.3	–11.9	–5.6	–3.8
São Tomé and Príncipe	2.7	4.4	0.7	2.4	9.4	7.0	–6.1	–5.1	2.5	1.4
Senegal	10.3	7.1	8.0	4.7	2.6	2.1	–10.0	–8.2	–7.7	–7.1

Country	Real GDP growth		Real GDP per capita growth		Inflation		Current account balance		Fiscal balance	
	2025	2026	2025	2026	2025	2026	2025	2026	2025	2026
Seychelles	3.5	3.7	1.6	1.8	2.0	2.6	–9.0	–8.0	–1.7	–0.6
Sierra Leone	4.4	4.8	2.2	2.8	18.8	16.1	–5.1	–4.3	–4.6	–2.3
Somalia	3.9	4.0	0.4	0.6	4.6	3.6	–7.5	–8.3	–0.5	–0.4
South Africa	0.8	1.2	–0.4	0.1	4.4	4.7	–2.0	–1.7	–4.9	–4.7
South Sudan	4.0	12.1	0.0	10.0	65.0	8.3	–6.5	–2.6	2.0	1.9
Sudan	–0.6	1.3	–1.4	–1.1	100.9	45.8	–7.9	–8.5	–3.5	–3.9
Tanzania	5.9	6.0	3.0	3.1	3.2	3.4	–3.1	–2.9	–3.1	–2.9
Togo	5.8	5.9	3.5	3.7	2.3	2.2	–3.3	–2.9	–3.3	–3.2
Tunisia	1.9	2.3	1.2	1.7	6.4	6.1	–2.2	–3.3	–5.3	–4.9
Uganda	6.2	7.5	3.4	4.8	3.8	4.5	–7.8	–5.4	–6.2	–5.2
Zambia	6.2	6.0	3.3	3.2	12.6	7.1	0.5	–0.7	–3.4	–3.9
Zimbabwe	6.0	4.0	4.2	2.1	23.6	9.6	2.0	1.3	–0.9	–0.6

Note: GDP growth and inflation are in percent, while the current account balance and fiscal balance are in percent of GDP. Countries are categorized according to three criteria: "green" for good performance, "yellow" for average performance, and "red" for poor performance. Real GDP growth of 5 percent or higher is colored green, 0–4.99 percent is colored yellow, and negative is colored red. Real GDP per capita of 2.6 percent or higher is colored green, 0–2.59 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-digit inflation is colored red. Current account surplus is colored green, deficits below 5 percent are colored yellow, and above 5 percent are colored red. Budget deficits below 3 percent are colored green, 3–5 percent are colored yellow, and above 5 percent are colored red.

Source: AfDB statistics.

ANNEX TABLE 1.2.3 Country groups

Oil exporters	Other resource intensive	Non–resource intensive	Tourism dependent	Low income	Middle income
Algeria	Botswana	Benin	Cabo Verde	Burkina Faso	Algeria
Angola	Burkina Faso	Burundi	Comoros	Burundi	Angola
Cameroon	Central African Republic	Cabo Verde	Mauritius	Central African Republic	Benin
Chad	Congo, Dem. Rep.	Comoros	São Tomé and Príncipe	Chad	Botswana
Congo	Ghana	Côte d'Ivoire	Seychelles	Congo, Dem. Rep.	Cabo Verde
Egypt	Guinea	Djibouti		Eritrea	Cameroon
Equatorial Guinea	Liberia	Eritrea		Ethiopia	Comoros
Gabon	Mali	eSwatini		Gambia	Congo, Rep.
Libya	Namibia	Ethiopia		Guinea	Côte d'Ivoire
Nigeria	Niger	Gambia		Guinea-Bissau	Djibouti
South Sudan	Sierra Leone	Guinea-Bissau		Liberia	Egypt
	South Africa	Kenya		Madagascar	Equatorial Guinea
	Sudan	Lesotho		Malawi	eSwatini
	Tanzania	Madagascar		Mali	Gabon
	Zambia	Malawi		Mozambique	Ghana
	Zimbabwe	Mauritania		Niger	Kenya
		Mauritius		Rwanda	Lesotho
		Morocco		Sierra Leone	Libya
		Mozambique		Somalia	Mauritania
		Rwanda		South Sudan	Mauritius
		São Tomé and Príncipe		Sudan	Morocco
		Senegal		Togo	Namibia
		Seychelles		Uganda	Nigeria
		Somalia		Zambia	São Tomé and Príncipe
		Togo			Senegal
		Tunisia			Seychelles
		Uganda			South Africa
					Tanzania
					Tunisia
					Zimbabwe

NOTES

1. The International Monetary Fund projected global growth at 2.8 percent in 2025 and 3.0 percent in 2026. In other regions, growth is projected to average 1.0 percent in the Euro area and 2.2 percent in Latin America and the Caribbean. Growth in emerging and developing Asia is projected to average 4.6 percent in both years.
2. IMF 2017.
3. Fang, Ziangming et al. 2020, "The Economic Consequences of Conflict in Sub-Saharan Africa", IMF Working Paper.
4. AfDB 2024a.
5. AfDB 2025a
6. See annex 2.
7. AfDB, AU, and AUDA-NEPAD 2024.
8. World Bank 2024.
9. UNCTAD 2017.
10. AfDB 2024b.
11. EAC 2023.
12. These are Benin, Côte d'Ivoire, Djibouti, Ethiopia, Rwanda, Senegal, eSwatini and Uganda.
13. UNCTAD 2022.
14. IMF 2025.
15. UNOCHA 2024.
16. IMF 2025.
17. See AfDB (2023a).
18. AfDB 2025.
19. Republic of Ghana 2024.
20. https://www.theeastafrican.co.ke/tea/business-tech/foreign-inflows-in-kenya-double-in-12-months-4786826.
21. These are Ghana, Gambia, Morocco, Benin, Côte d'Ivoire, Cameroon, Burkina Faso, Egypt, Ethiopia, and South Africa.
22. AfDB 2024b.
23. AfDB 2023b, 2024b.
24. IEA 2025.
25. UN Tourism 2025.
26. Okara et al. 2025.
27. https://donortracker.org/publications/budget-cuts-tracker.
28. Absent reliable, consistent information on other debt-creating flows, this report does not attempt to isolate their contributions. Instead, these flows are grouped with residuals, which partly explains the large contribution of other flows in the final outcomes. A recent study has shown that on average across all Sub-Saharan African countries, median stock flow adjustments (SFAs) have represented about 1.5 percent of GDP a year in 2013–22 (IMF 2023b).
29. Out of 38 countries with debt sustainability ratings.
30. AfDB 2024b.
31. Domestic debt restructuring is the easiest one to achieve because debt is issued under domestic laws. Thus, governments can easily restructure debt on terms often not favorable to domestic creditors, leading to financial risks and crowding out the private sector.
32. AfDB 2024b.
33. West African Economic and Monetary Union.
34. AfDB 2024b.

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HARNESSING AFRICA'S DOMESTIC CAPITAL for DEVELOPMENT

POTENTIAL RESOURCES FROM LEVERAGING THE MOBILIZATION OF DOMESTIC CAPITAL

Fiscal resources

Enhancing enforcement of existing regulations and strengthening tax administration efficiency through application of digital technology

$469.4bn

Natural

Integrating the value of natural capital and ecosystem services into national accounts and invest in blue economy

$171.1bn

Financial

De-risking local currency financing, lowering the domestic cost of capital through reduced deficit financing, and capitalizing African development financial institutions

$159.5bn

Business

Transitioning from informal to formal activity for Africa's enterprises

$125.3bn

Human

Accelerating strategic investments in human capital development, retention, and effective use to boost produced capital

$47bn

ESTIMATES OF RESOURCES LOST THROUGH LEAKAGES

Illicit financial flows

Financial leakages due to capital flight and other forms of illicit financial flows

$90bn

Corruption

Losses due to corruption by the ruling elite and multilateral enterprises

$148bn

Profit shifting

Leakages in the form of international profit shifting and base erosion by multilateral enterprises

$275bn

Distorted risk assessments

Leakages in form of high interest rates due to subjective risk perception and credit ratings

$74bn

USING DOMESTIC RESOURCES

Efficiently

Maximize impact through better allocation, prudent management, and reduced waste

Effectively

Align spending with national priorities, ensuring transparency and measurable results

Sustainably

Avoid depletion, ensure long-term resilience, and promote intergenerational equity

Laws • Governance • Institutions

2

BOOSTING EFFECTIVE DOMESTIC CAPITAL MOBILIZATION AND EFFICIENT USE

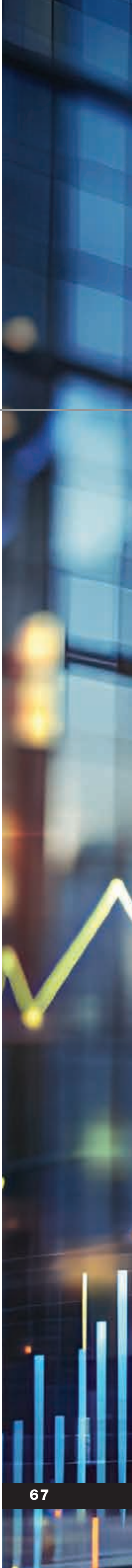
KEY MESSAGES

Africa's slow pace of socioeconomic transformation remains a paradox. While growth on the continent has been relatively strong amid multiple global and domestic shocks, socio-economic transformation has been slow and uneven. The average annual 3.8 percent growth witnessed in the past four decades, second only to developing Asia, falls short of the required 7–10 percent sustained for more than five decades to meet the aspirations of Agenda 2063. Poverty remains widespread and it is projected that in 2030, 9 of 10 extremely poor people globally will be African. Yet Africa's rich diverse resource endowment, including natural capital, human capital, business capital, and financial capital could, if well harnessed, provide for a rapid transformation.

Despite the rich resource endowment and with nearly 80 percent of expenditures 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 has 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. Compared with other regions, Africa's government revenue-to-GDP ratio is lower than in Europe and Central Asia (41.0 percent), Latin America and the Caribbean (28.6 percent), or East Asia and the Pacific (26.2 percent), but slightly above South Asia (17.9 percent).

Africa has the potential to mobilize and effectively use its own capital assets for development to build more resilient economies. Africa needs to harness its rich and diverse resource endowment for sustainable development. Efficient mobilization of its rich and diverse domestic resources should be accompanied by prudent use to plug the loopholes that bleed resources out of the continent. Making Africa the world's "last development frontier" and a continent of promise requires a paradigm shift and building strategic partnerships that promote self-reliance and homegrown development solutions rather than perpetuate external dependence and patronage.

With the right policies, Africa could mobilize and retain about $1.43 trillion in domestic resources, from boosting tax and nontax revenues and curbing resource leakages. Mobilizing additional resources domestically will require the continent to undertake sweeping reforms to leverage its rich resource endowments.[1] By 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 for accelerating structural



transformation. This will ensure that Africa develops with pride, breaking from the yoke and undignified path of begging for resources to support its own development.

Mobilizing additional domestic resources in Africa must, however, be accompanied with efficient use. Inefficiency in public spending is widespread in Africa and higher than the average for the world and other regions. Several factors explain the variance. Weak governance leads to corruption and illicit financial flows. Poor project selection causes delays and cost overruns. Too many projects produce the least development benefit. Monitoring and evaluation systems are inadequate. African countries need to address systemic challenges in using domestic capital to enhance sustainability and maximize the development impact of government spending. Global capital will follow African capital, so there is a need to de-risk African investment to catalyze external long-term financing into transformative projects.

Global capital will follow African capital, so there is a need to de-risk African investment to catalyze external long-term financing into transformative projects

The following are some of the mechanisms for Africa to efficiently mobilize and effectively use domestic capital for development:

- *Enhancing the efficiency of domestic revenue mobilization can generate substantial fiscal resources.* By enhancing enforcement of existing regulations and strengthening tax administration efficiency through application of digital technology and tackling informality, Africa can mobilize an additional $469.4 billion annually —or 14.4 percent of GDP—in fiscal resources. The figure would take Africa's revenue-to-GDP slightly higher than the estimated median 27.2 percent required for fast-tracking structural transformation.[2]
- *Fast-tracking 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 ecosystem services through adoption of natural capital accounting could generate significant resources for development. By accounting for carbon sequestration alone, the Bank estimates that Africa's nominal GDP in 2022 could have increased by $66.1 billion, a potential output expansion of about 2.2 percent. In addition, prioritizing value addition and beneficiation of natural resources, instead of less productive mining concessions and exports of unprocessed natural resources, would generate substantial benefits for African countries.
- *Building the capacity of the public sector, aligning economic interests with long-term sustainability, and undertaking policies that promote growth of aquatic sectors such as fisheries, transportation, and tourism could unlock substantial resources, estimated at $105 billion for the blue economy alone.* Africa's blue economy is projected to reach $405 billion in 2030, generating $100 billion from coastal tourism and creating 57 million jobs.
- *Accelerating strategic investments in developing, retaining, and effectively using human capital, including addressing social and cultural barriers to gender inclusivity, could boost productivity.* 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), and addition of 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 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 leakage," the forgone revenues from their professional activity abroad.
- *Securing remittances through diaspora bonds can mobilize some of the untapped $30 billion a year in potential capital.* Africa is expected to attract about $100 billion in remittance inflows in 2025, and this could reach $283 billion by 2035. Available estimates indicate that of formal remittances, up to 30 percent could be left over and leveraged for local investment and developmental purposes.[3]
- *Transitioning from informal to formal activity for Africa's businesses could generate $125.3 billion annually in additional revenue.* By simplifying business registration processes and tax filling procedures, and enhancing social contracts with citizens, Africa can increase revenue

collection by reducing informality from the current estimates of 50–65 percent at the upper end. The potential revenue and output gains from reducing informality in Africa can be even higher through productivity improvements.[4] Global evidence shows that reducing informality by 10 percentage points could increase GDP growth in emerging markets 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 strength of the continent's business capital and investment. Full implementation of the AfCFTA would increase 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).[5]
- *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.[6] Furthermore, investing an additional 1 percent of the pension funds of the six largest African countries domestically could also generate $1.7 trillion ($70 billion a year) by 2050.[7] This amount is about 17 percent of the $402 billion annual structural transformation financing gap through 2030.
- *Reforming the portfolio allocation rules of intergenerational sovereign wealth funds to scale up domestic investment could provide additional resources for development financing.* African countries with intergenerational SWFs need to invest a percentage of these funds in African financial markets to finance own development, which can contribute to the deepening of Africa's financial markets. And African countries without SWF could establish these funding vehicles and harness their potential for mobilizing development financing. Mobilizing long-term institutional capital at scale from African institutional investors will deliver transformational growth for Africa. Because global capital will follow African capital, the African Development Bank, in collaboration with other stakeholders, established the Africa Investment Forum (AIF). This flagship initiative helps to raise capital for large-scale investments in Africa. Since its inception, this initiative has attracted greenfield investments across various sectors. The 2024 market days of the AIF recorded a total of $29.2 billion in new investor interests in leading sectors such as transport, power, agribusiness, mining, and energy.
- *Capitalizing regional, subregional, and national development finance institutions.* Africa's national development banks (NDBs) and multinational development finance institutions (DFIs) such as the African Development Bank, can be a potent source of long-term financing, by deploying a blend of innovative and strategic measures. 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.[8] Multilateral development banks cannot operate on the retail end of the market. Therefore, supporting NDBs will break the cycle of financing constraints facing African businesses, especially youth-run enterprises, to nurture a budding middle class. Assuming the same compound annual growth rate of 5 percent observed between 2018 and 2022, total assets of Africa's NDBs and DFIs 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.[9] This represents a substantial contribution to financing long-term development projects across the continent, with the potential for even greater impact through further capitalization. As shown in the *African Economic Outlook 2024,* African countries pay

Investing an additional 1 percent of the pension funds of the six largest African countries domestically could also generate $1.7 trillion by 2050

500 percent in additional interest for loans borrowed from international capital markets than loans from multilateral development banks such as the African Development Bank. And the concessional window of the Bank—the African Development Fund (ADF)—was ranked the world's best concessional financing institution in 2022. Fully capitalizing African financial institutions will bolster their equity, providing headroom to help reduce the cost of capital for financing long-term development projects without eroding financial buffers.

The total leakage of capital from Africa could be as high as $587 billion annually, more than the $578 billion collected in revenues in 2023

The above estimates, albeit conservative, show missed opportunities in domestic mobilization of resources for financing development in African countries. In addition to mobilizing resources, retaining and effectively using the mobilized resources are needed for optimal development impact 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. A further $275 billion is lost annually due to profit-shifting by multinational corporations and $148 billion (or 25 percent of GDP) through corruption.[10] 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. This is more than the $578 billion collected in revenues in 2023. In contrast, total external financial inflows averaged just $197 billion annually over 2022–23, which translates into a net external resource outflow of $390 billion, making Africa a net creditor to the world.[11]
- *Improving the efficiency of resource use by raising 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 collected revenue. So, even with current revenue levels and resource allocation, Africa can achieve significantly greater returns simply by enhancing the efficiency of public spending. By raising spending efficiency to levels in the best-performing peer regions, Africa could nearly achieve universal primary school enrollment, raising the rate from 79 percent to 98 percent. And by increasing health expenditure efficiency through expenditure rationalization and cost-sharing through socially based health insurance schemes to the level of lower middle-income countries, African countries could gain on average 5 years of increased life expectancy and up to 10 years if efficiency matched that of upper-middle-income countries.

Unlocking the potential of Africa's capital for development will require bold, coordinated, and homegrown endogenous policy actions, along with strong political commitment and support of the international community. To achieve this, specific policy actions should focus on the following:

Domestic resource mobilization, retention, and efficient use

- Enhance tax revenue collection through digitalizing tax administration, broadening the tax base, and improving the capacity of tax administrators.
- Undertake comprehensive public financial management reforms to ensure efficient and strategic use of mobilized resources for growth-enhancing investments. Rebuilding the social contract with citizens through effective use of tax revenues is equally vital; channeling tax revenues into the provision of quality public services will promote voluntary tax compliance and help broaden the tax base.
- Impose nondistortionary measures such as low import duties and special levies and excise duties on selected goods and services. Governments should also rationalize tax rebates and investment expenditures for mining and other foreign companies as a practical means to raise nontax revenues.
- Dismantle revenue collecting cartels. Combined with increased accountability of collected revenues and efficient and transparent use for provision of quality social services helps to eliminate incentives for noncompliance in paying local levies and user charges.
- Actively manage 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 help improve the database and commercial value of such assets to raise rental and other income without divesting ownership of the assets.

Build state capacity to plug leakages and to manage and use capital effectively

- Enact and implement transparency and accountability laws to curb illicit financial flows, corruption, natural resource theft, international profit shifting, and so on, including holding public officials and company executives accountable for misappropriating public resources. Furthermore, improving risk perceptions and ratings will be key to preventing Africa paying more in interest on debt due to subjective credit ratings. Africa must therefore accelerate the creation of the proposed pan-African credit rating agency to respond to the "unfair" credit rating by leading credit rating agencies (CRAs). While global rating agencies have the potential to change and are currently undergoing some degree of self-reform, their evaluation of sovereign creditworthiness is deeply entrenched in the financial markets of developed countries and may hinder the motivation for reforms.

Enhance resource productivity through natural capital accounting and beneficiation

- 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, including ecosystem services, while supporting sustainability objectives.[12] Proper valuation of the vast green wealth of countries and updating the system of national accounts to capture this value could increase the size of Africa's GDP.
- Institutionalize natural capital accounting by leveraging the strong commitment and ambition demonstrated at the highest level of government to advocate and champion the mandatory valuation of natural capital. Institutionalizing proper valuation of natural capital should include establishing or strengthening dedicated NCA units across relevant government agencies.
- Shift from poorly designed Mining Concession Agreements towards Mineral Development Agreements, enshrined in national law, to enhance ownership and generate value for the well-being of citizens.
- Prioritize preferred procurement and flexible local content policies to stimulate domestic production, and support franchising models that bring global innovations, skills, and technology to bridge domestic capacity gaps.

Developing deep and integrated financial markets to leverage financial capital

- Deepen financial markets and enhance the role of financial capital in Africa's development. This will require cross-border cooperation, harmonized trading laws and accounting standards, and currency convertibility. Africa's financial sector also needs to adopt fit-for-purpose regulatory frameworks that foster innovation while safeguarding data privacy and protection 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.
- Tap into emerging venture capital markets to fill the financing void created by the traditional bank-based model of financing in Africa. Addressing infrastructure challenges and weak institutional quality in many low-income countries 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.

Deepening 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

Invest in human capital and skills development, retention, and use

- Prioritize education on 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. In parallel, align education systems with local economic priorities guided by national development plans, with a strong emphasis on science, technology, engineering, and mathematics (STEM) and technical and vocational education and training (TVET).
- Unleash the dynamism of Africa's greatest asset—the young people—by developing financing instruments tailored to this segment of the business ecosystem to stimulate and nurture youth entrepreneurship.
- Place women at the center of human capital development strategies by tackling structural barriers to foster gender inclusivity and unlock a powerful multiplier effect to accelerate productivity and economic growth.
- Reverse migration and brain drain through measures that go beyond economic effects of poor career prospects to foster a reflow of skills and engender effective mobilization of development finance through diaspora bonds, trade facilitation, and brain circulation programs, among others.
- 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 and build a resilient health workforce. In addition, countries need to modernize service delivery systems by deploying digital technologies and upskilling healthcare workers.

Africa hosts 30 percent of the world's total mineral reserves, more than 60 percent of the world's uncultivated arable land, more than 624 million hectares of forest, and some of the world's longest rivers

Implement the AfCFTA to create a One Africa market for deeper economic integration

- Implement the protocol of free movement of people, talent, and other factors of production, through the removal of tariff and non-tariff barriers—open visa—and develop integrated regional infrastructure to deepen regional integration. The AfCFTA One Africa market should be supported by implementation of the Pan-African Payment and Settlement System, a unified real time cross-border payment platform in distinct local currencies to circumvent exchange losses and risks associated with third-party currencies.

On the role of the international community

- Foster mutually beneficial partnerships with the international community—bilateral and multilateral agencies—to garner international support in strengthening capabilities of African countries to mobilize domestic capital at scale and use it better. Multilateral organizations and non-regional member countries should also cooperate with African countries in recovering embezzled resources by African elites stashed in tax havens and in addressing other forms of resource leakages.

INTRODUCTION

Over the past several decades, Africa's growth has been relatively strong amid multiple global and domestic shocks, but socioeconomic transformation has been slow and uneven. The lack of long-term, low-cost financing has constrained sustainable development and structural transformation more broadly. Given Africa's population growth, at 2.4 percent on average since the early 1980s, real average GDP growth, at 3.8 percent over the four decades preceding the Covid-19 period—second only to developing Asia—has been too low for socioeconomic transformation, including domestic capital mobilization and investments in infrastructure and human capital development. Africa needs to scale up domestic resource mobilization if it is to achieve and sustain at least 7–10 percent GDP growth rate over several decades that it requires to achieve continental development aspirations such as Agenda 2063 and the Sustainable Development Goals (SDGs).

Africa's slow pace of socioeconomic transformation remains a paradox. Africa has vast endowments of natural capital. For instance, Africa hosts 30 percent of the world's total mineral reserves, more than 60 percent of the world's uncultivated arable land, more than 624 million hectares of forest, and some of the world's longest rivers, the Nile (#1) and Congo (#9). And its youthful population—more than 60 percent of the population is under 25 years—with projections that a quarter of the world's population in 2050 will be in Africa, is one of its biggest assets and a potentially formidable human capital base. Recent decades have seen the steady development of business capital, including the financial sector. Though undoubtedly asset rich, Africa is still constrained in access to development financing because most of its resources are not primed for effective use, productivity enhancement, or revenue generation. Shifts in the dynamics of international development cooperation in recent decades suggest that African countries will increasingly have to depend on their own domestic resources and ingenuity to spur development. This chapter argues that only when African countries are able to embark on effective and sustained use of their vast capital endowments—while also improving the mobilization and use of domestic resources—will they be able to embark on sustained structural transformation, meet their SDG targets, and enjoy the aspirations of Africa 2063.

Implementing the United Nations SDGs and the African Union Agenda 2063 hinges on the continent's ability to mobilize adequate and timely financial resources. The African Development Bank (AfDB) estimates that Africa's annual financing gap to fast-track structural transformation by 2030, while focusing on a limited set of SDGs closely associated with the process, equals \$402.2 billion.[13] To achieve all SDGs by 2030, the continent's estimated financing gap is \$1.3 trillion a year. And with a population expected to reach 1.7 billion in 2030, Africa's SDG financing gap could total \$19.5 trillion by 2030.[14] In addition, the AfDB estimates that Africa's infrastructure financing needs alone range between \$184 billion and \$221 billion a year. For climate finance, Africa's financing gap averages \$213.4 billion annually until 2030.

For financial intermediation, the existing global financial architecture is not sufficiently aligned to Africa's development financing needs, including cost, timeliness, and delivering resources at scale. Access to capital markets is mainly driven by rating agencies, with high-risk ratings for African countries making access to development finance very expensive and cumbersome. The proposed pan-African credit rating agency could compete with and provide an alternative view of the "unfair" credit rating assessment of African countries provided by leading CRAs. Yet, even with this, the governance structures of international financial institutions (IFIs), based on current shareholding models and weighted voting systems that favor richer countries, the impact a pan-African rating agency may be overshadowed, unless there is a commitment to reforming the global financial system. In its current form, the that system is misaligned with the speed and scale of financial flows required to support developing countries that need funding the most. Part of the change in the global financial architecture is under way through some degree of self-reform by the CRAs. However, CRA evaluations of sovereign creditworthiness are still deeply entrenched in the financial markets of developed countries, and this could hinder the motivation for self-reforms to match expectations of the developing world. Still, a well-functioning global financial architecture is expected to cover only about 42 percent of Africa's financing gap for structural transformation, so African countries must turn to their own domestic resources.[15] Amid the rising global geopolitical tensions, the sheer scale of Africa's resource needs requires a paradigm shift in the continent's approach to scaling up its own financing capacity and to prudently deploying its domestically mobilized resources towards impactful development.

International support through official development assistance (ODA), which has complemented domestic financing, is bound to decline. Several African countries have benefited from ODA flows, but in recent years, these resources have shrunk in relative terms. As share of GDP, ODA flows to Africa declined steadily to an estimated 2.1 percent of GDP in 2023 from 2.6 percent of GDP in 2020, mainly reflecting Covid-19 related development assistance for that year. And only few advanced countries have consistently met the ODA threshold of 0.7 percent of gross national income (GNI).[16] Major donor countries, led by the United States through USAID, have announced significant funding cuts. The unpredictability of ODA flows to Africa is further exacerbated by donor countries looking increasingly inward, tilting fiscal conditions and general sentiment to the downside. These aid cuts, triggered by shifting

African countries will increasingly have to depend on their own domestic resources and ingenuity to spur development

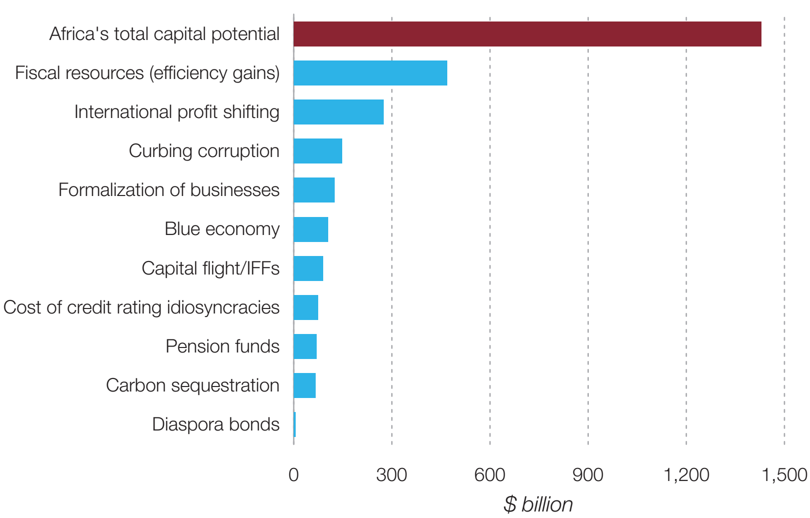
domestic policy priorities in donor countries, could create a funding squeeze for Africa's low-income countries, whose budgets depend significantly on international development assistance.

The push to enhance access to domestic resources should include a determined effort at plugging capital flight and other forms of illicit financial outflows and encouraging capital inflows. Capital flight from Africa is estimated at about $90 billion annually.[17] And tax evasion and avoidance, facilitated by an opaque international tax architecture, cost the continent an estimated $275 billion annually in the form of profit shifting by multinational enterprises. In contrast, financial inflows to the continent have slowed. Total external financial flows—comprising foreign direct investment (FDI), ODA, portfolio investment, and remittances—fell by 6.9 percent to $204.6 billion in 2023 from $219.8 billion in 2021.

Ultimately, deliberate and focused domestic resource mobilization and effective resource use are the most credible means for achieving development objectives on a sustainable basis. African governments have thus taken several initiatives to improve domestic resource mobilization (DRM) and combat tax evasion and avoidance. The initiatives include the work of the African Union Development Agency-New Partnership for Africa's Development (AUDA-NEPAD), the High-Level Panel on Illicit Financial Flows (IFFs), the African Union Assembly's Special Declaration on IFFs, the Africa Initiative of the Global Forum on Transparency and Exchange of Information for tax purposes, the African Tax Administration Forum, and the establishment of Medium-Term Revenue Strategies. The 2015 Addis Ababa Action Agenda reaffirmed Africa's commitment to "further strengthening the mobilization and effective use of domestic resources," aligning with the principle of national ownership established in the Paris Declaration on Aid Effectiveness.

This chapter discusses Africa's domestic capital, cataloguing the key challenges and opportunities to effectively mobilize and use that capital for sustainable growth and development. It looks at five interlinked forms of capital, namely fiscal resources, natural capital, financial capital, business capital, and human capital. For each type of capital, it highlights the availability domestically, how well it has been deployed thus far, how to mobilize it more optimally, and the mechanisms to explore for prudent and efficient use to drive Africa's sustainable growth and development. Figure 2.1 summarizes the potential resources Africa can efficiently mobilize by leveraging its vast sources of capital and effectively retain already mobilized resources by plugging leakages to corruption, profit shifting, illicit financial flows, and other resource outflows. Estimates indicate that Africa could mobilize substantial resources, estimated at $1.43 trillion annually, by addressing just the identified challenges and missed opportunities. This is more than enough to close the estimated financing needs of $1.3 trillion to achieve the continent's SDGs by 2030.

FIGURE 2.1 **Africa's annual capital potential**



Note: Fiscal resources are based on matching the revenue-to-GDP ratio of Latin America and Caribbean. Pension fund assumes additional 1 percent of available pension funds is invested domestically to finance Africa's development; Diaspora bonds targets mobilizing 20 percent of diasporan savings.

Source: AfDB calculations using different estimates for Africa. Cost of credit rating idiosyncrasies is from UNDP (2023); Capital flight from UNCTAD (2020) and Ndikumana and Boyce (2025). Blue economy is based on World Bank estimates of the potential by 2030. Carbon sequestration is based on a recent AfDB report.

FISCAL RESOURCES

Mobilizing fiscal resources in Africa

Fiscal resources are the foundation for financing critical public sector activities, including investments in human capital, infrastructure, and social services. In this chapter, *fiscal resources* denote domestic government revenue generated from tax and nontax sources.

Africa is increasingly mobilizing domestic resources to finance its development priorities. The average share of domestic revenue in total government revenue (including grants) increased from 86 percent in 2005 to 93 percent in 2022, due to rising tax revenues from 67.5 percent in 2010 to 71.0 percent in 2021 (figure 2.2). Then in 2022, it declined marginally, reflecting substantial subsidies to lessen the impact of high global food and energy prices induced by multiple shocks. In contrast, the share of nontax revenues in government revenue declined to 26.1 percent in 2021 from 27.8 percent in 2010, largely due to the poor performance of hydrocarbons and mining activities, which account for about 85 percent of nontax revenue—mainly royalties and profit sharing.

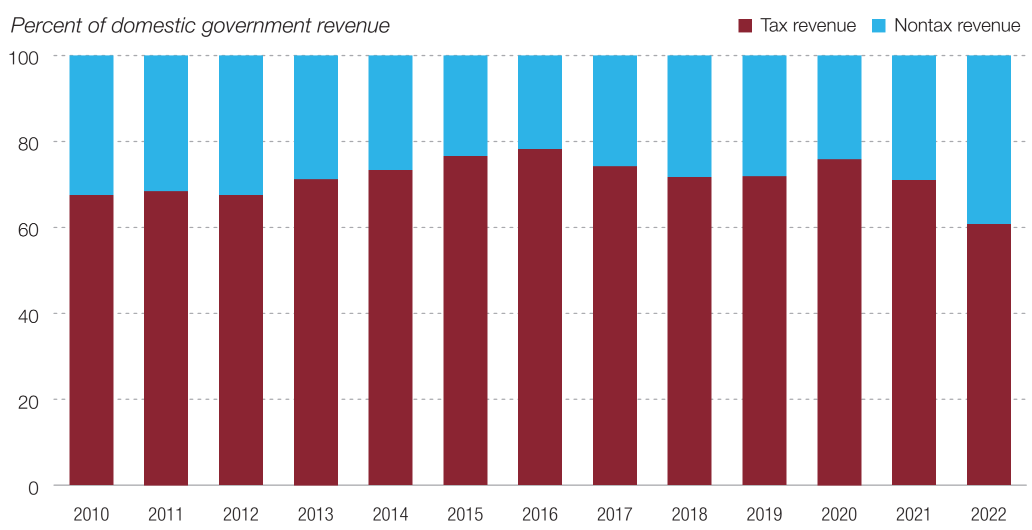
On average, government revenue in Africa has been persistently lower than that of other regions. Although Africa's domestic government revenues increased in nominal terms by 35 percent, from about $424 billion in 2010 to $572 billion in 2022, they declined steadily in relative terms, from a peak of 23.1 percent of GDP in 2010 to a nadir of 17.1 percent of GDP in 2016, largely reflecting the collapse of commodity prices in 2015. Since 2017, the domestic revenue share has been volatile, averaging below 20 percent of GDP, exacerbated by effects of Covid-19 in 2020. Africa's revenue performance from 2010–22 only surpassed that of South Asia, which averaged 17.9 percent of GDP for that period (figure 2.3). All other major regions of the world recorded higher average ratios—Latin America and the Caribbean (28.6 percent of GDP), Europe and Central Asia (41.0 percent of GDP), and East Asia and Pacific (26.2 percent of GDP). The low rate of domestic revenue mobilization means that governments in Africa continue to rely on external financing to meet their development needs. The domestic resource gap—total spending minus total domestic revenue, averaging about 23.6 percent—is taken up by grants and domestic and foreign borrowing.

Africa's weak tax effort largely explains the underperformance in government revenue.[18] While tax revenues accounted for 15.8 percent of GDP on average in 2010, the ratio declined to 14.8 percent of GDP in 2022 (see figure 2.3). This downward move reflects significant exposure of the continent's tax revenues to global shocks, including commodity prices. In the majority of Africa's commodity-dependent ("rentier") economies, the performance of tax revenue tends to be procyclical with movements in commodity prices.

However, these figures capture only formal taxation and fail to account for implicit taxes borne by citizens. Across much of the continent, individuals and households frequently assume the financial

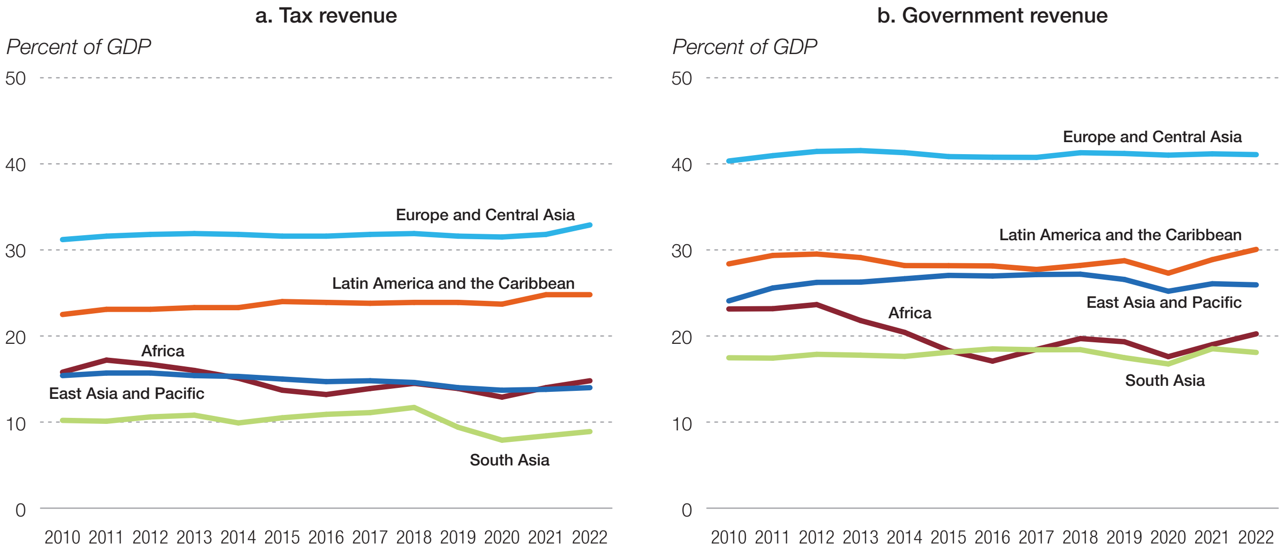
Africa is increasingly mobilizing domestic resources to finance its development priorities

FIGURE 2.2 **Share of tax and nontax revenue in domestic government revenue in Africa, 2010–22**



Source: AfDB calculations using IMF's World Revenue Longitudinal Database (WoRLD).

FIGURE 2.3 **Government and tax revenues by regions, 2010–22**



Source: AfDB calculations using World Economic Outlook data, October 2024.

burden of self-provision of basic social services such as, inter alia, piped water, security, street lighting, and electricity, due to the state's inability to deliver them. These out-of-pocket expenditures effectively function as informal taxation and can be substantial, especially for the poor. Therefore, while official tax-to-GDP ratios may appear low, the true fiscal burden on African citizens is considerably higher when the value or cost (implicit taxation) of these services is factored in. Recognizing this is critical for designing equitable and efficient tax reforms and for strengthening the social contract between governments and citizens.

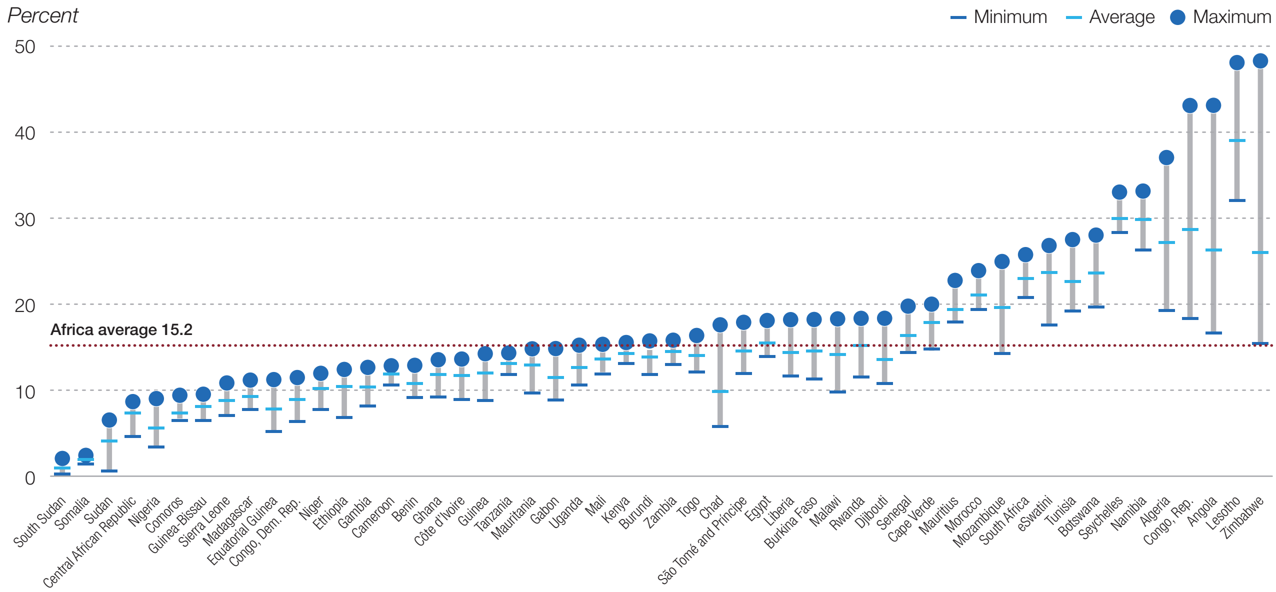
The continent's average low tax revenue ratio mask significant heterogeneity among individual African countries. The average tax-to-GDP ratio over 2010–23 falls short of the 15 percent threshold in 34 countries, across all of Africa's five regions (figure 2.4). This heterogeneity reflects important differences in economic structures and income levels. For instance, with the exception of Lesotho, more diversified and comparably richer countries such as Morocco, South Africa, and Tunisia have generally high tax-to-GDP ratios, even surpassing the average for Latin America and Caribbean.

Most countries with low revenue ratios are either in states of fragility or transition economies dependent on hydrocarbons, or both. Evidence shows that in natural resource-based economies, each 1 percent of GDP in resource revenues depresses other (nonresource) revenues by 0.3 percent.[19] Such low revenue ratios—a *"revenue"* type of Dutch disease—reflect significant structural weaknesses in revenue administration systems and systemic noncompliance underpinned by a minimal incentive to implement more broad-based tax measures to raise additional revenues.

Africa's abundant natural resources, if well harnessed, offer great potential for enhanced revenue collection, especially through nontax measures. The average nontax revenues in Africa stood at 5.3 percent of GDP in 2010–22, 1.8 percentage points below the global average of 7.1 percent of GDP, wide cross-country variations (figure 2.5).

Of the continent's 54 economies, 21 collected no more than 2 percent of GDP in 2010–22, and only 13 had revenue ratios higher than the region's average for this period and only 8 exceeded 10 percent. The top performers were resource-intensive and oil-exporting countries, demonstrating the importance of natural resources in nontax revenue in Africa. In 2021 alone, Africa's total natural resource rents amounted to nearly 7 percent of GDP, yet much of this revenue is lost due to illicit financial flows and weak governance.[20] African countries should no longer condone investors

FIGURE 2.4 Tax-to-GDP ratios, minimum, maximum, and average, 2015–23



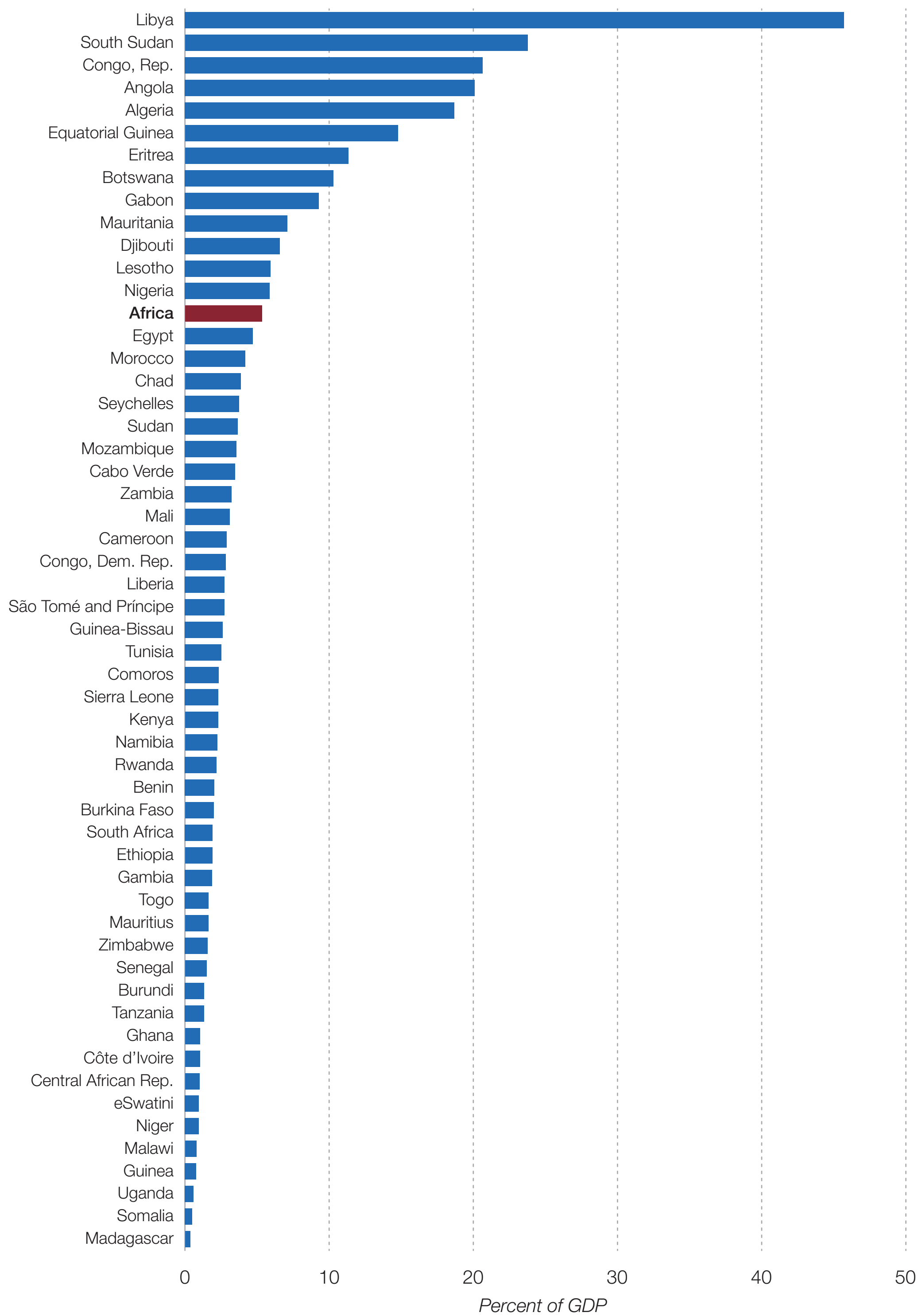
Source: AfDB calculations using data from African Development Bank statistics and the IMF WEO database.

in the extractive industries that seek only to generate generous private returns but impose disproportionate high social costs in lost growth and opportunity through revenue leakages. Increasing the revenue streams from natural resources should be forward looking and respect the principle of intergenerational solidarity. Countries such as Botswana and Republic of Congo have achieved high rates of nontax revenue through direct ownership in some mining activity value chains, improved efficiency, and increased diversity of sources.[21] Estimates show that by just improving collection efficiency, nontax revenue in Africa could increase by 2 percent of GDP. In nonresource-intensive and tourism-dependent countries, nontax revenues are mainly collected from a small array of instruments such as rental of properties, business permits, social security contributions, fines, penalties, and forfeitures.

An efficient and diversified tax structure is crucial for funding public services, reducing dependence on foreign aid, and promoting sustainable economic growth. Countries such as Nigeria, South Africa, Mozambique, and Egypt generate more than half of their tax revenues from direct taxes, while countries such as Sudan, Burundi, Uganda, Seychelles and Cameroon rely mainly on indirect taxes (figure 2.6). Other countries—Morocco, Djibouti, Kenya, Malawi, Niger, Côte d'Ivoire, Lesotho, Madagascar, São Tomé and Príncipe, Gabon, and Algeria—had a relatively balanced mix of different tax types in 2023. Others had significantly higher rates of other forms of taxes largely because of inadequate tax information and low capacity among tax administrators. These differences reflect the structure of economies and the design and capacity of tax systems to assign revenues to appropriate categories. Overreliance on single sources of taxes in some countries exposes them to revenue fluctuations in case of significant shock to the tax source.

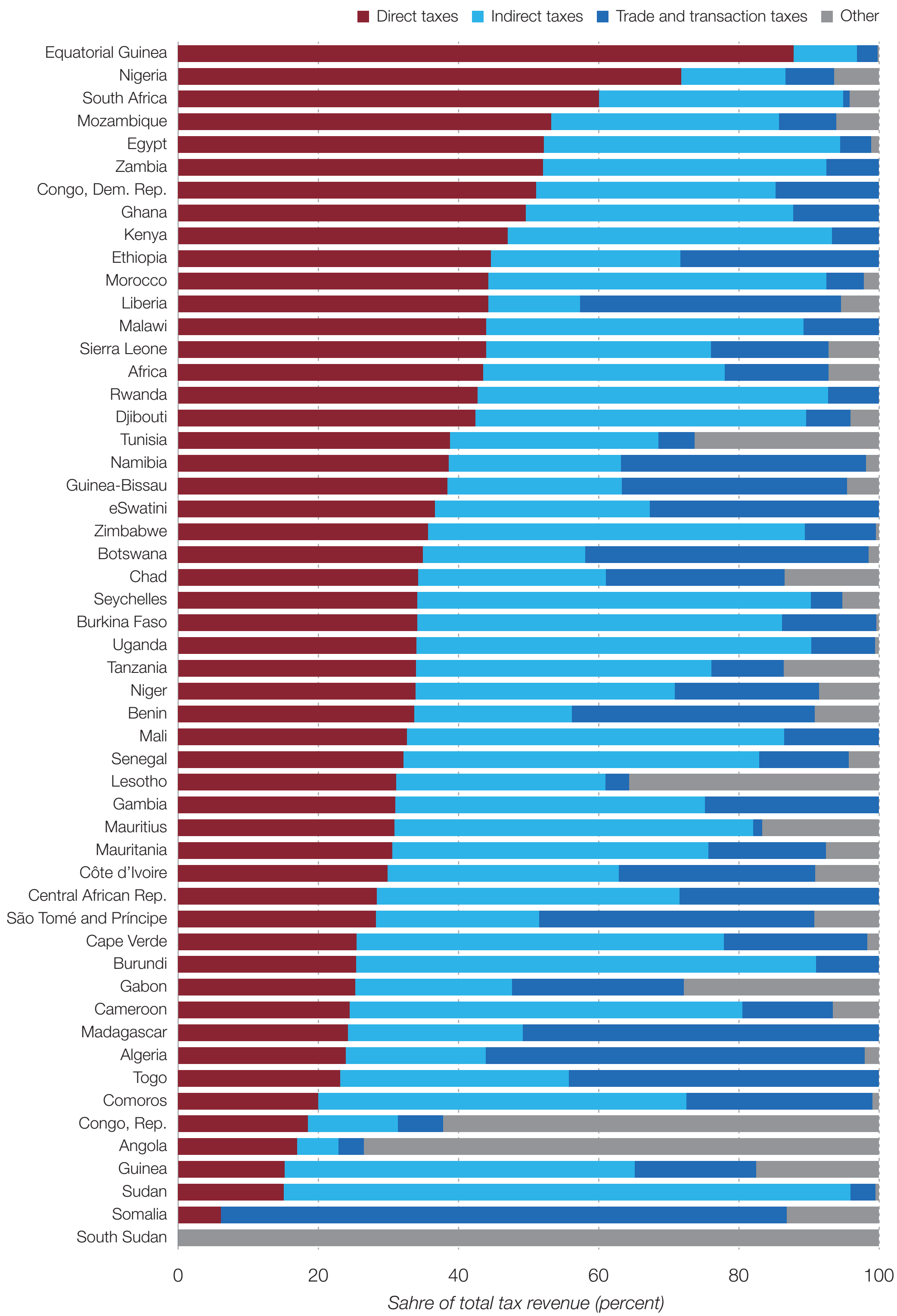
Despite the many challenges faced by African countries to harness tax revenues, the composition of taxes roughly mirrors that in other regions. The share of direct and indirect taxes in total taxes in Africa is identical to that in East Asia and the Pacific, representing 80 percent of total tax revenue in 2021, but significantly higher than that of Latin America and the Caribbean (71 percent), North America (68 percent), and South Asia (68 percent). Moreover, the share of trade taxes in African countries is higher than in all other regions except South Asia. While the share of individual taxes in total tax revenue is higher in Africa than

FIGURE 2.5 **Nontax revenue in African countries, 2010–22**



Source: AfDB calculations using IMF's World Revenue Longitudinal Database (WoRLD).

FIGURE 2.6 **Tax structure across African countries, 2023**



Note: Direct taxes include corporate and personal income taxes. Indirect taxes include value added, sales, excise, and others.

Source: African Development Bank statistics

By digitalizing tax administrations and strengthening institutional capacity, countries can reduce tax leakages and improve compliance

in most other regions, the share of tax revenue in GDP is lower. This suggests that African countries still have scope to strengthen fiscal systems by broadening their tax bases and leveraging digital technologies to enforce and monitor tax compliance and enhance efficiency of tax collection. Improving the efficiency of revenue collection will help bridge 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.

Perceptions of little or no trust in the tax authorities are associated with lower efficiency. A 1 percent increase in the share of citizens' perception of little or no trust in the tax department is associated with a 0.22 percent lower VAT efficiency.[22] Similarly, a 1 percent increase in the share of citizens' perception of little or no trust in the tax department is associated with 1 percent lower CIT efficiency in fragile states. Reaffirming the importance of trust in eliciting tax compliance, Ethiopia shows that persuasion was more effective than coercion in eliciting tax compliance. Tax payments by the treatment group (citizens who received letters encouraging them to pay their taxes) increased by $750,000 per year, on average. Generalizing the results to all Addis Ababa taxpayers, the revenue forgone from not using persuasive intervention would be close to $25 million.[23] So, building trust among taxpayers could produce large revenue benefits at negligible cost to governments.

Boosting revenue in Africa

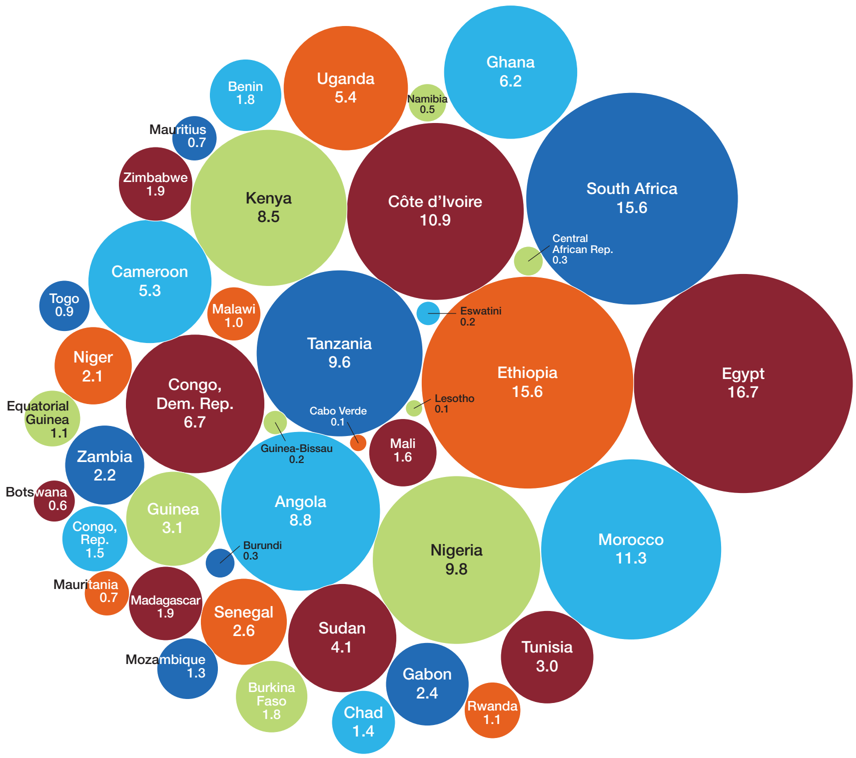
The formalization of Africa's vast informal sector presents an opportunity to significantly expand the revenue base. Informality in Africa ranges from a low of 20 percent in upper middle-income economies to a high 65 percent in low-income countries.[24] The sector accounts for nearly 86 percent of total employment on the continent, contributing minimally to government revenue.[25] By implementing targeted policies that incentivize registration, governments can integrate informal enterprises into the tax system and thus expand their revenue base. In Rwanda, for instance, formalization helped increase tax revenue and economic activity. However, informality can also be a result of tax systems. Poorly designed tax administration that penalize firms and individuals could push agents into informal activities, to circumvent punitive tax systems.

In many African countries, tax administrations now boast technical and budgetary autonomy and well-trained professional staff. Yet Africa's low revenue performance is partly attributed to inefficient tax collection systems, weak enforcement, and corruption. Improving efficiency in tax administration can have high revenue benefits by reducing loopholes and ensure better compliance. Transparent and enforceable tax laws and improving audit capacity and trust between taxpayers and tax authorities, reinforcing weak tax morale, can help tackle tax evasion and enhance revenue collection.

By digitalizing tax administrations and strengthening institutional capacity, countries can reduce tax leakages and improve compliance. Kenya achieved a cumulative 0.42 percent of GDP improvement in revenue collection from 2015 to 2019, after it adopted an iTax system in 2014, suggesting progressively improved compliance. By increasing VAT efficiency to at least 70 percent, the 95th percentile of the VAT efficiency ratio in other developing countries, African countries could increase median VAT-to-GDP ratios by as much as 7.9 percentage points, or $1.9 billion (figure 2.7). This would translate into additional VAT revenues of $171 billion, approximately 6.1 percent of GDP in 2024.[26]

Although African countries raised, on average, $479.66 billion annually in fiscal revenue between 2010 and 2022, it was not enough to meet their financing needs. Countries have undertaken reforms and adopted new revenue-generating measures to enhance revenue collection and to transform tax structures into instruments for fostering growth and inclusive development. For example, Angola is implementing tax compliance certificates while Egypt introduced a carbon tax to tax the *bads* to reduce emissions while also generating additional revenue. Egypt's reforms could potentially increase the revenue take from the 2020 share of 6.8 percent. Carbon taxes have an added advantage—lowering other taxes and reducing the burden on taxpayers. Ethiopia is also streamlining and eliminating tax exemptions, and Nigeria's digitalizing withholding tax remittances and deploying an integrated tax administration

FIGURE 2.7 **Revenue gains from VAT efficiency, selected African countries, 2024 ($ billion)**



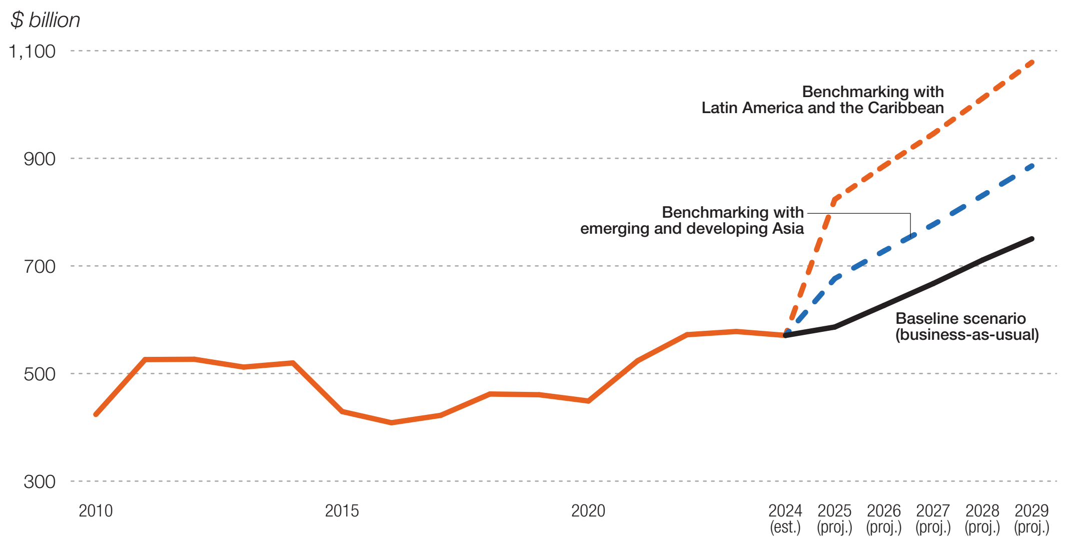
Source: Mukasa and Simpasa 2024.

system, among others, has the potential to raise additional revenues.

To get a sense of Africa's potential for generating fiscal resources in the medium term (2025–29), we conducted several simulations exercises under different scenarios. First, a baseline scenario was established by estimating Africa's fiscal resources in the medium term, using nominal GDP projections and five-year historical averages, on a rolling basis, of fiscal revenue to GDP ratios. The baseline scenario estimated how much additional fiscal resources Africa could generate from the projected increase in economic activity, but without undertaking any additional revenue-enhancing measures. The second and third scenarios estimate Africa's fiscal resources assuming that revenue mobilization performance achieves the average revenue-to-GDP ratios in Latin America and the Caribbean (LAC) and Emerging and Developing Asia (EDA), respectively. These benchmarking exercises compare the potential fiscal outcomes of reforms against those in the two regions. The baseline results show that Africa can potentially raise up to $188.68 billion annually in additional fiscal revenues, equivalent to 5.8 percent of GDP, from the projected increase in economic activities in the medium term (figure 2.8).

By matching the current revenue-to-GDP ratio in Latin America and the Caribbean, Africa could annually raise $469.41 billion, 14.4 percent of GDP, in additional fiscal resources during 2025–29. Despite facing numerous domestic resource mobilization (DRM) constraints like those in Africa, the average revenue-to-GDP ratio in Latin America and the Caribbean (LAC) is higher than that for Africa. Achieving the revenue level of the LAC, African countries would need to increase its current average revenue-to-GDP ratio by 7.4 percentage points on average to 29.05 percent to match LAC. Attaining this target would raise Africa's revenue-to-GDP ratio slightly above the estimated median threshold of 27.2 percent to fast-track structural transformation. This will, however, require more broad-based and comprehensive reform measures in the short to medium term, such as those in annex table 2.1.1. But the reforms should not

FIGURE 2.8 Africa's fiscal revenue



Source: AfDB calculations using data from the African Development Bank statistics and the IMF WEO Database, October 2024.

By matching the current revenue-to-GDP ratio in Latin America and the Caribbean, Africa could annually raise $469.41 billion

obviate other long-term fundamental goals such as reducing dependence on volatile and exhaustible natural resource revenues and tackling implicit taxation through the provision of quality social services and building a social contract with taxpayers to engender voluntary compliance. Implicit taxation—where citizens self-provide social amenities because of the failure of the government to fulfill its regalian functions such as the provision of basic social services—is pervasive in Africa with deleterious effect on compliance.[27]

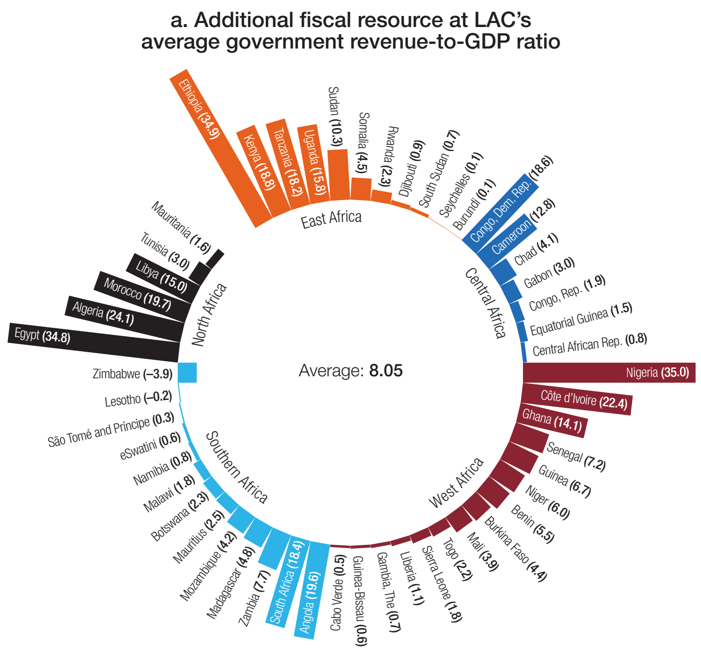
Extending the simulations to the country level provides notable insights. The potential additional fiscal revenue each African country would accrue from setting the average revenue-to-GDP ratios the same as that in Latin America and the Caribbean is shown in figure 2.9. The simulation shows that Africa's biggest economies would gain the most in absolute terms. For instance, South Africa could increase revenues to $129.81 billion annually between 2025 and 2029, up from an annual average of $111.38 billion between 2020 and 2023, if its revenue-to-GDP ratio were to increase from 24.94 percent to the average of 29.05 percent for LAC. Egypt, Algeria, and Nigeria would, however, register the highest annual increase in fiscal revenue in nominal terms ranging from $24.1 to $34.9 billion.

Increasing the revenue-to-GDP ratio in Africa to the levels in Latin America and the Caribbean is achievable. Of the 39 African countries with data on tax capacity, the level of tax-to-GDP ratio required to achieve the average level in LAC is within the maximum amount of tax revenues that could be collected in 34 countries (87 percent of them) given the underlying socio-economic and institutional factors (figure 2.10). If these countries implement the required reforms, they would achieve the increases in revenues without exhausting their current tax headroom. But the success of these reforms depends on governments' commitment and ability to garner political buy-in. In pursuing this goal of increased revenue, African countries can draw valuable lessons from LAC countries, and from other global best practices, through experience sharing and targeted support from nonregional member countries. In particular, nonregional member countries can strengthen efforts to help African countries enhance domestic revenue mobilization, improve revenue retention, and ensure the prudent allocation of resources toward productive sectors.

Effective use of fiscal resources

In Africa, inefficiency in public spending is widespread and higher than the average for the world

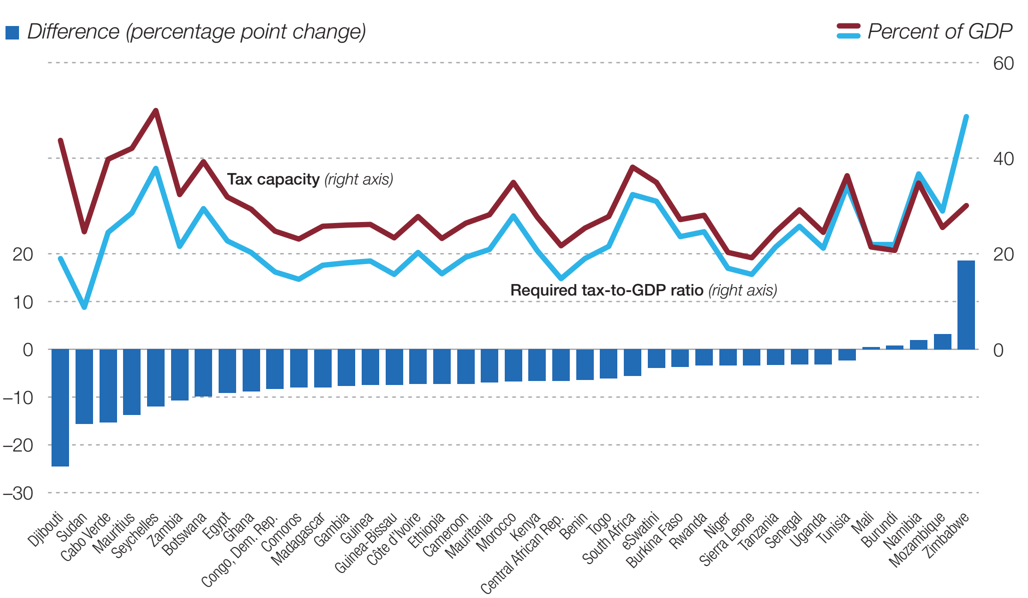
FIGURE 2.9 Additional fiscal revenue in African countries



Note: Figure 2.9a assumes that revenue-to-GDP ratios in Africa match the levels in Latin America and the Caribbean; Figure 2.9b assumes that revenue-to-GDP ratios in Africa match the levels in Emerging and Developing Asia (EDA).

Source: AfDB calculations using data from African Development Bank statistics and the IMF WEO Database, October 2024.

FIGURE 2.10 Tax capacity and required tax-to-GDP ratio, selected African countries



Note: Required tax-to-GDP ratio is the computed revenue potential that African countries can attain by matching the level in Latin America and Caribbean without exhausting their current headroom.

Source: AfDB calculations based on the database from African Development Bank statistics.

and for other regions. Africa has a public investment efficiency gap of 39 percent—higher than Europe (17 percent) and Asia (29 percent)—limiting the growth impact of fiscal resource use. In the health sector, for instance, a study from the IMF reveals that Sub-Saharan Africa, which accounts for about 70 percent of Africa's total GDP, has an output-oriented health spending efficiency score of 60 percent. In advanced economies, the efficiency score is around 90 percent. Emerging markets and other developing regions have an average score of between 70 and 80 percent, at least 10 percentage points higher than the average for Africa. This gap indicates that African countries, particularly low-income developing countries, lose more potential health outcomes per dollar spent than their global counterparts. Weak governance, poor project appraisal and selection, and inadequate monitoring systems are among the key drivers of inefficiency in health expenditure. African countries need to address systemic challenges in public financial management to maximize the impact of spending.[28]

The economic cost of inefficiency in public expenditure is substantial, affecting both fiscal sustainability and development outcomes. African countries lose approximately 3 percent of GDP annually due to misallocation and wastage of public funds.[29] In the health sector alone, inefficient spending leads to wasted resources equivalent to 1.4 percent of GDP in some countries, exacerbating challenges in providing universal health coverage.[30] Similarly, poor investment management in infrastructure projects results in cost overruns and delayed completions, limiting the economic benefits of public projects. Strengthening expenditure efficiency would significantly enhance fiscal space, allowing governments to allocate more funds to high-impact areas. Countries that have improved efficiency, such as Rwanda, focused on strengthening governance, implementing digital financial management systems, and enhancing oversight mechanisms.[31] African countries could improve efficiency by strengthening project selection processes, ensuring credible multiyear budgeting, and enhancing monitoring systems.[32]

The economic cost of inefficiency in public expenditure is substantial, affecting both fiscal sustainability and development outcomes

Beyond inefficiency in public spending, the decline in public investment has an impact on growth and the mobilization of government revenues. The public investment gap between Africa and the average for emerging countries widened significantly over the last two decades. In 2000, public investment in Africa averaged 5.2 percent of GDP, 1.2 percentage points below the average for emerging economies (at 6.4 percent) and 0.7 percentage points above that for low-income developing countries (at 4.5 percent). Two decades later, public investment as a share of GDP reached 7.8 percent in emerging markets, while Africa regressed to 3.6 percent, below the average for low-income developing countries (4.0 percent).

A key policy dilemma facing many developing countries is striking a balance between an attractive tax regime for investment and growth and securing the necessary revenues for public spending. This has been further complicated by competition for foreign direct investment, especially in emerging markets, as investors search for countries with a low tax burden. Tax expenditures that allow for deductions from gross income, aimed at encouraging private investment, are widely used worldwide but remain very low in Africa. In 2013–22, tax expenditures (from exemptions) in Africa accounted for an average of 2.5 percent of GDP, less than 4.0 percent of GDP for the world, and 4.4 percent of GDP for the LAC region (figure 2.11).

Tax incentives and investment exemptions have significant revenue implications and have been criticized on many fronts for reducing corporate income tax revenue.[33] The average tax expenditures for Africa, at 2.5 percent, would, if applied on Africa's 2024 GDP, translate into almost $32 billion in annual forgone revenues (see figure 2.11). Compared that with the $65 billion in annual power infrastructure investment to achieve universal access to electricity in Africa by 2030.

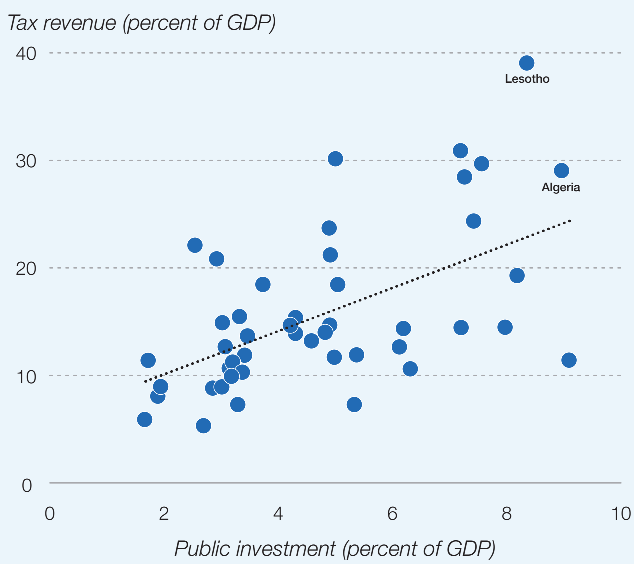
Although average tax expenditures (incentives and exemptions) in Africa are among the lowest in the world, there are significant differences among countries. The five countries with the highest tax expenditures above the global average were Algeria, Cabo Verde, Senegal, Tunisia, and South Africa (figure 2.12). Those with expenditures below 1 percent of GDP were Burkina Faso, Chad, Democratic Republic of Congo, Gabon, and Ghana. On average, tax exemptions (1.5 percent of GDP) account for around 60 percent of tax expenditure across all African countries.

BOX 2.1 Well-directed public investments produce fiscal resource dividends in Africa

Public investment can be both a lever for growth, with the financing of infrastructure and social services raising domestic productivity and competitiveness, and a mobilizer of tax revenues through multiplier effects. All other things equal, this expansion increases employment and income and thus broadens the tax base through income taxes and social security contributions. In addition, increased economic activity increases consumption and corporate profits, which in turn leads to more VAT and corporate tax. In the medium to long term, public investments can therefore partially pay for themselves through the tax benefits they generate.

African countries that devote a larger share of GDP to public investment have, on average, a higher ratio of tax revenue to GDP (box figure 2.1.1). This is the case in Lesotho and Algeria, for example, with the former being more efficient as seen in the strong correlation between public investment and revenue. An empirical analysis of the determinants of tax revenue in African countries over 2000–19 shows that, on average, an increase in public investment by 1 percentage point led to an increase in tax revenue of around 0.9 percent of GDP (box table 2.1.1). These results show a trade-off in favor of (efficient) countercyclical investment spending.

BOX FIGURE 2.1.1 Tax revenues and public investment in Africa



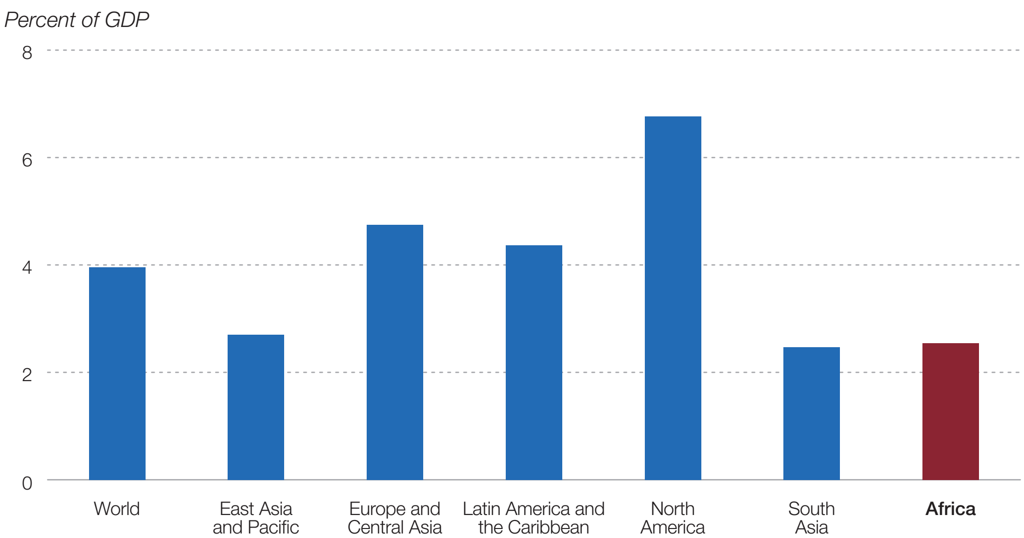
Source: IMF Investment and Capital Stock Dataset and AfDB statistics.

BOX TABLE 2.1.1 Effects of public investment on tax revenue in Africa

	Tax revenues (percent of GDP)			
Variables	**(1)**	**(2)**	**(3)**	**(4)**
Public investment (percent of GDP)	0.893*** (0.120)	0.948*** (0.121)	0.872*** (0.122)	0.933*** (0.122)
Private investment (percent of GDP)			0.097** (0.044)	0.114*** (0.044)
Trade (percent of GDP)	0.036** (0.015)	0.036** (0.015)	0.032** (0.015)	0.032** (0.015)
Age dependency ratio	−0.154*** (0.015)	−0.163*** (0.015)	−0.152*** (0.015)	−0.162*** (0.015)
Public debt (percent of GDP)	−0.012* (0.006)	−0.015* (0.008)	−0.010* (0.006)	−0.013* (0.008)
Control of corruption index	2.605*** (0.545)	2.339*** (0.561)	2.408*** (0.553)	2.055*** (0.571)
Natural resource rents (percent of GDP)	0.140*** (0.040)	0.133*** (0.041)	0.137*** (0.040)	0.129*** (0.041)
Oil exporting countries	−5.254*** (1.037)	−5.135*** (1.065)	−4.961*** (1.042)	−4.764*** (1.066)
Constant	31.944*** (2.832)	33.818*** (3.039)	30.338*** (2.801)	32.126*** (2.989)
Observations	738	738	738	738
R-squared	0.542	0.547	0.545	0.551
Time FE	No	Yes	No	Yes

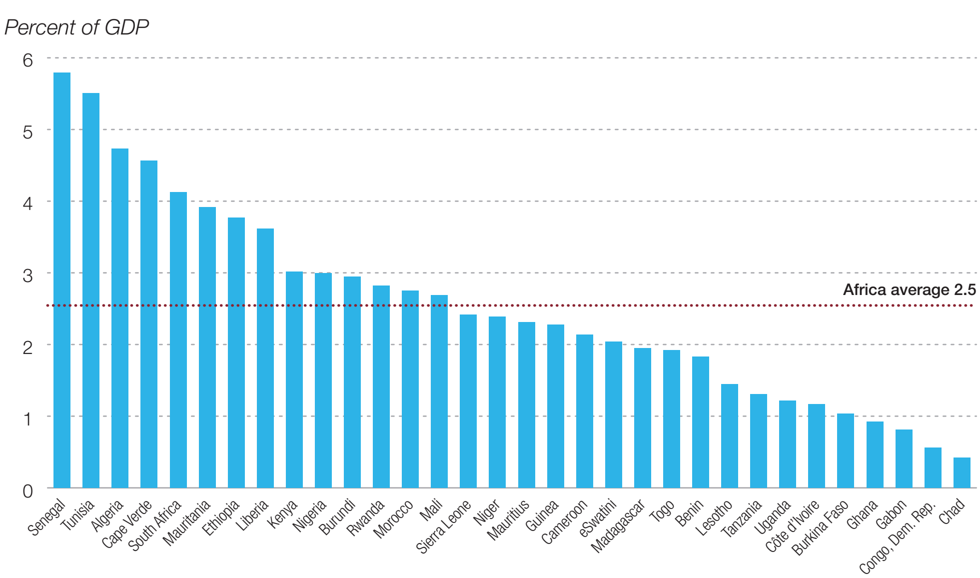
Note: Standard errors in parentheses are robust to heteroscedasticity. *, **, and *** denote significance at the 10 percent, 5 percent and 1 percent confidence level, respectively.
Source: AfDB calculations.

FIGURE 2.11 Tax expenditures by region, period average, 2013–22



Source: Redonda et al. (2024), Global Tax Expenditures Database (GTED), and AfDB calculations.

FIGURE 2.12 Tax expenditures (revenue forgone) in selected African countries, period average, 2013–22



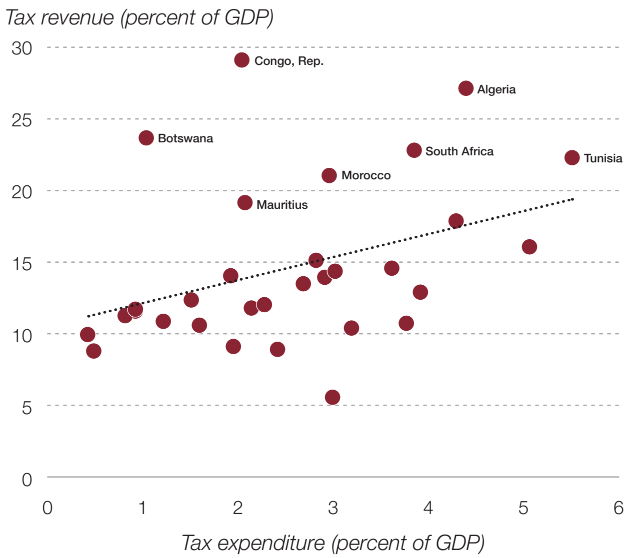
Source: Redonda et al. (2024), Global Tax Expenditures Database (GTED), and AfDB calculations.

Tax expenditures are generally positively correlated with tax revenues. But their effectiveness varies greatly from country to country (figure 2.13) depending on the structure of the tax breaks. Botswana and Congo have relatively low tax expenditures but have the highest tax revenues in Africa (as a percent of GDP). Mauritius, Morocco, South Africa, Algeria and, to less extent, Tunisia have higher tax expenditures but with high tax revenues.

The forgone revenues are almost five times the estimated financing requirement for addressing the country's infrastructure deficit. These estimates suggest that the revenue forgone from investment exemptions and other tax incentives can be quite significant.

The peril with tax expenditures is that they are often abused and could crowd out tax revenues in other sectors. That makes it important for any incentives designed to attract private investment to be well structured so that countries are not saddled with ineffective tax regimes and contractual arrangements that reflect poor bargaining and information asymmetries. At the very least, an independent and credible agency should be established to verify project costs in each fiscal year that the tax exemption is applied.

FIGURE 2.13 **Tax revenue and tax expenditure in Africa, percent of GDP, average, 2013–22**



Source: Redonda et al. (2024), Global Tax Expenditures Database (GTED), and AfDB calculations.

NATURAL CAPITAL

Africa's natural capital dynamics, achievements, and constraints

Natural capital is the stock of renewable and nonrenewable natural assets that a country possesses. Africa's renewable natural capital includes forests, fisheries, solar and wind energy, water bodies for hydroelectric power, and vast arable lands. Nonrenewable capital encompasses oil, gas, and coal, as well as a wide range of minerals and metals such as gold, diamonds, cobalt, platinum group metals, iron ore, manganese, and bauxite. Africa possesses 80 percent of global platinum group metal reserves, 77 percent of cobalt reserves, 54 percent of manganese reserves, and 36 percent of chromium reserves.[34] These mineral resources together with the significant deposits of rare earth elements (REEs)[35] that Africa possess are in high demand in advanced technology and are bound to play a key role in the just energy transition.

Natural capital, if well managed, has the potential to provide Africa with virtually limitless access to resources for generating electric power, producing food, protecting the environment, generating wealth, and enhancing livelihoods.[36] It is estimated that the continent holds more than 60 percent of the world's untapped arable land which, if well cultivated, could feed the rest of the world. In 2018, data on carbon sequestration showed that Africa contributed 26 percent of all carbon sequestered globally. The Congo Basin hosts the second largest tropical forest in the world, dubbed its "second lung." Its carbon sequestration is a global public good for mitigating climate change, but whose value is not yet fully integrated into the measurement of the green wealth of countries.[37]

About one-third of Africa's wealth is its natural capital.[38] Between 2000 and 2021, natural resource rents contributed an average of 11.8 percent of Africa's GDP, compared to 2.8 percent globally.[39] And revenues generated by the extractive sector in 35 African countries averaged 3.3 percent of GDP in 2022, or more than $75 billion.[40] These figures demonstrate the growth potential of Africa's natural capital but also represent underestimation due to nonvaluation of ecosystem services, such as carbon sequestration, wind protection, and nutrient conservation. When adjusted for these services, the value of natural capital can be substantially higher.

Africa's natural resources are yet to be fully exploited for sustainable development. While some countries have made significant strides in recognizing natural capital as a key component of wealth, others have experienced the resource curse with no transformative impact on the economy and livelihoods. There is a renewed realization of the transformative power of natural capital, and African nations are incorporating natural resources into their economic planning.[41] But challenges remain in establishing the governance and institutional frameworks for sustainable natural resource management. The continent also lags comparator regions like Latin America and the Caribbean in developing advanced natural capital accounting systems, like the System of Environmental Economic Accounting (SEEA), to integrate environmental data into national accounts to support sustainable development.

Estimates and dynamics of Africa's natural capital

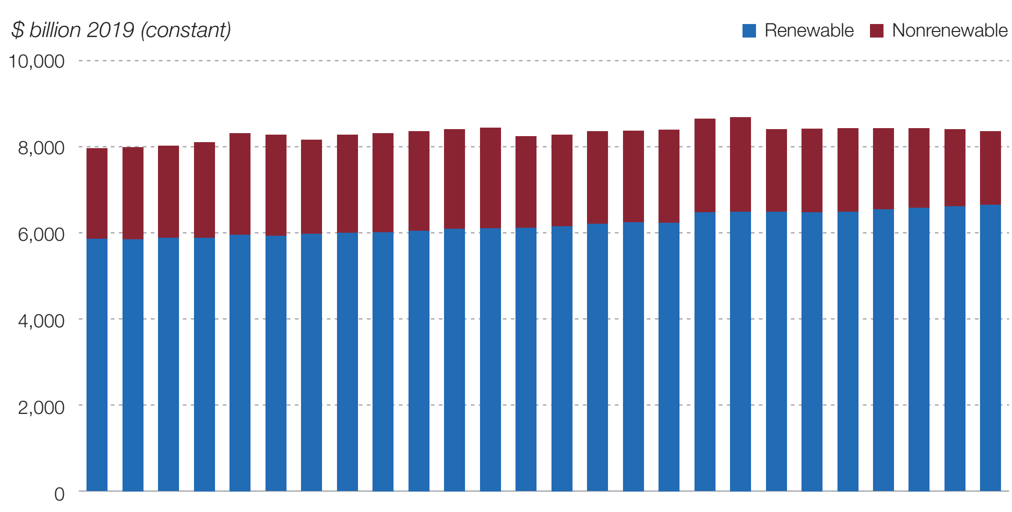
Estimating a country's natural resource wealth is complex and data-intensive, as many ecosystem services lack market prices for valuation. The World Bank's Changing Wealth of Nations (CWON) offers comprehensive estimates of natural, produced, and human capital for 151 countries from 1995 to 2020. Yet, because of the fluidity of natural capital and difficulties in capturing value of ecosystem services, CWON has gaps in coverage in valuation of some of these assets.

The size of African economies can be significantly expanded by accounting for different forms of natural capital

Africa's natural capital (in constant 2019 $) grew by 4.9 percent from an estimated $8 trillion in 1995 to $8.4 trillion in 2020. The expansion in natural capital during this period is largely attributed to the rising value of renewable assets, which increased from $5.9 trillion in 1995 to $6.6 trillion in 2020 (figure 2.14). The increase in renewable assets helped offset a decline, in constant terms, of 18.7 percent in nonrenewable capital from $2.1 trillion to $1.7 trillion over the same period. However, the true value of Africa's renewable natural capital is likely underestimated due to limited data on newly discovered resources. REEs and other forms of ecosystem services—such as carbon sequestration, biodiversity preservation, wind protection, and nutrient conservation—currently are neither valued nor captured in the current wealth accounting database.[42] For example, the AfDB estimates that when adjusted for carbon sequestration alone, Africa's nominal GDP in 2022 could have increased by $66.1 billion. This figure, albeit conservative, represents a potential output expansion of about 2.2 percent.[43] This implies that the size of African economies can be significantly expanded by accounting for different forms of natural capital. This can then help to de-risk external capital flows into the continent, including through effective co-financing of productive investments.

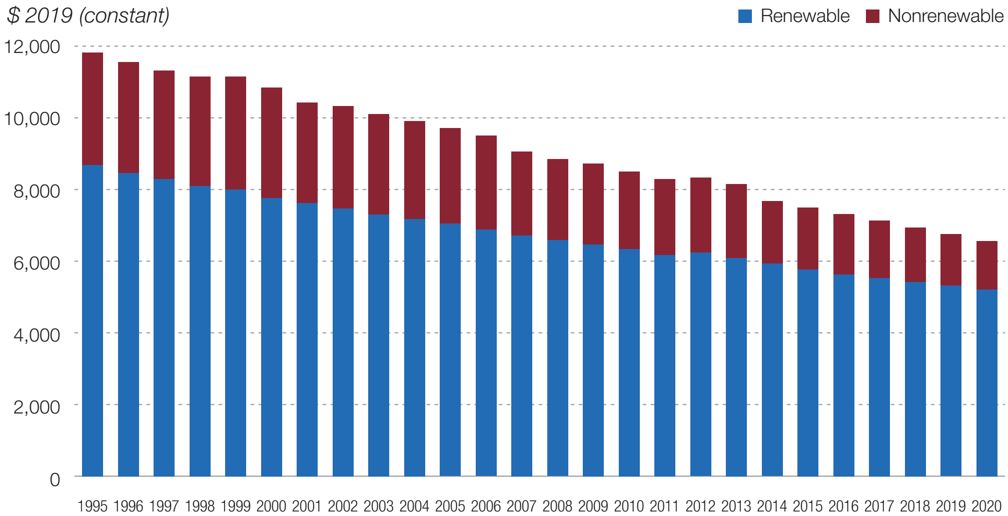
In per capita terms, however, Africa's natural capital wealth declined significantly, reflecting the faster growth in population. Between 1995 and 2020, growth in Africa's population was about 18 times that of natural capital. So, the per capita value of natural capital fell, in real terms, from about $11,823 in 1995 to about $6,557 in 2020, a 44.5 percent drop over the period (figure 2.15).

FIGURE 2.14 **Value of Africa's natural capital, 1995–2020**



Source: AfDB calculations using the Changing Wealth of Nations of the World Bank database (2024).

FIGURE 2.15 Per capita value of natural capital in Africa, 1995–2020



Source: AfDB calculations using the Changing Wealth of Nations of the World Bank database (2024).

The decline affected both renewable and nonrenewable natural capital, down 40 percent and 57 percent, respectively. Other factors explaining natural capital depletion included unsustainable management practices, weak governance, and environmental degradation. Urbanization, industrialization, and climate change also contributed to unsustainable resource extraction and habitat loss, further depleting Africa's natural capital assets.

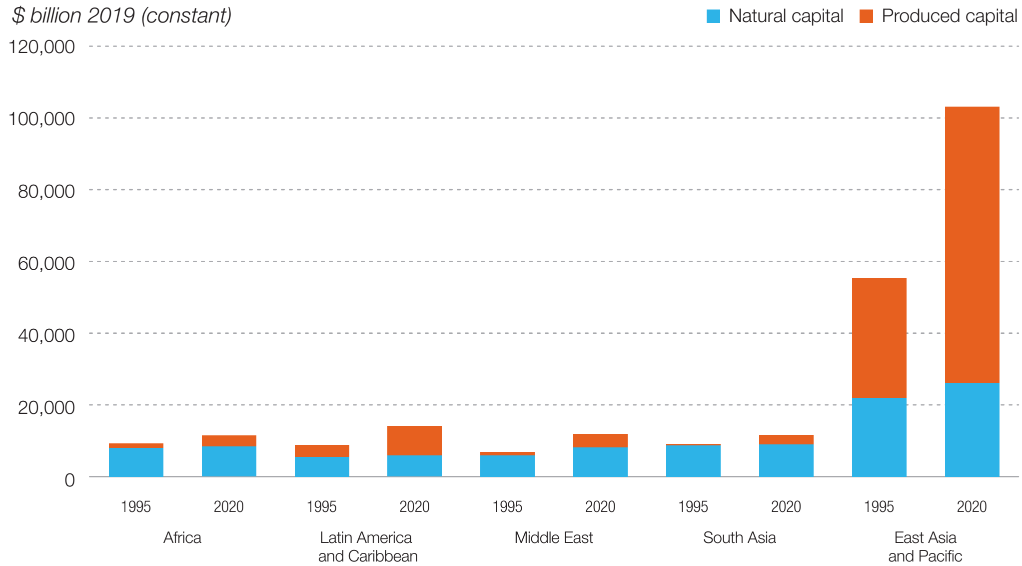
An important conclusion here is that—given Africa's high vulnerability to environmental changes and its heavy dependence on nature for livelihood, especially in rural areas—the rapid depletion of natural capital poses a serious risk to its long-term sustainability and economic stability. If the declining trend in per capita natural capital continues unabated, with limited restoration of key biodiversity and ecosystems services, the continent is bound to face significant growth and development challenges.

Produced capital including buildings, infrastructure, and machinery is an important component of Africa's stock of wealth (produced and natural capital). Comparison of natural capital and produced capital across different world regions show that both types of capital increased between 1995 and 2020 (figure 2.16). However, the rate of expansion in East Asia and Pacific was exceptional, particularly in produced capital. Between 1995 and 2020, produced capital in East Asia and Pacific more than doubled to an estimated $76.9 trillion in 2020, from $33.4 trillion in 1995. This growth is attributed to robust economic policies, infrastructure investment, and a manufacturing-driven growth model. Similarly, in terms of natural capital, East Asia and Pacific remains the wealthiest region, with an estimated $26.2 trillion in 2020. Latin America and the Caribbean rank second, with moderate growth in both areas. Natural capital grew by 6.7 percent, from $5.4 trillion to $5.8 trillion, while produced capital increased by 149 percent, from $3.3 trillion to $8.3 trillion. This reflects a shift from resource-based industries to industrialization and urban infrastructure.

The per capita value of natural capital, an indicator of sustainable growth, reflects the wealth generated for a nation's citizens.[44] It fell across all regions, while produced capital per capita rose (figure 2.17). Although Africa's natural capital per capita declined at the fastest rate, its produced capital per capita grew the least among regional comparators, raising concerns about long-term sustainability, particularly given the low investment efficiency.[45] Under strong sustainability criteria, which emphasize low substitutability between natural capital (such as ecosystem services and biodiversity) and produced capital, this shift becomes even more problematic for Africa,

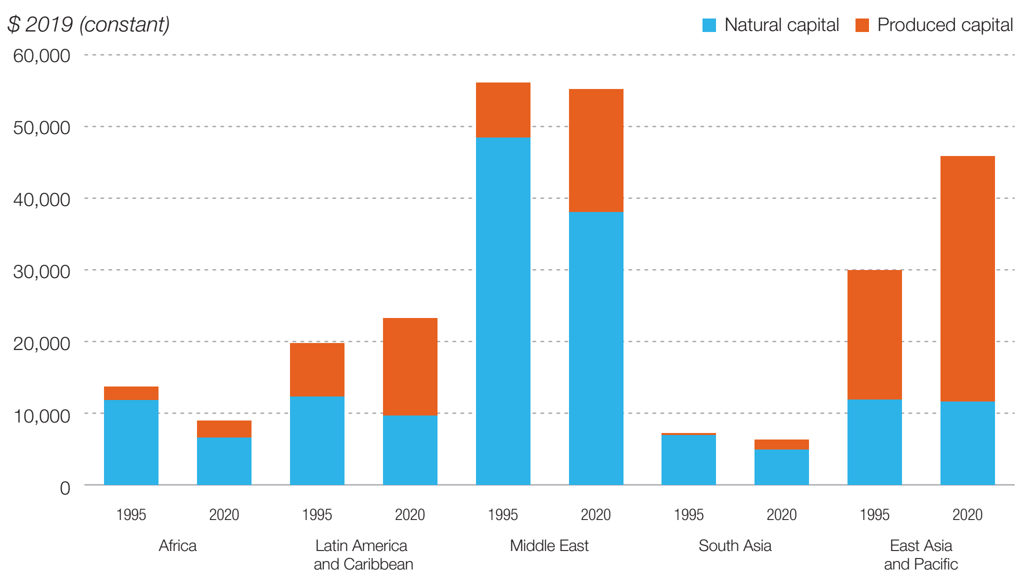
The rapid depletion of natural capital poses a serious risk to its long-term sustainability and economic stability

FIGURE 2.16 Values of natural capital and produced capital, by region, 1995–2020



Source: AfDB calculations using the Changing Wealth of Nations of the World Bank database (2024).

FIGURE 2.17 Per capita values of natural capital and produced capital, by region, 1995–2020



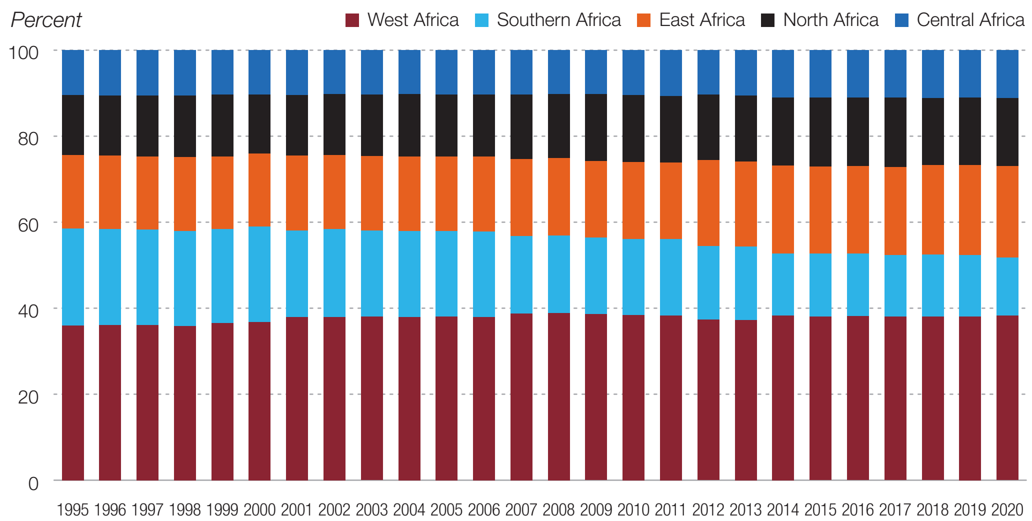
Source: AfDB calculations using the Changing Wealth of Nations of the World Bank database (2024).

further exacerbating its vulnerability to environmental changes.

Trends in Africa's natural capital and its components across regions

Subregional shares of natural capital reveal substantial variations between 1995 and 2020. The **West Africa** region consistently dominates, followed closely by **Southern Africa** until 2010, when **East Africa overtook Southern Africa** as the second-largest contributor (figure 2.18). This was after discovery of mineral resources in some East African countries such as Kenya, Tanzania, and Uganda. Ironically, **Central Africa**—which

FIGURE 2.18 **Distribution of Africa's natural capital wealth across its subregions, 1995–2020**



Source: AfDB calculations using the Changing Wealth of Nations of the World Bank database (2024).

has many resource-intensive countries and is home to the Congo Basin, considered to be the world's largest carbon sink, absorbing an estimated 1.5 billion tons of CO_2 annually (higher than the Amazon) and is a global biodiversity hotspot—contributes the least to Africa's natural capital.[46] Structural challenges including deforestation, mining, and conflicts contribute to its low share. In addition, significant undervaluation of its natural capital could partly be attributed to the failure to effectively capture the value of carbon sequestration provided by the Congo Basin. In 2021, the value of carbon sequestration services of the Congo Basin—covering Cameroon, Central Africa Republic, Democratic Republic of Congo, Equatorial Guinea, and Gabon—was estimated at \$55 billion annually.[47] Proper valuation of Africa's natural capital thus remains an outstanding issue for the continent and its policy makers.

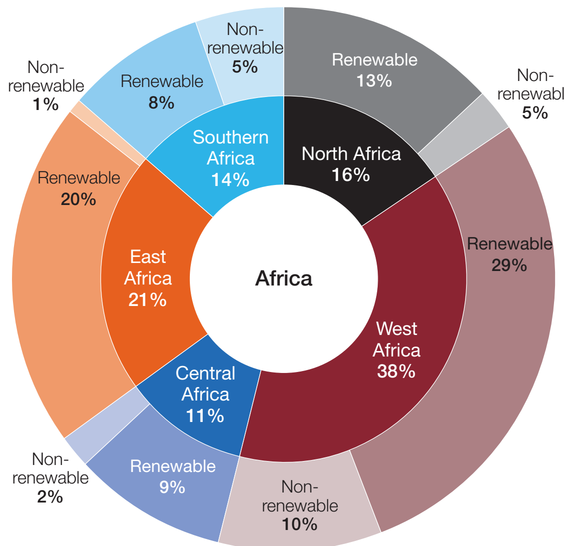
The disaggregation of Africa's natural capital wealth into renewable and nonrenewable also reveals significant variations across regions. Renewable assets dominate West Africa's natural capital, contributing about 28.4 percent of its 38.2 percent share of Africa's natural capital wealth in 2020 (figure 2.19). This compares with 20.0 percent, 13.1 percent, 8.3 percent and 9.1 percent, respectively, for East Africa, Northern Africa, Southern Africa, and Central Africa. The key sources of renewable energy in Africa include abundant sunshine, wind, and geothermal, contributing significant portions to energy needs. Similarly, West Africa has the highest share of nonrenewable natural capital among Africa's regions, accounting for 9.8 percent of its total natural capital wealth, driven largely by oil and gas resources from Nigeria, Ghana, Niger, and Côte d'Ivoire, along with significant deposits of gold and diamonds from Ghana, iron ore and bauxite from Guinea, and lithium from Ghana and Côte d'Ivoire, among others.

Southern Africa follows, with nonrenewable capital making up 5.2 percent of its total natural capital wealth, with major contributions from gold from South Africa, diamonds from Botswana, South Africa, and Angola, oil from Angola, and copper from the Democratic Republic of Congo and Zambia, among others. In contrast, East Africa has the lowest share, with nonrenewable natural capital contributing only 0.8 percent to total natural capital wealth. Major contributors from East Africa are gas in Tanzania, oil in Sudan, and gold in many countries, among others.

Figure 2.20 presents the percentage changes in renewable and nonrenewable natural capital from 1995 to 2020 across Africa's regions. Renewable natural capital grew across all regions, though at varying rates. The growth in renewable natural capital is due to new discoveries of renewable energy sources, regional government

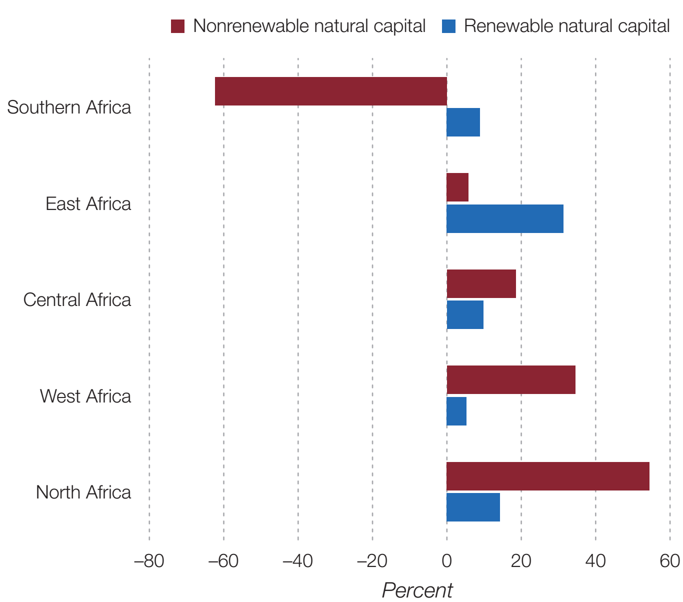
West Africa has the highest share of nonrenewable natural capital among Africa's regions, accounting for 9.8 percent of its total natural capital wealth

FIGURE 2.19 **Distribution of Africa's natural capital types across regions, 2020**



Source: AfDB calculations using the Changing Wealth of Nations of the World Bank database (2024).

FIGURE 2.20 **Change in value of natural capital in Africa's regions, 1995–2020**



Source: AfDB calculations using the Changing Wealth of Nations of the World Bank database (2024).

support to the diversification of energy sources, and improved private sector investment to scale up renewable energy production. Nonrenewable natural capital did not follow the same trend, as Southern Africa experienced a significant decline of approximately 62.4 percent. The decline was driven primarily by resource depletion, rising mining costs, and environmental pressures that led to stricter mining regulations and beneficiation policies in South Africa and Botswana.

The growth of renewable natural capital continued to vary with East Africa recording the highest growth rate (31.3 percent), followed by North Africa (14.3 percent), Central Africa (9.8 percent), and Southern Africa (8.9 percent), but this could change with recent gas discoveries in Mozambique. West Africa recorded the lowest growth rate (5.3 percent) due to limited financial capacity to increase renewable energy production. In contrast, North Africa saw the highest growth in nonrenewable natural capital (54.5 percent), followed by West Africa (34.5 percent), Central Africa (18.5 percent), and East Africa (5.8 percent). The growth in North Africa was driven primarily by new discoveries and investments in the oil and gas sector, increased foreign direct investment, and partnerships from international oil companies such as British Petroleum (BP), Eni, ExxonMobil, and others.

The increase in nonrenewable natural capital wealth in West Africa was primarily driven by major offshore discoveries and the development of new fields in Côte d'Ivoire, Ghana, and Senegal, and increased production in Nigeria due to improved security in the Niger Delta. The region has also put in place policy reforms and investment incentives that have attracted international oil and mining companies, encouraging them to increase exploration and to ramp up production for oil and gas resources and for other minerals.[48] Its significant geological potential has also contributed, making exploration activities more cost-effective and facilitating further discoveries and production at lower exploration costs.

Challenges and opportunities in Africa's natural capital

The effect of illicit financial flows (IFFs) on natural capital in African countries is substantial. The latest estimates of capital flight in Africa show that 13 of the top 15 countries most exposed are commodity-dependent.[49] IFFs, illegal logging and trade in wildlife, unregulated fishing, illegal mining, and environmental degradation cost Africa about $195 billion of its natural capital annually.[50] This is 10–20 percent of the estimated global cost of these activities.[51] Beyond depleting domestic finances, IFFs in natural capital undermine the long-term sustainability. In several of Africa's mineral-rich economies, illegal mining is a source of capital flight, worsening poverty in local communities. And the development prospects for Africa's mineral resources are compromised by billions of dollars illicitly leaving the continent, hampering investment in public infrastructure, conservation, and social services. For example, African countries with high illicit financial flows tend to allocate much less government spending to critical sectors like health (25 percent less) and education (58 percent less) than those with lower IFFs.[52]

These lost funds could otherwise be mobilized to protect natural capital, fund environmental projects, and enhance sustainable economic growth. When governments lose potential tax revenue and investment through these outflows, they are forced to make tough choices in public spending. As a result, sectors like conservation and renewable energy, which are crucial for preserving natural resources, are under-resourced, as are key sectors for human capital. This underinvestment has far-reaching consequences, particularly for communities that depend on natural capital such as forests for water regulation and agricultural support. The lack of funding for sustainable natural resource management accelerates environmental degradation, leading to increased deforestation, soil erosion, and biodiversity loss. Illicit financial flows also disrupt the balance between economic growth and environmental conservation.

Illegal logging, mining, and wildlife trafficking are major contributors to resource depletion and environmental degradation. In several African countries with large forests but weak institutional regulatory mechanisms, illegal timber exports could be as high as 90 percent of the volume of all forestry products driven by under-invoicing and tax evasion.[53] This widespread deforestation threatens ecosystems and weakens climate resilience, as Africa's forests collectively store 171 gigatons of carbon, or 47.5 percent of the 360 gigatons stored by the world's forests.[54] Illegal gold mining which accounts for an estimated $2.3 billion in annual IFFs in some cases, leads to severe environmental damage.[55] The use of mercury in mining contaminates water sources, destroys aquatic ecosystems, and degrades farmland, further endangering livelihoods and eroding the regenerative capacity of biodiversity. Wildlife trafficking, one of the main channels of IFFs, has driven species such as pangolins and rhinos to the brink of extinction. Illegal wildlife trade generates between $7 billion and $23 billion annually worldwide, with Africa serving as a major source.[56] These crimes not only threaten biodiversity but also destabilize ecosystems, reducing their ability to withstand climate shocks.

And the opportunities?

In 2018, Africa's blue economy—which comprises aquatic and marine spaces, including oceans, seas, coasts, lakes, rivers, and underground water—generated an estimated $300 billion and created 49 million jobs.[57] This sector, if well-harnessed, could become one of the leading drivers of future economic growth and sustainable development. It is projected to reach an estimated $405 billion in 2030, generating $100 billion from coastal tourism and creating 57 million jobs. To harness the envisaged potential however requires African countries to put in place supportive policies and institutions and build the necessary capacity.

Africa's blue economy, if well harnessed, could become one of the leading drivers of future economic growth and sustainable development

Local processing and battery manufacturing across regional hubs could generate $32 billion in additional exports per year, adding $24 billion to annual GDP and creating 2.3 million jobs for African countries. The global battery storage and electric vehicle value chain is estimated to reach $56.7 trillion by 2050.[58] 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 AfCFTA.[59] In addition, proper value addition and beneficiation of natural capital could significantly increase returns, as for Democratic Republic of Congo—local processing of raw bauxite into aluminum increased the value more than thirtyfold, from $65 to $2,335 per ton.

FINANCIAL CAPITAL

The role of the financial sector in Africa's development has been the subject of considerable debate, especially over how governments could promote the sector while avoiding financial repression, picking winners, and hindering innovation. The financial system mobilizes savings and allocates it to the most profitable activities, enabling firms and households to make more productive use of scarce resources. The allocative role of the financial system is therefore an important catalyst for economic growth and socioeconomic transformation.

In Africa, however, the banking sector dominates the financial landscape in many economies, so the soundness of financial intermediation depends heavily on the efficacy of the banking system. Financial liberalization in many countries has not resulted in greater financial depth or in meaningful convergence of real interest rates toward global or even regional benchmarks. Real lending rates remain among the highest in the world, constraining productive investment and private sector growth. Central bank interventions to enhance the effectiveness and inclusiveness of financial systems have been limited by the lack of competition in the banking sector and fiscal deficit financing by the government. At the same time, governments' role in developing credit markets beyond legal and institutional reforms remain limited, with substantial pools of domestic funds still untapped. In this context, Africa's financial capital has played a limited role in supporting the continent's transformation, despite its vast potential. Fast-tracking Africa's structural transformation will thus require full mobilization and effective deployment of its financial capital.

The decline in aid flows and rising cost of debt mean that domestic financial capital will assume a greater role in financing investment

Financial sector development in Africa

The decline in aid flows and rising cost of debt mean that domestic financial capital will assume a greater role in financing investment in Africa. Although financial development in Africa has improved over the past four decades, spurred by financial sector reforms and liberalizing activities and the pricing of financial assets, it remains underdeveloped and dominated by banks. The continent also continues to lag other developing regions across many indicators of financial development (figure 2.21). From 1980 to 2021, Africa's financial development index averaged 0.13, significantly lower than Latin America and the Caribbean (0.23), Asia and the Pacific (0.29), and Europe and Central Asia (0.35). Specifically, Africa's equity and capital markets, which are part of the financial sector, comprise a miniscule portion of global market capitalization. Similarly, notwithstanding progress made in policy reforms to foster financial inclusion, financial institutions in Africa remain shallow.

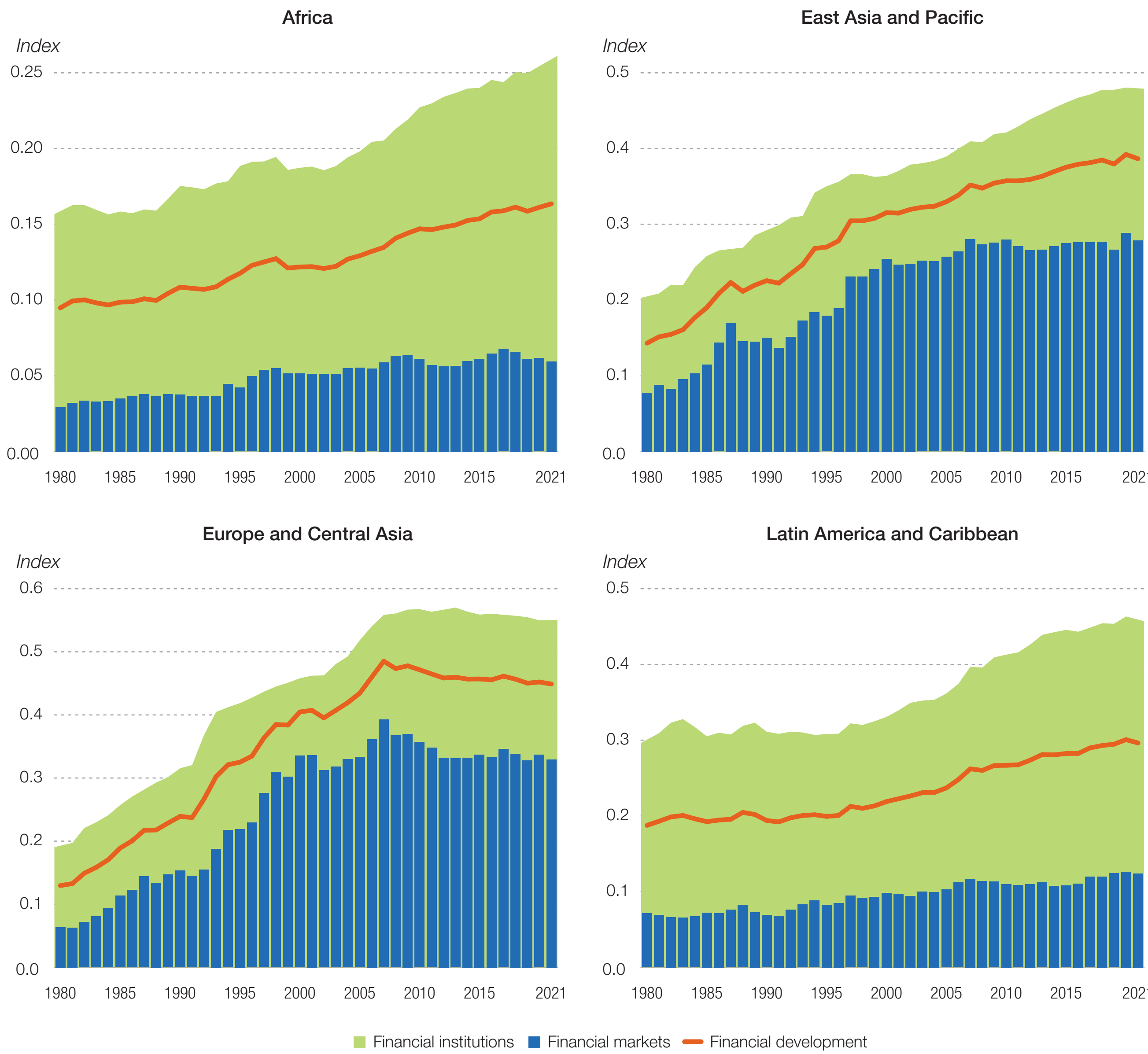
Equity markets

Africa has 29 operational stock exchanges representing 38 nations' capital markets. Its stock market capitalization grew, on average, by approximately 32.5 percent between 2018 and 2022, and is projected to reach $1.42 trillion (37.4 percent of GDP) in 2025.[60] Despite this growth, 17 African equity markets finds that only 72 new companies listed across all markets. This is equivalent to just above one listing per month, with many of the listed companies having a small variety of asset types. [61] The small size and illiquidity of these markets constrain their ability to mobilize financial resources for development financing.

Debt markets

Public and corporate debt markets provide an additional source of financial capital. Africa hosts some of the youngest corporate bond markets globally. The continent's first debt market—the Bond Exchange of South Africa (BESA)—was established in 1996. Since then, other bond markets have evolved elsewhere in Africa, and the number of bonds listed in Africa grew almost seven-fold from 472 in 2005 to 3,043 in 2020 (table 2.1). As a proportion of GDP, however, outstanding bonds grew at a slow pace, from 4.3 percent to 7 percent in the same period, with Morocco and South Africa recording the highest growth rates. Although most of Africa's markets allow secondary trading of bonds and are operated in the hybrid format (auction and dealer operations), they are dominated by short tenure and fixed coupon rate issuances by government and financial services firms. The value of these markets relative to GDP shows how small they are

FIGURE 2.21 Index of financial development by region, 1980–2021



Source: International Monetary Fund (IMF) database.

in relation to other developing markets such as Asia, where issuances of nonfinancial companies amounted to 11 percent of GDP in 2022.[62]

Despite recent strides, institutional investors still play a limited role in Africa's debt markets. They remain small, and a significant share of their portfolio is allocated to government securities and liquid bank deposits rather than corporate bonds. And at the end of 2019, their investment in listed corporate bonds in six markets—Botswana, Ghana, Kenya, Namibia, Nigeria, and the WAEMU—was just under 3 percent of total assets under management, partly because local capital markets are underdeveloped, and macroeconomic volatility makes investing in corporate bonds riskier than more liquid and less risky treasury instruments.[63] Developing Africa's private local debt markets will foster and deepen local currency instruments, providing opportunities for local institutional investors to structure their investments in long-term

TABLE 2.1 Corporate bond markets in Africa, 2005–20

Country	Number of listed companies			Number of listed corporate bonds			Outstanding corporate bonds ($ billion)			Outstanding corporate bonds (percent of GDP)		
	2005	2010	2020	2005	2010	2020	2005	2010	2020	2005	2010	2020
Algeria	3	2	5	12	21	4	0.33	0.73	1.22	0.32	0.45	0.70
Botswana	19	21	26	24	38	17	0.20	0.34	0.16	2.06	2.62	0.85
Cameroon	0	3	3	0	3	1	0.00	0.05	0.12	0.00	0.19	0.31
Egypt	744	227	248	83	101	4	20.14	20.09	0.61	22.48	9.17	0.22
Eswatini	6	6	6	2	1	0	0.02	0.01	0.00	0.63	0.23	0.00
Ghana	27	31	29	0	1	7	0.00	0.00	1.52	0.00	0.01	2.30
Kenya	48	55	59	4	24	9	0.03	0.46	0.34	0.17	1.15	0.37
Mauritius	30	62	97	1	1	9	0.00	0.02	0.43	0.06	0.23	3.04
Morocco	54	73	74	56	115	700	1.37	6.51	35.68	2.19	6.99	30.01
Mozambique	4	4	10	4	14	4	0.01	0.06	0.03	0.11	0.56	0.18
Namibia	9	7	10	3	20	18	0.04	0.24	0.26	0.56	2.17	1.99
Nigeria	215	215	172	6	19	34	0.09	1.04	1.64	0.05	0.29	0.39
South Africa	348	352	281	245	833	2,068	16.29	77.70	88.30	6.32	20.70	24.53
Tanzania	10	15	26	2	15	6	0.01	0.05	0.00	0.07	0.16	0.00
Tunisia	45	56	81	17	116	142	0.06	5.60	1.23	0.19	12.71	3.12
Uganda	7	13	16	2	9	2	0.02	0.04	0.02	0.21	0.17	0.05
WAEMU	39	39	46	10	22	16	0.14	0.67	3.88	0.26	0.80	2.43
Zambia	13	20	15	1	10	2	0.00	0.03	0.02	0.04	0.15	0.10
Africa (total)	**1,621**	**1,201**	**1,204**	**472**	**1,363**	**3,043**	**38.76**	**113.65**	**135.44**	**4.32**	**7.24**	**7.00**

Source: Oluoch and Ojah 2024.

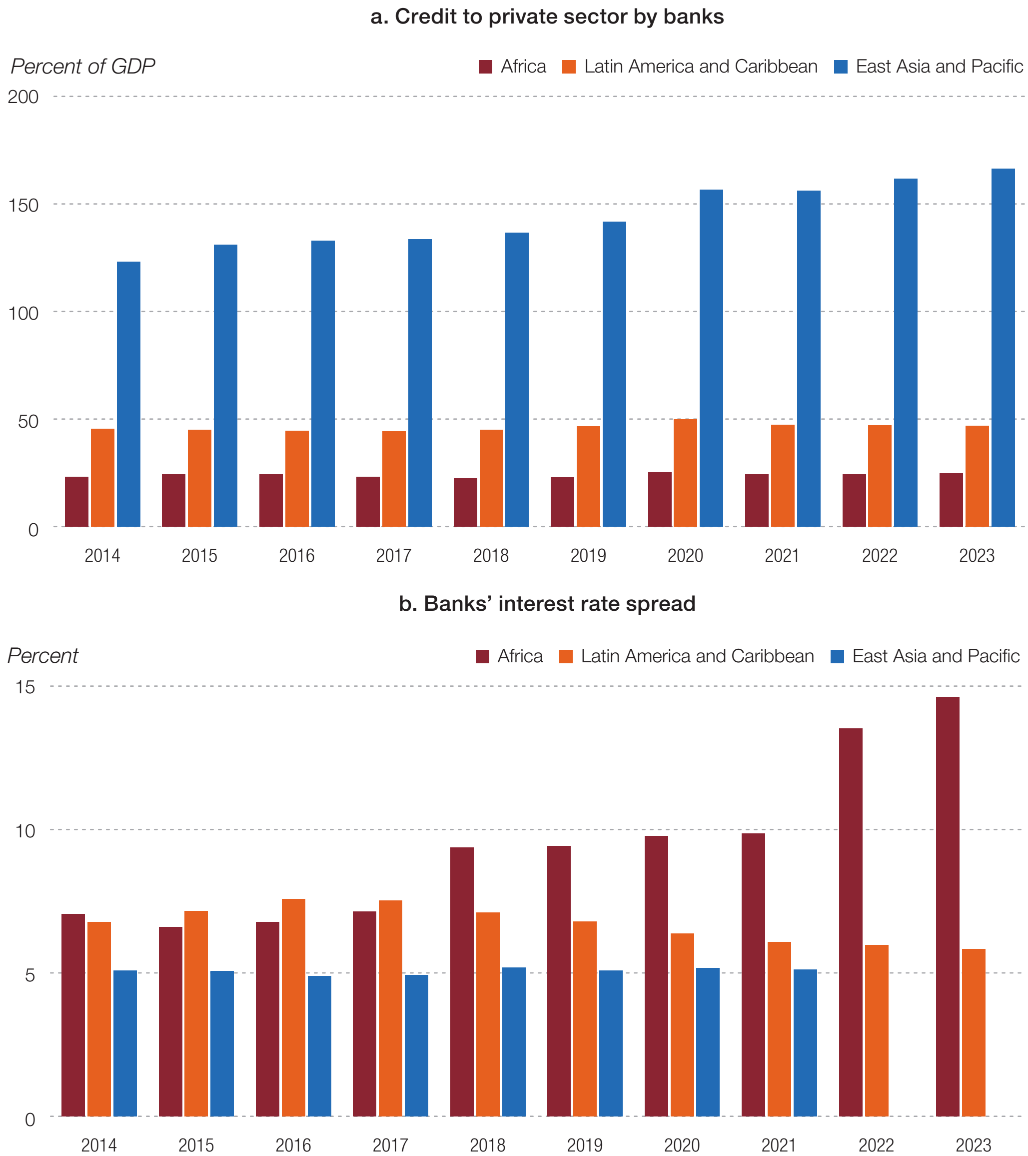
infrastructure asset classes at minimal currency and default risks. This will help to reduce the high cost of capital, estimated at about 500 percent, that African countries pay in additional interest for loans borrowed from international capital markets. Developed local debt markets will also strengthen price formation and risk transformation through secondary trading of debt instruments. This will expand financing opportunities for Africa's private sector, which currently relies on commercial banks whose short-term lending is at variance with long-term investment needs of borrowers.

Commercial bank lending and financial capital

Banks account for the overwhelming part of financial assets in Africa but are small relative to their counterparts in other developing areas and emerging economies. Credit to the private sector is also low (figure 2.22). In contrast, interest margins are significantly higher in Africa than elsewhere, suggesting greater inefficiency of financial intermediation in the African banking sector than their counterparts in other regions. Africa's banking sector also faces inefficient contract enforcement and lengthy processes of resolving court cases, contributing to the large interest margins in an already underdeveloped banking sector. The relatively strong growth in bank credit in Latin America and the Caribbean is largely attributed to the advances in macroeconomic stability, regulatory environment, creditor protection, and credit information.

South Africa and Mauritius have relatively more developed banking systems and capital markets while banking systems in smaller, low-income African developing countries are shallow and offer only the most rudimentary financial services. Africa's banking landscape has changed dramatically with expansion of pan-African banks, which have a significant footprint across the continent, mainly subsidiaries through the acquisition of existing banks under the hosts' rules and regulations.[64]

FIGURE 2.22 **Banking sector, 2014–23**



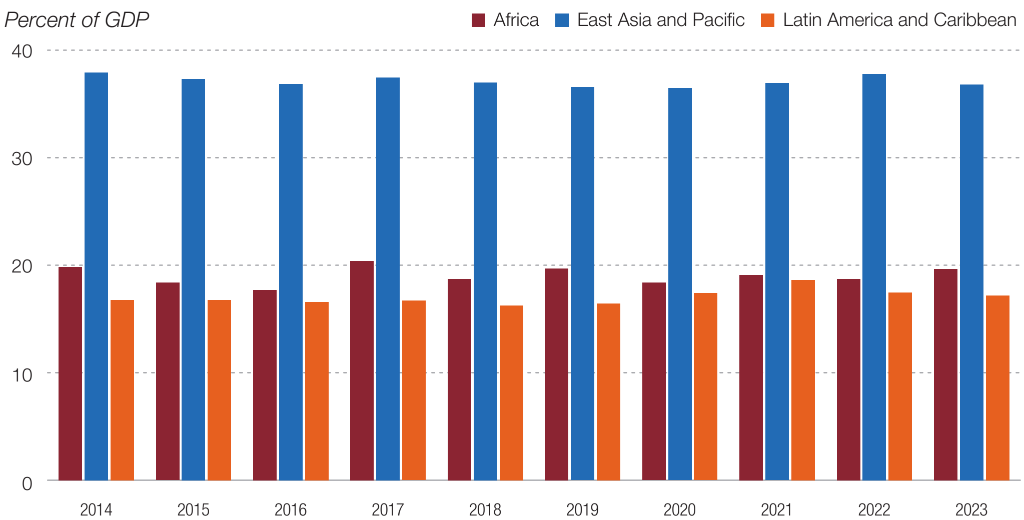
Source: World Development Indicators database.

Pan-African banks account for an average of $376 million of investment in subsidiaries annually in host countries, holding more than 10 percent of total deposits in 31 Africa countries.[65] This makes them economically and systemically important, providing a range of services spanning private banking, treasury, corporate, and dollar-dominated syndicated loans, particularly for large infrastructure projects.

Despite the performance of pan-African banks and the expanded role of commercial banking in Africa, bank lending in Africa remains small relative to other regions. One way of deepening banks' lending to the private sector and strengthening intermediation efficiency is by increasing the savings rate.[66] An abundance of aggregate savings increases the pool of financial resources to support economic activity at a lower cost to the government. But relative to other developing regions, Africa's savings rate remained persistently low (below 20 percent of GDP) over the period 2014–23 (figure 2.23), an outcome consistent with the lower efficiency and depth of its banking sector. This implies a role for the government to

One way of deepening banks' lending to the private sector and strengthening intermediation efficiency is by increasing the savings rate

FIGURE 2.23 Gross savings, 2014–23



Source: World Development Indicators database.

Tax-advantaged savings schemes or matching contribution systems can help redirect informal or idle capital into formal savings

innovatively support banks in mobilizing and allocating financial resources.

Tax-advantaged savings schemes or matching contribution systems can help redirect informal or idle capital into formal savings channels.[67] To deepen securitization, African governments could provide liquidity through "guaranteed passthroughs," a variant of a tool used in countries like Finland, Mexico, and the United States.[68] Such guarantees would ensure the safety of securitization (that is, mitigate a domestic market crash in the event of pervasive defaults) while ensuring liquidity for collateralized assets. Resource mobilization will also receive a boost from reforming complicated regulations that constrain deeper financial innovation that complement the activities of traditional full-service banks with services and financial instruments offered by fintechs and telcos.

National development banks contribute to financial capital

National development banks (NDBs) deepen the market for domestic long-term finance and provide low-cost financing to businesses. Despite their enormous potential and role in development financing, Africa has the lowest share of NDBs in the world. Although the region has more than 90 development banking institutions, they represented 21 percent of national and regional banks worldwide in 2019, down from 28.5 percent a decade earlier. Asia and the Pacific has the highest share in the world accounting for 33 percent of NDBs, followed by Latin America and the Caribbean and Europe, both with 23 percent.

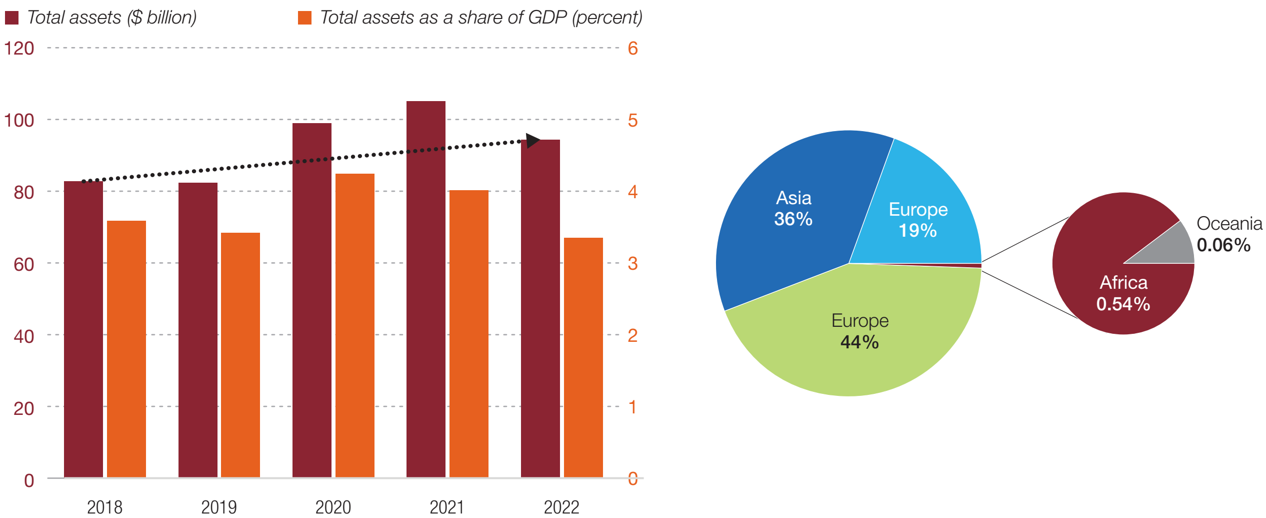
With assets and financing dominated by a handful of institutions, the development banking landscape in Africa has mostly small undercapitalized institutions. While there was a 14 percent increase in financial assets of African NDBs from $83 billion in 2018 to $94 billion in 2022 (figure 2.24a), they hold less than 1 percent of NDBs' global financial assets (figure 2.24b). Africa's total NDBs financial assets in 2022 were only about 3.4 percent of GDP, significantly lower than share in other regions. Of the top 20 NDBs by asset base in 2021, 9 were in Asia with a combined asset base just above of $6 trillion, more than 60 times that of Africa.[69]

Not only are African NDBs weakly capitalized, but their leverage is also limited due to political interference, further constraining their ability to efficiently intermediate and deepen financial markets. NDBs are often used as instruments serving political leaders—with political motives such as re-election strategies or clientelism shaping their operations.[70] In Africa, the granting of credit by public banks and NDBs is sometimes closely aligned with electoral calendars than with economic cycles, implying that the allocation of funds is driven more by political objectives than by economic priorities. These practices pose significant

FIGURE 2.24 Assets of national development banks, 2018–22

a. Financial assets of African national development banks, 2018–22

b. Share of global financial assets, 2018–22



Note: Totals may not sum to 100 percent due to rounding.

Source: Compiled by Amoussou et al. (2024) using the PDB and DFI database developed by Xu et al. (2021).

risks to the broader financial system, by distorting market mechanisms and crowding out private financial institutions. And there is an elevated risk of poor governance, with funds at times misallocated or misappropriated. These challenges contribute to the weaker financial performance across many NDBs, ultimately limiting effective domestic financial capital mobilization. Fully capitalizing African financial institutions will bolster their equity, providing headroom to help reduce the cost of capital for financing long-term development projects without eroding financial buffers.

Opportunities for mobilizing financial capital

Africa's national development banks and multinational development finance institutions (DFIs) such as the African Development Bank (AfDB), can be a potent source of long-term financing, by deploying a blend of innovative and strategic measures. Social bonds, synthetic securitization, balance sheet optimization, risk transfer transactions and diversifying funding sources from financial markets can increase their ability to mobilize long-term and stable funding and crowd in private sector financing.[71] For instance, by leveraging African Development Fund[72] equity, the AfDB projects that up to $5.3 billion in additional finance could be raised in each refreshment cycle while maintaining debt at a sustainable level. Similarly, NDBs and DFIs, through financial engineering and risk mitigation guarantees from top-rated institutions, can boost their capital positions and leverage private funding for development. Assuming the same compound annual growth rate of 5 percent as that observed in 2018–22, the total assets of Africa's NDBs and DFIs could reach $291.5 billion by 2030. If fully directed to 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.[73] This represents a substantial contribution to the mobilization of long-term financing across Africa.

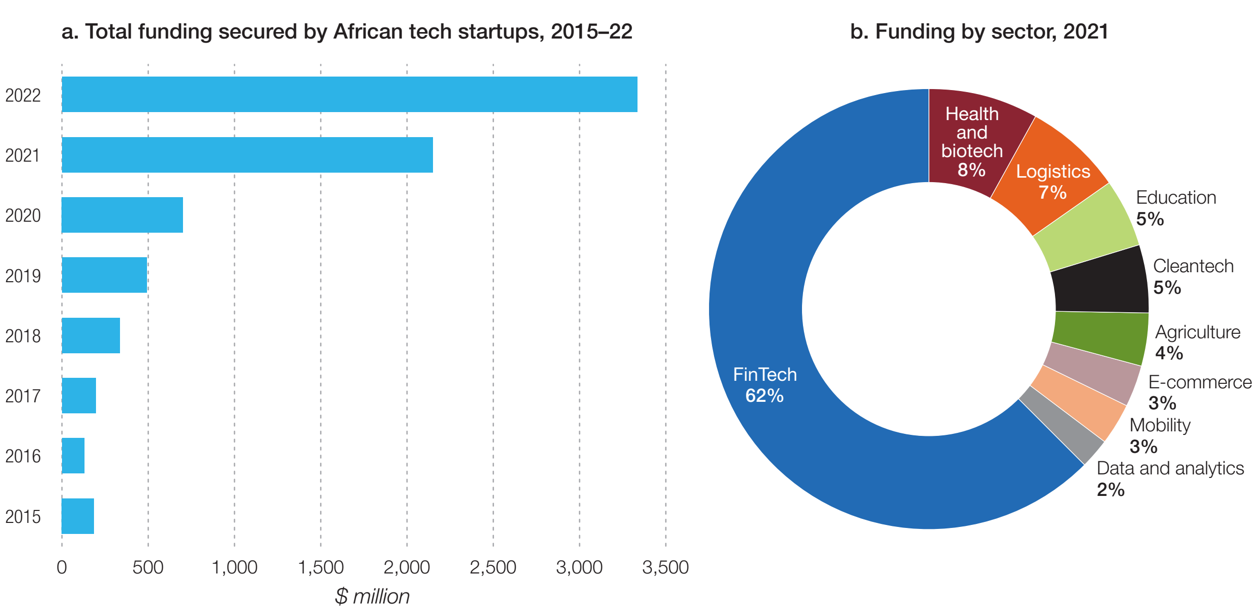
Although private capital activity in Africa has slowed over the past two years amid persistent global challenges and subdued market conditions, the continent remains an investment destination with undeniable opportunities. Africa's total private venture capital deal value and stood at $5.9 billion in 2023, with 450 deals, the second strongest year on record since reporting on these deals started in 2012.[74] In addition, growth in private capital deals in Africa has outpaced global averages in both volume and value.[75] Private equity is a notable source of private capital, with private equity deals increasing by 28 percent in 2024 Q3, relative to the same quarter in 2023 that was mainly due to rises in buyouts and growth capital deals.[76] Moreover, 24 percent of Africa-focused funds achieved dollar-denominated net internal rates of return above 15 percent in the past decade, though historically lower than the performance of global assets.[77] Assets under management in Africa still have significant room to grow as they represent less than 1 percent of GDP, far below the global average of 5–7 percent. Opportunities for private equity growth center primarily on demographic shifts that will fuel future consumption, on the rapid adoption of AI and digital technologies, and on evolving trade routes and increased regional cooperation via the African Continental Free Trade Area.[78]

Venture capital for start-ups is an attractive investment asset class in Africa, especially among young entrepreneurs, underscoring the continent's innovation ecosystem.[79] Even so, Africa's share of VC activity by global standards is small, with less than 2 percent of worldwide deal volumes and values in 2023, less than a tenth of the more than 20 percent in Asia.[80] Factors encouraging venture capital in Africa include the state of digital infrastructure, innovation intensity, and institutional quality.[81] Funding from traditional sources such as banks is often limited or virtually nonexistent, and African start-ups turn to international venture capital for seed investment. The increased opportunity for growth in venture capital in Africa can be seen in the exponential growth in tech start-ups underpinned by the emergence of unicorns, such as digital payment platforms. In 2022, funding for tech start-ups in Africa was over $3 billion, a steady increase since 2015 (figure 2.25), much of it concentrated among Egypt, Kenya, Nigeria, and South Africa, which account for nearly 92 percent.

A strong presence of the private sector, young emerging entrepreneurs, and a burgeoning national middle class make these economies attractive destinations for venture capital investments. Funding has also shifted from large deals to those below $50 million, reflecting the entrepreneurial environment on the continent. The potential for mobilizing venture capital is noteworthy, but structural and infrastructure challenges and weak institutional quality in many low-income countries in Africa confines them to the fringes of this market segment.

Crowdfunding has emerged as an alternative asset finance. Of the sources that operate outside

FIGURE 2.25 Venture capital funding secured by African tech startups



Source: Disrupt Africa 2023.

Source: Briter Bridges 2022.

the traditional banking and capital markets, it is growing rapidly around the world. It is a practice of funding a project or venture by raising money from several people who each contribute a relatively small amount. Globally, the value of crowdfunding was estimated at $2.1 billion in 2024, with a compound annual growth rate (CAGR) of 17.6 percent from 2025 to 2030.[82] This model of raising financial capital fits culturally with some traditional African funding practices that involve rotating savings and credit associations, such as *esusu* or *ajo,* which have been used to acquire relatively large assets and to finance public goods.[83] However, Africa represented only 1 percent of the global market dominated by the United States and Canada with a combined market share of 65 percent in 2020.[84]

Although nascent in Africa, crowdfunding has the potential to widen financial access in underserved areas and populations. The bulk (91 percent) of crowdfunding in Africa has been through crowdlending to individuals, most of them microentrepreneurs struggling to access finance from traditional financial institutions.[85] In 2020, Africa raised 87 percent of cross-border transactions from international funders, the highest globally.[86] This reflects, in part, the African diaspora's contribution in funding social and economic projects in their countries of origin,[87] including remittances totaling $91.1 billion or 3.1 percent of GDP in 2023.[88] What would it take to scale up the mobilization of crowdfunding in Africa? Investing in digital infrastructure that supports digital finance and mobile money, increasing awareness of formal crowdfunding platforms, and formulating appropriate regulations to address abuse, data breaches, and consumer and investor protection.

Institutional investors mobilizing long-term financial capital

The pitfall of Africa's oligopolistic commercial banking industry is the inability to provide long-term affordable capital. Institutional investors can be a game-changer by alleviating this funding constraint, including for infrastructure. While institutional investors are active in developed economies and some emerging markets, their investments in private equity represent less than 1 percent of total pension assets in most African countries, far below 26 percent globally.

Pension funds are the largest institutional investors in Africa. Assets under management by African pension funds alone soared from $420 billion in 2019 to more than $1 trillion in 2024, but most of these funds are invested in traditional asset classes. Africa's pension market represents less than 1 percent of global assets, with a pension coverage of only 9.6 percent.[89] The participation of institutional investors in financing African companies is lower in part because of information asymmetry, not low returns, given the low default rates on infrastructure projects relative to its peers.[90] Pension funds in the six largest African markets alone are projected to grow to $7.3 trillion by 2050.[91]

The increase in pension funds suggests their large potential to support the continent's sustainable growth agenda by meeting capital investment needs in all areas of the economy, especially for illiquid and riskier assets such as transport and energy infrastructure, two sectors with acute financing needs.[92] The continuing growth of Africa's institutional investors was recently demonstrated by two pension funds that have invested in infrastructure: Kenya's Country Pension Fund Financial Services invested in Dhamana, a company that provides credit guarantees of debt instruments supporting infrastructure projects in East Africa. And South Africa's Public Investment Corporation, representing the Government Employees Pension Fund, invested $40 million in Africa50, becoming its 36th shareholder.

Assets under management by African pension funds alone soared from $420 billion in 2019 to more than $1 trillion in 2024

Insurance institutions also mobilize capital through their risk management services through premiums. The large pool of capital is allocated more efficiently and over longer horizons in more economically valuable opportunities than when each saver invests individually. Beyond direct capital mobilization, insurance firms may mobilize capital indirectly by providing risk transfer solutions (political risk insurance, non-payment insurance, surety, etc.) that contribute to the deployment of other types of finance at scale, such as blended finance.[93] The insurance sector in Africa had about $87.4 billion in assets under management in 2023, or only 0.9 percent of global premiums.[94,95] In 2020, for example, the Swiss-Re Institute estimated that the sector represented only about 2 percent of Africa's GDP, well below the global average of 7 percent. Finding new ways to exploit the vast amounts of data at their disposal to improve decision making and risk mitigation can help insurance firms better mobilize financial capital. As with pension funds, the potential of the insurance industry is underexploited.

Sovereign wealth funds play a vital role in fiscal stabilization, intergenerational wealth transfers, and investing in growth enhancing critical sectors such as infrastructure. In March 2025, Africa had 18 state-owned sovereign wealth funds (SWFs), with total capitalization of $162 billion, led by Libya's $68 billion fund recently unfrozen by the United Nations. But Africa's capitalization of SWFs represents only about 1.2 percent of the global SWF capitalization of $13.4 trillion and only a small fraction of Africa's development financing needs. The development financing objective of SWFs directly contributes to addressing Africa's financing needs. But some of the intergenerational savings mostly held in liquid assets—such as investment-grade bonds of long duration, corporate debt, private equity, and commercial property overseas—could provide additional resources for development financing if invested domestically. The current value of the intergenerational savings of African countries is very small, relative to development financing gaps. For instance, the capitalization in two prominent African intergenerational savings funds—Ghana's Heritage Fund and Nigeria's Future Generations Fund—is about $1 billion each (equivalent to 1.3 percent of GDP in Ghana and only 0.5 percent in Nigeria). That is far from the respective estimated annual financing gaps of 4.2 percent of GDP and 10.4 percent for structural transformation under the SDG 2030 target.

In March 2025, Africa had 18 state-owned sovereign wealth funds, with total capitalization of $162 billion

The gap between African institutional savings and financing needs underscores the imperative of investing more within the continent. For greater impact, pension funds and other African institutional investors should leverage the AfDB's triple-A credit rating to channel more resources into infrastructure development projects. The returns are not only higher but default rates on infrastructure projects lower than elsewhere in the world.[96] The high investment returns in Africa and the Bank's strong credit rating are already attracting such international investment funds as ILX Management B.V. (ILX), an Amsterdam-based asset manager. The Bank'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 ILX's model, recognized for its reliance on DFI due diligence and in-country supervision, enables robust loan performance over the life cycle of each investment. In March 2025, ILX approved a participation of up to $40 million for a power project in North Africa, its first renewable power investment in Africa.

Most African countries, including resource-intensive ones, currently do not have sovereign wealth funds, which generally have better governance frameworks that could be useful for financing development. Therefore, African countries without such funding vehicles could establish SWFs and harness their potential for mobilizing development financing. To optimize their development contribution, however, SWFs should be delinked from political influence and given the autonomy to make investment decisions with the usual private sector incentives guiding their decisions.

Export credit agencies have emerged as an alternative source of financing, not only for international trade but also for infrastructure development in Africa. ECAs, particularly European ones, provided direct loans to African Ministries of Finance at low lending rates following the liquidity crunch from the Covid-19 pandemic. Indeed, some of the largest financed infrastructure projects—such as the Mozambique LNG ($14.9 billion) and the Nigeria LNG Train 7 ($3 billion)—included ECA-supported financing.[97] ECAs, with their government-backed status, can act as guarantors of private investment funds, taking on country and project risks. This presents ECAs with the opportunity to catalyze private sector funding for projects across various economic sectors. Their trade facilitation in Africa is also evolving beyond traditional services with the provision of insurance against country risks such as currency inconvertibility and political instability—and against counterparty risks like bankruptcy.

Sustainability and innovative sources of finance

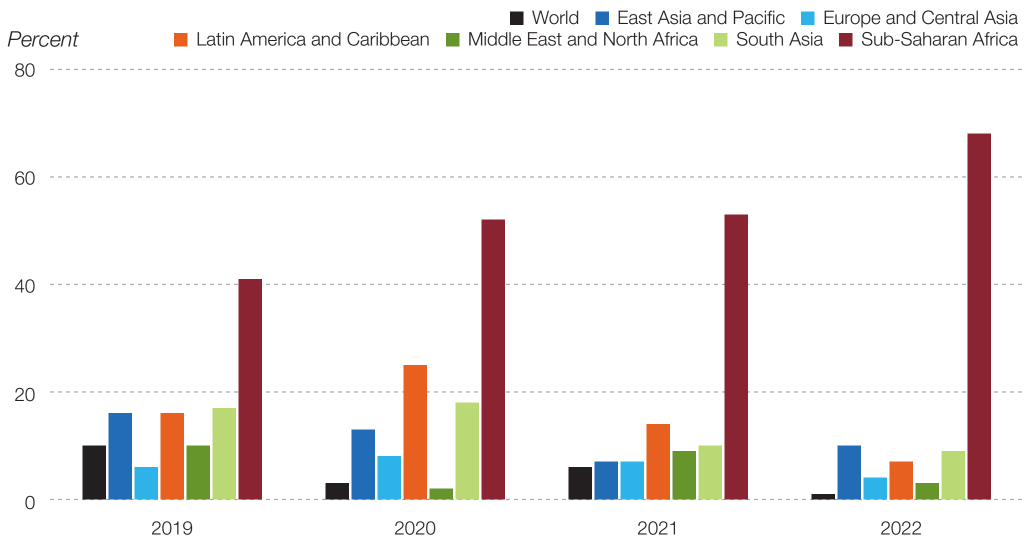
Blended finance uses limited concessional donor funds to de-risk and mobilize large-scale private capital flows for investments in emerging and frontier markets. Because of its ability to derisk private sector capital, blended finance can mobilize financial resources when high-risk, high-reward projects are just below the threshold for commercial viability. Africa, excluding North Africa, is the leading beneficiary of blended finance globally, accounting for 68 percent of all transactions in 2022, up from 41 percent of all transactions in 2019 (figure 2.26). Yet, the volumes and deal sizes of blended finance in Africa are small, indicating that this market segment is underutilized in mobilizing finance. Regulatory bottlenecks, such as different treatments of cross-border flows and higher capital reserve requirements for unrated blended vehicles (Basel IV), serve as barriers to private financial institutions' effective participation in blended finance. These can be mitigated by stakeholder partnerships that bring together blended finance practitioners and regulatory agencies with routine information sharing and consistent dialogue to improve calibrations of regulatory concessions.

Africa's climate financing needs are estimated at about $127.8 billion annually through 2030.[98] To close this gap, African countries should expand their mobilization of green finance, which includes climate finance. The global appetite for green finance continues to exist, as reflected by the $575 billion issued in green bonds in 2023 for a total global green bond market value of $2.8 trillion.[99] Despite the 125 percent increase in issuances between 2022 and 2023 (from $600 million to $1.4 billion), Africa's share of the global green bond market value remains less than 1 percent, the lowest of all regions.[100] To maximize Africa's potential in mobilizing green finance, the African Development Bank signed a joint partnership with the Global Green Bond Initiative in 2023 to promote green bond markets in Africa.[101] In addition, the $2 billion Green Cornerstone Bond Fund of the International Finance Corporation and Amundi that buys green bonds issued by banks in emerging markets, including Africa, could help unlock green finance for the continent.[102]

Impact investors, unlike traditional investment assets whose sole objective is to maximize financial returns, seek the achievement of positive social, environmental, and financial goals. Mobilizing impact funding could enable Africa to close part of the global $4.2 trillion gap to realize sustainable development goals.[103] Africa had about 225 active impact investors with around $25 billion of assets under management in 2024, attracting about $5 billion annually in disbursements of impact funds relative to the global total of about $42 billion.[104] To boost impact investing in Africa, more funds-of-funds could be established

Blended finance can mobilize financial resources when high-risk, high-reward projects are just below the threshold for commercial viability

FIGURE 2.26 **Distribution of blended finance transactions by region, 2019–22**



Source: Blended Finance (2024).

to incentivize first-time domestic funds, especially those with limited investable outlays, to pool their funds into an umbrella investment vehicle. Development finance institutions could also fund technical assistance to investors and investees to bridge some of the information asymmetries that exist, thereby encouraging impact investments.

Resource-backed loans allow countries with natural resources to access debt finance by collateralizing the future streams of their resource rents. The proceeds of RBLs are commonly deployed to finance infrastructure projects, and this makes them a potent source of development financing, when well used. Indeed, many African countries, especially resource-rich countries are using RBLs to finance their development. Between 2004 and 2018, 11 African countries had taken RBLs amounting to $46.5 billion,[105,106] with Angola accounting for nearly half the total RBLs in Africa. At the end of 2022, the countries with the largest RBLs were Angola ($24 billion), Guinea ($20 billion), and Republic of Congo ($5.8 billion). Despite the potent role of RBLs for socioeconomic transformation, they are stymied by weak governance, weak capacity in debt management, and infrastructure projects that are poorly selected or executed.

Resource-backed loans allow countries with natural resources to access debt finance by collateralizing the future streams of their resource rents

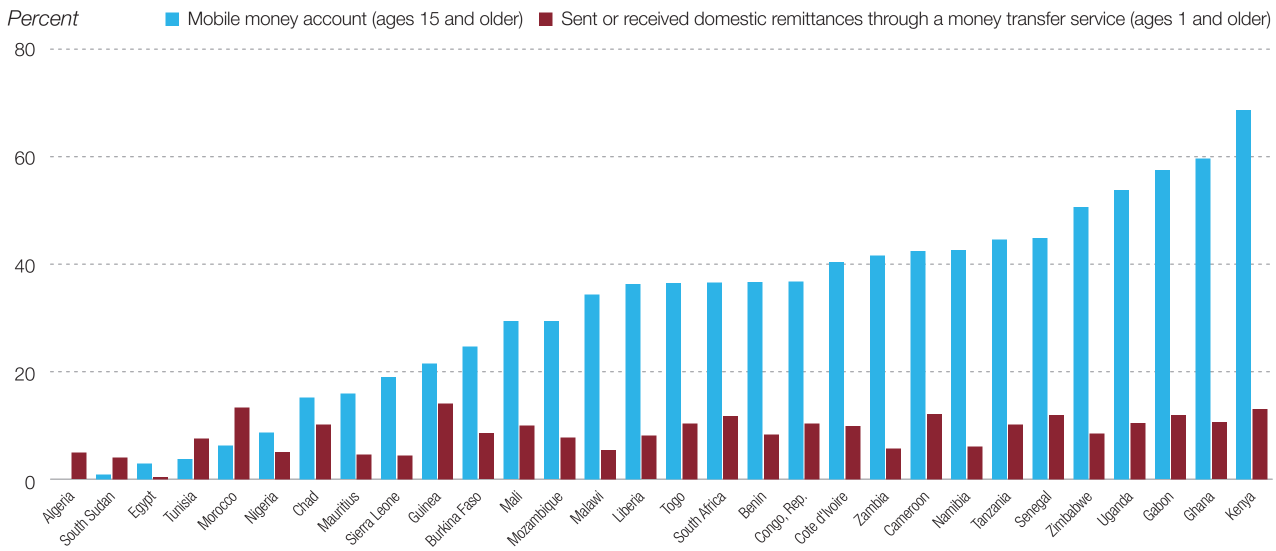
RBLs can also exacerbate debt sustainability problems, especially when they are large or set off a cycle of increased dependence on this type of borrowing. First, if the price of the ringfenced commodity falls, the borrowing sovereign should commit more of its export proceeds to honor RBL obligations, which may reduce revenues for other government projects and programs and erode foreign exchange reserves.[107] This relates to disclosure and transparency: government borrowers seldom disclose information on loan terms such as interest rates, fees, third-party agents, repayment terms, and tenors. Second, RBLs may complicate debt resolution as evidenced by the protracted debt treatment negotiation between Chad and a commodity trader under the G20 Common Framework. Indeed, Chad's debt become unsustainable in 2021, in part due to volatility in oil prices and the subsequent default on oil-for-cash loan from a commodity trader, its largest private creditor. The country reached an agreement to reprofile part of the debt service due in 2024, making it the first country to do so with its creditors under the G20 Common Framework. The opportunities and pitfalls of RBLs underscore continued efforts to develop technical assistance in African countries to promote their interests in negotiations with commodity traders.

The FinTech ecosystem can be leveraged to mobilize savings more efficiently. Mobile/digital money has become an affordable and convenient mechanism for delivering financial services to financially excluded populations.[108] In Africa, mobile money has gone beyond facilitating access to financial institutions accounts and now facilitates the use of formal financial services such as credit, savings, investments, and insurance.[109] The positive role of mobile money in enhancing savings and capital markets investments indicates that fintech can foster mobilization of domestic savings, important for financial inclusion and sustainable economic growth. Kenya is leading the way in mobile transactions, with more than half of the adult population having a mobile money account.[110,111] The number of mobile transactions is also high in Gabon, Ghana, Senegal, Tanzania, Uganda, and Zimbabwe. Cameroon, Namibia, and Zambia also have high levels of mobile transactions, with more than 40 percent of adults having a mobile money account (figure 2.27).

Despite the growth in mobile money adoption, Africa's aggregate domestic savings has grown at a disproportionately slow pace of 5 percent since 2022, indicating that more needs to be done to boost fintech in capital mobilization. With potential for fintech to mobilize approximately 3–13 percent (between $50 billion to $125 billion) of the funding required for SDGs, governments need strategies to tap into this important resource.[112] A possible intervention at the service-provider level is to lower the cost of savings mobilization by offering differentiated interest rate systems, where interest earnings could grow with account balances. And at the macro-level, governments can provide tax incentives, where, for example, interest earned up to a specified amount is exempt from income tax and small deposits up to some amount are exempt from excise duties.

Emigration of highly educated individuals and skilled workers presents a considerable loss for Africa. The continent has invested in their training

FIGURE 2.27 **Number of people using mobile money accounts in selected African countries**



Source: World Bank Global Financial Inclusion data for 2021.

without benefiting from the development contribution through human capital and tax benefits of their professional activity. Reverse migration and brain drain are more than policy challenges—they are matters of national pride and renewal, requiring trust in domestic institutions to meet the aspirations of workers. It thus goes beyond the economic effects of poor career prospects as a main push factor. Efforts to curb migration of talent or lure it back to Africa can take many forms, and several measures have proven successful in some countries, especially Eastern Europe. Given the challenges of government in absorbing large numbers of graduating medical personnel and teachers, a more pragmatic approach would be to provide tax- or talent-based incentives to attract firms in key sectors experiencing high loss of skills—health and education. Such measures can make it easier for entrepreneurs to establish their businesses and provide an opportunity for skilled workers to find well-paid employment without leaving their country. The results of this approach have been striking for Romania in curbing the exodus of health care and information technology professionals, with the returning diaspora members injecting capital and know-how into emerging technology hubs in the country.[113]

Education reforms through partnerships between local and foreign institutions can also attract investment and deliver change in building a pipeline of talent. A tripartite partnership involving the African Development Bank, the Government of Rwanda, and Carnegie Mellon University, built a new Africa-based model of higher education. The CMU Africa campus provides high-quality, technologically sophisticated education intrinsically linked to the private sector and suited to Rwanda's development vision of building a knowledge-based economy. This model, by coupling education reforms with investment incentives and development aspirations, can attract international companies looking to tap into Rwanda's (and Africa's) talent base, reducing the impetus for young graduates to seek education and job opportunities abroad.

The growing African diaspora can be an important source of innovative and stable financing for Africa's development. It has more than doubled in size from 19.7 million in 1990 to 45.8 million in 2024. And the volumes of remittance inflows surpass other key external financial flows such as FDI and ODA. In 2023, total remittances to Africa stood at $91.1 billion, or 3.1 percent of GDP against $60.5 billion (2.1 percent of GDP) for ODA and $52.6 billion for FDI (1.8 percent of GDP). Remittances are a stable source of financing as they tend to be countercyclical during economic downturns, pandemics, and natural disasters and can act as a stabilizing factor that ensures the continuous flow of funding.

The contribution of the African diaspora, recognized by the African Union as the continent's "Sixth Region," to Africa's development, should be considered beyond sending remittances. While remittances are a private source of capital for migrants and diaspora, up to 30 percent of formal remittances may be left over and leveraged for local investment and developmental purposes after family needs.[114] With Africa expected to attract about $100 billion in remittance inflows in 2025, this implies that the continent can use diaspora bonds to mobilize some of the untapped $30 billion in potential capital. The potential will be even greater in the coming years, as formal remittance flows to Africa are projected to reach a lower bound of $283 billion by 2035,[115] a threefold increase from 2023. Deliberate policies to reduce the cost of remittances and formalize informal transfers could raise the upper bound of Africa's remittance market to as much as $500 billion.

The growing African diaspora can be an important source of innovative and stable financing for Africa's development

Diaspora bonds, government debt securities targeted at nationals living abroad, are emerging as a crucial tool for African countries. They tap into diaspora savings and investment, complementing traditional remittances, which are a significant source of foreign exchange. Despite their potential, diaspora bonds remain underused in Africa. Indeed, only a few African countries—Egypt, Ethiopia, Kenya, and Nigeria—have used diaspora bonds for infrastructure projects. For instance, the issuance of diaspora first-generation bonds in Nigeria was a success, while other attempts, such as diaspora targeted bonds in Ethiopia, infrastructure bonds in Kenya and the Golden Jubilee Savings Bonds in Ghana, have been less successful due to a lack of trust and real and perceived risks.

The African Union Commission endorsed the African Diaspora Finance Corporation to develop, harness, and channel diaspora savings and resources into socially responsible and impactful ventures in priority sectors in Africa. Governments seeking to successfully issue diaspora bonds need to address their countries' political risks and improve governance including observance of the rule of law, enforcing respect for property rights, and ensuring independence of the judiciary. They also need to price diaspora bonds competitively relative to similar international issuances, and other instruments available in the migrant's country of residence. And they need to adopt policies that protect diaspora investors from currency inconvertibility and, as an incentive, consider making diaspora bonds tax-free.

Asset recycling is an alternative form of sustainable infrastructure financing for development in Africa. It offers a way to leverage the value of existing public assets by leasing or repurposing them to generate capital for new infrastructure projects. This financing model, to elongate tenure and reduce debt distress, can address the infrastructure challenges facing many African countries. Africa50 is pioneering this innovative financing arrangement across Africa. Recently, Africa50 assumed the operations of the Senegambia Bridge under a $100 million Asset Recycling concessional agreement with the government of Gambia. It also signed an agreement with the Republic of Togo for part of the debt associated with the Lomé-Kpalimé Road project. And it signed a memorandum of understanding with the government of Zimbabwe to establish a framework of cooperation to manage and operate three of the country's international airports.[116]

While the benefits of asset recycling in Africa are often touted, transparency, clear regulatory frameworks, and strong institutional capacity are essential to ensure that the long-term benefits are realized. Asset recycling should also be applied strategically to ensure that vital national assets, such as critical infrastructure, remain under public control to protect the country's interests. With proper governance and oversight, it can contribute to building stronger, more resilient African economies that support inclusive growth and development.

Local currency financing can empower African economies to mitigate the risks of currency fluctuations. Borrowing in own currencies can avoid the added financial strain caused by exchange rate changes and volatility. And supporting domestic capital markets in Africa can provide long-term financing for critical growth enhancing sectors such as health, education, and infrastructure, fostering greater financial sovereignty. On a best-effort basis, AfDB and other multilateral development banks (MDBs) provide local currency funding subject to the availability of local currency funding opportunities or swap opportunities. Since most MDBs do not take currency risk on their balance sheets, they typically hedge local currency conversions by executing currency swap transactions with market counterparties. But given the long term of MDB loans, swap arrangements are available for only the most liquid currencies in the continent, now numbering 11.[117]

MDBs also provide local currency through bond markets, simultaneously lending in local currency and issuing local currency bonds with considerable coordination involving the borrower, investors, and the MDB. This approach is most efficient when specific investors, such as a local pension or sovereign wealth fund, have the appetite for triple-A MDB bonds denominated in local currency with a matching repayment profile. Due to several factors, including the underdeveloped local financial markets and a lack of sufficient investor confidence, the local currency financing provided by MDBs in Africa remains limited.

Since Africa's development financing needs continue to grow, scaling up local currency financing provide affordable, long-term capital for infrastructure and development projects. For instance, the Bank estimates that if Africa's debt-to-GDP ratio in 2025–30 increases conservatively by about 5 percentage points (the average annual pre-pandemic growth in 2016–19) but the additional new debt is in local currency financing, it would ease growth in foreign currency debt in Africa by about $88.6 billion. This is about 35 percent of the estimated financing gap in education for this period. So, by expanding local currency financing, MDBs can help reduce the stock of foreign currency debt, lower exchange rate risks, and better align with the economic realities of African nations, fostering sustainable growth across the continent.

The Africa Financing Stability Mechanism (AFSM) has the potential to support the development of domestic financial markets and dampen the effect of shocks. Pressures from external debt remain elevated in Africa. High external public indebtedness exposes African economies to financial system vulnerabilities through various channels, including exchange rate pressures, a diminution of investor confidence, and financial repression. These risks have already materialized in several instances, as in Zambia and Ghana, where external debt distress escalated into sovereign defaults. This led to a rapid currency depreciation, rise in inflation, deteriorating domestic bank loan quality, and reduced access to foreign credit lines, with consequences for private sector lending.

The ability of African countries to deepen their financial markets and mobilize domestic capital effectively will hinge on mitigating the risks associated with elevated external indebtedness. While existing international financial institutions offer various forms of assistance—ranging from monetary support to macro-fiscal programs and project financing—Africa still lacks adequate mechanisms for debt refinancing, relying instead on expensive market-based solutions. The AFSM aims to help African countries cope with risks. If the AFSM is fully supported by countries, it can ameliorate sovereign risk of debt distress and financial crises by providing liquidity support to illiquid RMCs on advantageous terms. This, in turn, would provide critical safeguards for the effectiveness and resilience of domestic financial markets, helping to stabilize Africa's financial landscape and enhance prospects for mobilizing sustainable financial capital.

Scaling up local currency financing provide affordable, long-term capital for infrastructure and development projects

BUSINESS CAPITAL

Business capital refers to production inputs mobilized by economic units—mainly firms—that combine land, labor, capital, and entrepreneurship to produce and distribute goods and services for profit. When aggregated, business capital can be broadly aligned with the private sector, particularly when the economy is conceptually divided into two main components: public and private. Business capital plays a key role in economic transformation and is considered as the engine of economic growth and development, if properly harnessed.[118] Yet business capital development in Africa is hindered by significant obstacles that make firms operate suboptimally. Harnessing Africa's business capital will thus require a paradigm shift, repositioning it as a dynamic force to realize the continent's structural transformation.

Business capital development in Africa

Africa's private sector accounts for 70 percent of GDP, 70 percent of all investment, and 90 percent of jobs (both formal and informal).[119] Yet business capital in Africa is not operating at its full potential primarily due to lack of an enabling business environment, especially limited infrastructure and access to finance,[120] leaving it far below the level to drive the continent's socioeconomic transformation.

Business capital in Africa is not operating at its full potential primarily due to lack of an enabling business environment

Distribution of businesses in Africa is skewed towards small and medium enterprises

Most African private businesses are small. The number of firms across African countries averages about 203 per 100,000 people. This compares unfavorably to the 776 firms per 100,000 people in South Asia (SA) and 554 in East Asia and the Pacific (EAP) but surpasses Latin America and the Caribbean (LAC) with 195 firms per 100,00 people. More than 40 percent of these firms are microenterprises with fewer than 10 employees, and more than 60 percent of small and medium enterprises (SMEs) have fewer than 20 workers. Africa is not unique in this respect. Across the world, SMEs account for more than 90 percent of all firms: about 94.3 percent in Africa, 93.7 percent in EAP, 91.4 percent in LAC, and 98.2 percent in SA. In these other regions, large firms[121] have a significant footprint in the economy, but in Africa they account for only 0.02 percent of businesses, substantially below LAC's 0.38 percent.[122] Of global firms that generate over $1 billion in revenue annually, only 345 are in Africa, 60 percent less than the region's economic size would predict. This stands in stark contrast to China, which hosts 1,500 billion-dollar companies. To catch up with the rest of the world, Africa needs large firms to drive the region's productivity and economic growth. Evidence shows that if the continent developed a proportionate number of large firms relative to its economic size, total enterprise revenue would increase by about one-third yearly.[123]

High prevalence of informality due to high costs of formalization

Informality characterizes much of Africa's business landscape, particularly among smaller enterprises. Estimates on the size of the informal sector vary, depending on definition and methodologies. Data from the World Bank's Informal Economy Database based on the Multiple Indicators Multiple Causes (MIMIC) model shows that between 2018 and 2020, the informal sector accounted for more than 50 percent of official GDP on average in Republic of Congo, Nigeria, Tanzania, and Zimbabwe. It is also estimated that 85 percent of Africa's population is engaged in informal labor, making it the region with the largest share of the workforce in the informal sector.[124] In Sub-Saharan Africa alone, the informal sector is estimated to account for between 20 and 65 percent of GDP.[125]

The persistence of informality is related to the exorbitant costs that formalization can entail: several businesses prefer to operate informally to escape regulations, taxes, and other payments to the government. While the region has made strides in reducing barriers to entrepreneurship in recent decades, with the average cost of business creation procedures falling by a factor of eight between 2003 and 2019, substantial gaps remain when compared with other regions. In 2019, starting a business in Africa cost 13 times more than in advanced economies (figure 2.28). Even compared with other developing countries, African entrepreneurs face higher costs of business startup procedures.

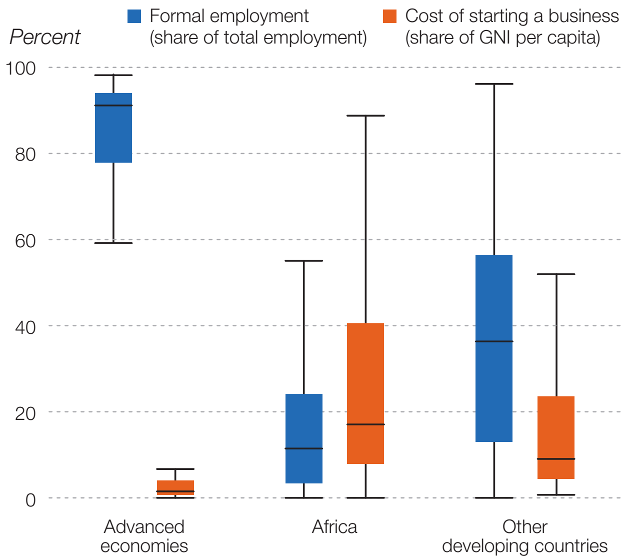
There is a positive correlation between the density of new formal businesses—new business registrations per 10,000 people aged 15 to 64—and the ease of business creation as captured by the *Business Ready Index,*[126] which measures the regulatory quality of business formation, availability of digital public services and information transparency, and the time and cost required to register new domestic and foreign businesses (figure 2.29). Of the nine African countries with data, seven have a low density of new formal businesses, mainly due to a less favorable business environment, with only Botswana and Mauritius having a high density. Free, simplified, and shorter business registration is a feature of countries that have increased the rate of formalization.

Low representation of youth and women in the formal labor market, weak human capital, and limited use of digital technologies

The business ecosystem in Africa is characterized by a low representation of young people and women in the formal labor market, a situation compounded by weak human capital. Despite their potential for economic growth, young people represent 60 percent of the unemployed in Africa, which has the world's highest rate of youth unemployment.[127] African women also face numerous challenges in the labor market, with a majority of them employed in low-paying jobs in the informal sector. The African Development Bank estimates that 234 million jobs will be needed in Africa by 2030 to accommodate the continent's growing population.[128] More important, however, is the need to create quality well-paid jobs, which is difficult with weak human capital and skill development. This undermines firm productivity and limits their survival, hindering business capital development. High rates of unemployment in Africa mean that the growth of the labor force is not keeping pace with population growth, resulting in a high dependency ratio, currently estimated at about 80 percent, far above the global average of 55 percent. This mismatch limits business capital development and represents a significant missed opportunity. For example, if the workforce had grown in line with the working-age population, it would have contributed an additional 0.13 percentage points to per capita income growth. To put this in perspective, per capita income would have been $92 higher in 2022, translating into an additional $47 billion in GDP—roughly the size of Tunisia's economy in 2021.[129]

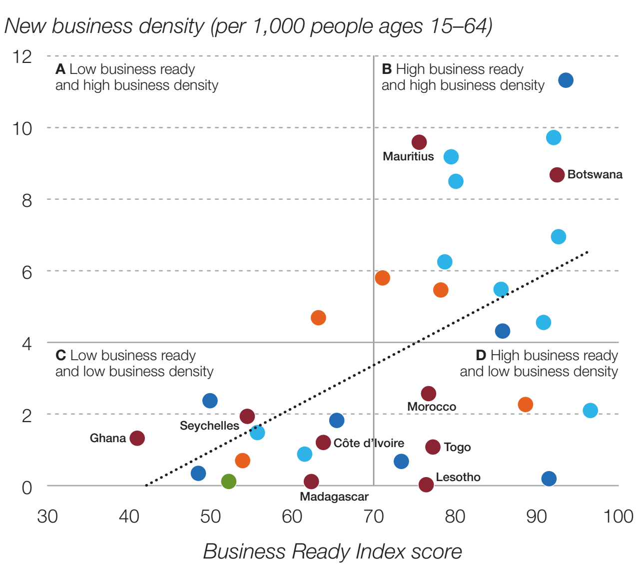
Despite their crucial role in enabling most business activities, the use of digital technologies in Africa's business ecosystem is uneven. Many businesses are left behind, resulting in limited capacity for innovation. Fourth Industrial Revolution (4IR) technologies are expected to make the African private sector more competitive, with powerful transformative potential across all sectors of the continent's economy.[130] However, the productive use of digital technologies by firms in Africa remains modest and uneven, leaving a chasm between the connected and the disconnected. In an evolving era of artificial intelligence and other advanced digital technologies, African businesses should be digital-ready to fully participate and capture the benefits of the technological transition. However, Africa's low investment in

FIGURE 2.28 Cost of starting a business and share of formal employment by region, 2019



Source: AfDB calculations using ILO and World Bank data.

FIGURE 2.29 Correlation between business ready score and new business density, 2024

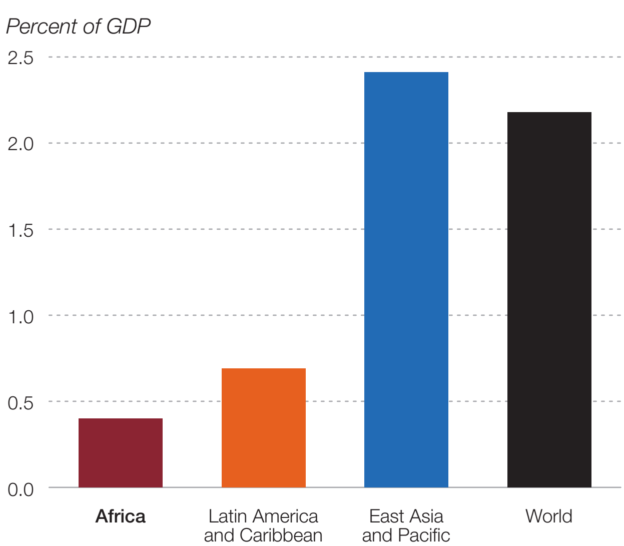


Note: The Business Ready index measures the process of registration and the start of operations of new limited liability companies across three different dimensions: (i) quality of regulations for business entry, covering de jure features of a regulatory framework that are necessary for the adoption of good practices for business start—ups; (ii) availability of digital public services and transparency of information for business entry; (iii) the time and cost required to register new domestic and foreign firms.
Source: AfDB calculations using World Bank Business Ready data (2024).

research and development (R&D) implies that the continent will continue to lag other regions in digital technologies and innovation. Over 2010–21, Africa's median gross expenditure on research and development averaged just 0.4 percent of GDP, far below the world average of 2.18 percent and about one-sixth that of East Asia and Pacific (figure 2.30).

Africa's lack of innovation has consigned the continent to dependence on the colonial era's development model of resource extraction without value addition.[131] Ghana, Kenya, and Rwanda may have made strides and performed consistently above their level of development, but many African countries at the bottom of the global innovation ladder have low per capita incomes. The future of innovation in Africa also now looks more promising, and there is growing realization that science and technology drive inclusive development and wealth creation in Africa. For instance, the 2021 World Intellectual Property Organization (WIPO) Global Innovation Index report showed that Africa had the largest number of countries that performed above expectation on innovation relative to their income.[132] In 2022, 9 African countries were among the top 10 high performing low-income countries.[133]

FIGURE 2.30 Research and development expenditure by region, period average, 2010–21



Source: AfDB calculations using the World Bank's World Development Indicators database.

Low domestic private investment

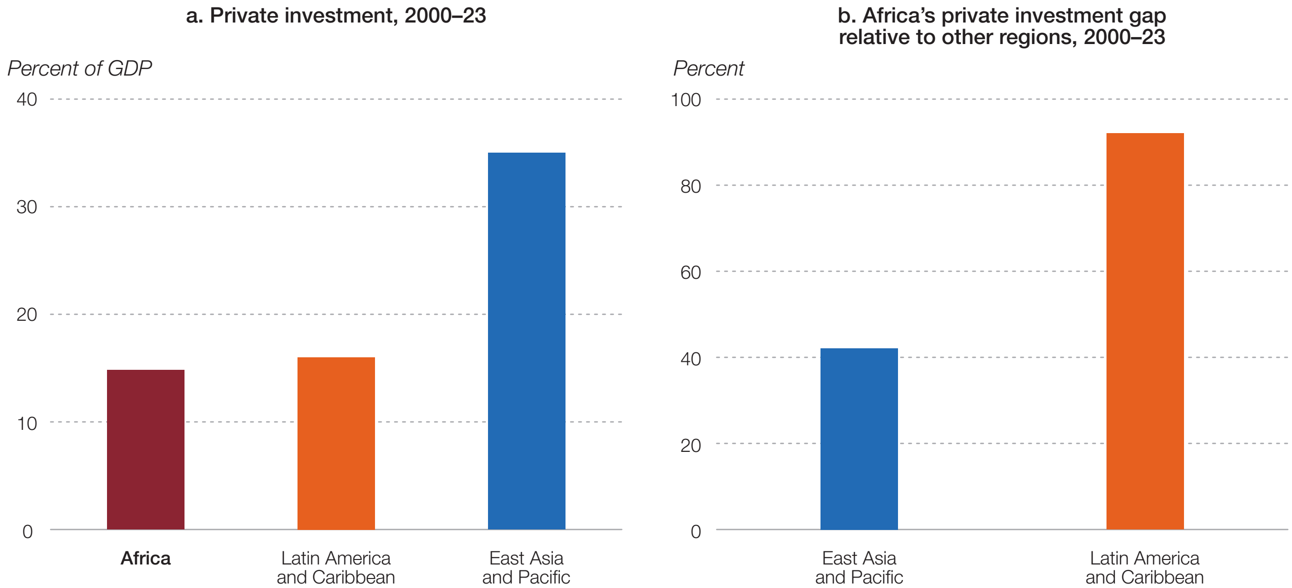
Domestic private capital stock in Africa is lower than in other developing regions, hampering the development of business capital. Over 2000–23, private investment in Africa averaged 14.8 percent of GDP, below the figure for Latin America and the Caribbean (LAC) of 16 percent of GDP and less than half the figure for East Asia and the Pacific (EAP) (figure 2.31). The gap between Africa and the two regions demonstrates the continent's disinvestment over the decades. While many countries in EAP and LAC increased their domestic investment relative to GDP, Africa reduced it. Given its lower incomes, Africa would be expected to accelerate investment, since capital scarcity is associated with higher returns. But this has not materialized, largely due to persistent barriers such as weak institutions, political risk, poor infrastructure, human capital deficits, and underdeveloped financial markets. Weak domestic private investment in Africa also reflects a lack of supportive public infrastructure, constraining innovation and the ability to catch up with other regions.[134]

Barriers to business capital development

Quality and efficient infrastructure is key to business capital development

Inadequate infrastructure is one of the binding constraints. Infrastructure deficits—underdeveloped transportation, logistics and ICT connectivity as well as unreliable energy supply—increase the cost of doing business and limit access to regional and global value chains.[135] In many African countries, businesses, especially in the manufacturing and industrial sectors, face significant operational disruptions due to inadequate power supplies, which inhibit productivity and drive up costs.[136] Although there has been remarkable progress in mobile technologies and fintech, many African countries still lag in internet access, digital infrastructure, and technological innovation. This digital divide entrenches inequality and limits the ability of businesses to leverage digital tools for efficiency, competitiveness, and growth.

FIGURE 2.31 **Regional comparison of domestic private investment, 2000–23**



Note: Data for Africa, Latin America and the Caribbean cover the period from 2000 to 2023, while data for East Asia and the Pacific cover the period from 2000 to 2021.

Source: AfDB calculations based the World Bank's World Development Indicators Database.

Weak institutions and policies and archaic regulations are a major obstacle

Weak soft infrastructure—institutions, policies, and systems—impede business capital development in Africa. It influences nearly every aspect of the business environment, from how businesses are regulated to how efficiently they can operate (chapter 3). In many African countries, weak legal systems, insufficient contract enforcement, and inconsistent regulations create uncertainty for businesses.[137] The absence of transparent and strong legal systems and a predictable regulatory environment discourage long-term investment and stifles entrepreneurial activity.

Improving access to finance can unlock business capital accumulation

Access to long-term affordable finance in Africa is nearly absent. Fewer than 2 percent of loans in Africa have tenors of more than 10 years, and almost 60 percent of them are short term, depriving businesses of the time to earn an adequate return on their investments.[138] In addition, there is a lack of tailored financial services such as venture capital to support businesses at various stages of their growth. As a result, corporate capital needs are typically funded by retained earnings, which account for up to 78 percent of financing for small businesses,[139] or informal funding sources. Banks finance only 5 percent of the needs of small businesses and 14 percent of the needs of large businesses.

Several African economies illustrate how improved access to finance can bolster business capital accumulation, supporting domestic resource mobilization. In Kenya, the widespread adoption of mobile money platforms like M-PESA significantly expanded financial inclusion, enabling SMEs to access affordable credit. This progress is driven by lower borrowing costs and flexible repayment terms, which facilitate investment in equipment, inventory, and operational expansion, particularly in urban and peri-urban areas.[140] However, several obstacles hinder the efficient mobilization and use of domestic capital, from limited access to bank funding to underdeveloped capital markets. Low access to bank funding remains a major constraint for firms across Africa, yet African firms with credit lines have been shown to have 66 percentage point higher growth than those without.[141]

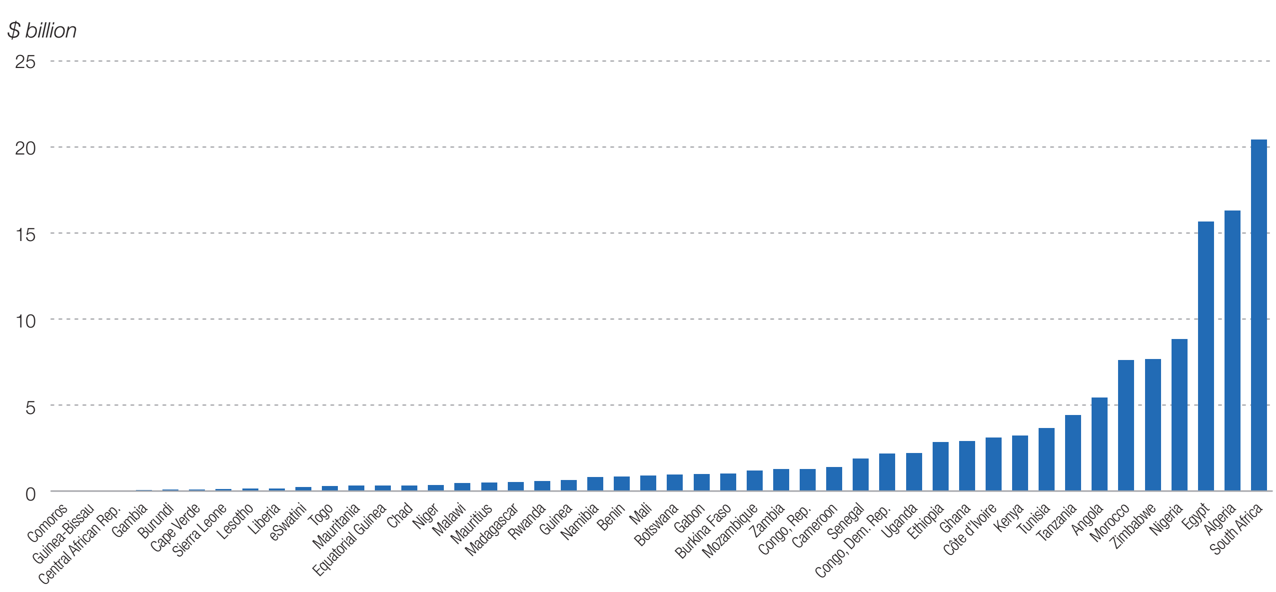
Opportunities for business capital development

Transitioning informal businesses into the formal economy could generate an estimated $125.3 billion in additional revenue for development financing

African populations possess a strong entrepreneurial spirit. More than one in five working-age Africans are engaged in starting a new business, with more than 75 percent of youth planning to launch their own ventures within the next five years.[142] But as discussed earlier, high regulatory burdens, a weak entrepreneurial ecosystem, and other structural barriers have pushed the majority of business activities into the informal economy, making it a reservoir of untapped economic potential. Formalization is therefore key to unlocking this potential. Indeed, the informal sector is limiting growth while formal sector growth boosts economic growth (see annex 2.2).

The informal economy in Africa encompasses a wide range of actors—street vendors, smallholder farmers, and micro and small enterprises—and accounts for a substantial share of economic activity, as noted earlier. Despite their informal nature, these economic actors contribute significantly to national economies. But this considerable wealth creation occurs outside the tax system, leading to substantial forgone revenues that could otherwise support development financing, including investment to strengthen business capital. By analyzing data on informal output relative to formal output, tax revenue as a share of GDP, and nominal GDP across 46 African countries, the estimated forgone revenue amounts to approximately $125 billion for Africa (figure 2.32). This estimate would be even higher if data from all African countries were available. Moreover, the impact could be dynamic: as informal enterprises transition into the formal economy, they would gain access to better conditions that support business growth, further expanding the tax base and increasing overall revenue potential. The largest estimates of forgone revenue are concentrated in the continent's biggest economies: South Africa ($20.4 billion), Algeria ($16.3 billion), Egypt ($15.6 billion), and Nigeria ($8.8 billion).

FIGURE 2.32 Estimated revenue gains from taxing the informal economy in Africa



Note: The analysis assumes that 75 percent of the size of the informal economy—benchmarking African countries against top-performing developing countries—is formalized and therefore taxable. This corresponds to the 10th percentile of the share of formal employment in total employment for non-African developing countries as per the World Bank country classifications.

Source: AfDB calculations.

Taxing the informal sector is not straightforward mainly due to the inherent difficulty in taxing informal economic activities and income distributional effects due to inaccurate assessments of taxable income. The surest way is to bring informal sector firms into the formal tax system by creating a window for taxation. But where informality is difficult to dismantle, innovative means of taxing informal activities may need to be devised, and some examples in Africa offer valuable lessons. Kenya's relatively advanced information technology systems have eased the difficulties of paying the appropriate taxes. The presumptive tax charged on informal firms is paid through the iTax portal, and for any late remittance, a penalty and interest of 5 percent and 1 percent, respectively, are charged on the tax due. In Tanzania, presumptive tax is collected through a block management system based on turnover from records, and where records do not exist, turnover is estimated. Given the difficulties and biases associated with turnover estimates, especially for small businesses, this approach based on progressive turnover appears to have been effective in taxing the informal sector.[143] In Ghana, the authorities use local associations and business groups to collect taxes from their members. In addition to these measures, governments should recognize that many firms remain informal because they do not perceive clear benefits to formalization. It is therefore essential for governments to showcase the benefits from formal status—such as access to finance, legal protection, and public services—that make the total cost of operating in the formal sector lower than in the informal sector. This would provide stronger incentives for businesses to transition into the formal economy.

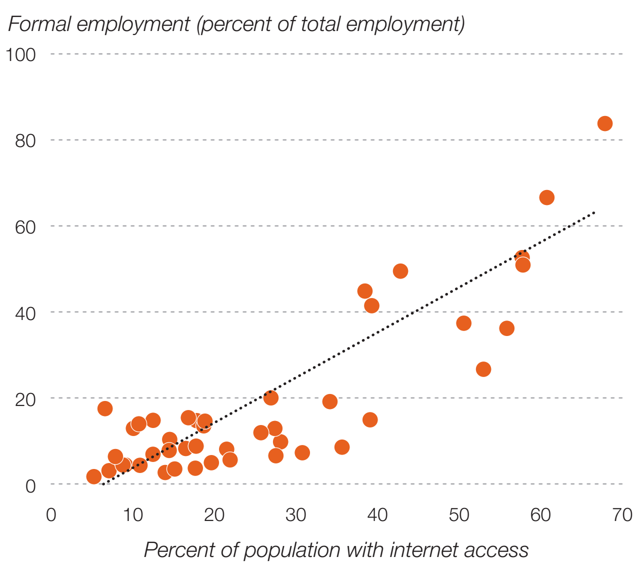
Beyond tax revenues, formalization offers substantial potential to enhance Africa's GDP and improve well-being by boosting productivity. Formal firms have higher productivity than informal firms, primarily due to improved access to credit, technology, and economies of scale. Formal firms can integrate into regional and global value chains and participate in government and international procurements, while workers benefit from social protections and higher incomes. Quantitative evidence underscores these gains. For instance, in North Africa, a reduction by half of entry costs in the formal sector would increase GDP by about 5.5 percent.[144]

Leveraging internet-based solutions can support business capital development in Africa, particularly by fostering enterprise formalization

To drive the development of business capital, African countries should take advantage of new digital opportunities. Internet access and digital technologies are instrumental in simplifying business registration processes and lowering transaction costs. As illustrated by figure 2.33, there is a strong positive correlation between internet penetration and the degree of business formalization; countries with greater internet access tend to have higher levels of formal employment. Digitalization reduces regulatory burdens and streamlines compliance, making it less costly and more attractive for businesses to transition to the formal economy. In addition, internet-enabled financial technologies improve access to finance by making financial services more inclusive, affordable, and scalable, thus addressing one of the most persistent barriers to business capital development.

The transformative potential of digitalization in expanding Africa's formal economy is already evident. Mauritius introduced an electronic

FIGURE 2.33 Internet access and formal employment in Africa



Source: AfDB calculations using ILO and World Bank data.

certificate of incorporation in 2018, making it easier to start a business. It also streamlined trade through advanced electronic document submission and a modernized risk-based inspection system.[145] The reforms contributed to a significant reduction in informal employment—from more than 50 percent to 33 percent between 2018 and 2022. And in Kenya, the mobile money platform M-Pesa, paired with affordable ICT services, increased the profitability and survival of microenterprises, ultimately supporting the growth of formal business activity.[146] These examples underscore how digital solutions can unlock business capital and accelerate Africa's economic transformation.

Countries should adopt targeted interventions for industries with high job-creation potential and strong backward and forward linkages

Well-designed policies that support targeted industries and promote local content can serve as powerful catalysts for strengthening the broader business capital ecosystem in Africa

While economy-wide reforms are essential, countries should also adopt targeted interventions for industries with high job-creation potential and strong backward and forward linkages. South Korea offers a compelling example.[147] The rise of its chaebol—large family-owned conglomerates like Samsung Electronics—illustrates how deliberate government policies, including regulatory flexibility and preferential access to credit, can fuel industrial growth and economic transformation. These conglomerates became global leaders, driving employment and elevating South Korea from an agrarian economy to a major manufacturing and technology hub. Crucially, South Korea also introduced transparency measures and extended support to small and medium enterprises (SMEs), helping to mitigate concerns about monopolistic tendencies and ensuring broader participation in the economy.

For African countries, the key lesson lies in balancing targeted industrial policies with governance mechanisms that promote inclusivity, innovation, and strong linkages across the business ecosystem, ultimately driving sustainable and diversified economic growth. South Korea's experience highlights the importance of aligning state support with a coherent industrial policy framework, ensuring that supported industries are well integrated with the broader economy. Without such alignment and linkages, state intervention risks fostering isolated industrial enclaves rather than broad-based transformation.

Providing systematic support to micro, small, and medium enterprises through institutionalized local content policies and preferred procurement strategies offers an effective pathway to fostering industrialization and strengthening business capital development. These strategies promote domestic enterprises by stimulating local factors of production—such as labor, capital, and locally supplied goods and services—to create value in national economies. In doing so, they help expand the industrial sector and reinforce backward and forward linkages across value chains. Crucially, local content and preferred procurement policies can optimize the economic returns from natural resource development by anchoring production in domestic economies rather than relying on external supply chains. When well designed and implemented across African countries, such policies can catalyze a fundamental shift in industrial development agendas by nurturing domestic industries and generating consumption linkages that deliver broad-based economic benefits. And by facilitating technology transfer and the diffusion of know-how, the policies can enhance the capabilities of domestic firms and workers, enabling them to provide the goods, services, and skilled labor to support the operations of multinational companies and drive long-term industrial transformation.

Franchising can also nurture business capital development. It allows businesses to compete directly with fully integrated firms in the same industry—such as vertically integrated Starbucks versus franchised brands like Vida e Caffè in South Africa. The model enables efficient market entry by leveraging established brands, proven business methods, and economies of scale. In the African context, franchising reduces startup costs, accelerates market penetration across countries and brings in new skills and technology, and creates employment opportunities. It also fosters cooperation and knowledge exchanges between businesses across borders. South Africa stands out as a leader in franchising on the continent, with significant contributions to GDP and employment. According to the World Franchising

Council, at nearly 12 percent, South Africa has the second highest contribution of franchising to national output globally and is the only emerging market in the top five.[148]

Despite its significant benefits, franchising has not received much policy attention, even in South Africa.[149] Given its potential to support business capital development, franchising should be more prominently featured in country policy agendas, and African governments can leverage dedicated facilities such as the Economic Community of Africa's Sixth Region Franchise Financing Facility, which aims to promote trade and investment between African countries and the diaspora. Tapping into technology and diaspora communities as sources of franchising initiatives development is essential, particularly in high-potential sectors like e-commerce, renewable energy, green initiatives, and technology-driven services.

Leveraging the African Continental Free Trade Area (AfCFTA) can be a game changer

The AfCFTA presents a transformative opportunity to strengthen business capital across Africa by creating a single liberalized market for goods and services. Full implementation of the AfCFTA is expected to significantly boost intra-African trade, particularly in manufacturing, and to catalyze private sector growth by enhancing economies of scale, reducing transaction costs, and expanding market access. This will reposition Africa's integration agenda by anchoring future economic growth on the strength of its business capital, including formal enterprises, value-adding industries, and investment in productive infrastructure. The revenue implications of this shift are substantial. By stimulating industrial activity and lifting trade and income levels, the AfCFTA could increase Africa's exports by $560 billion—primarily in manufactured goods—and raise continental real income by $450 billion by 2035.[150] This projected 7 percent income gain aligns with the minimum GDP growth rate to meaningfully reduce poverty across the continent. In this context, the AfCFTA is not just a trade agreement. It is a platform for mobilizing and expanding Africa's business capital, fostering entrepreneurship, and creating conditions for long-term, inclusive development.

HUMAN CAPITAL

Human capital is multidimensional, related to the technical and cognitive skills and knowledge acquired by individuals through education, vocational training, and adequate and quality healthcare and living conditions.[151] Its effect in fostering economic growth is well documented.[152] A strong human capital base enhances innovation and entrepreneurial capacity and is key to understanding productivity differences across and within countries. In Africa, human capital holds immense transformational potential for economies. It is the sine qua non for translating the continent's potential into tangible benefits. Quality education and skill development are essential for achieving true structural transformation—one that moves beyond the current trend of shifting economic activities from agriculture to other low-productivity sectors. A skilled and healthy workforce is crucial for driving industrialization by adding value to natural resources. Skills in modern techniques, mechanization, and climate-smart agriculture can improve yields and strengthen food security. Competent civil servants are essential for efficient service delivery, tax collection, and formulating growth-enhancing policies. A healthy and well-educated workforce is key to attracting foreign investment, advancing technology adoption, and enhancing Africa's integration into global value chains.

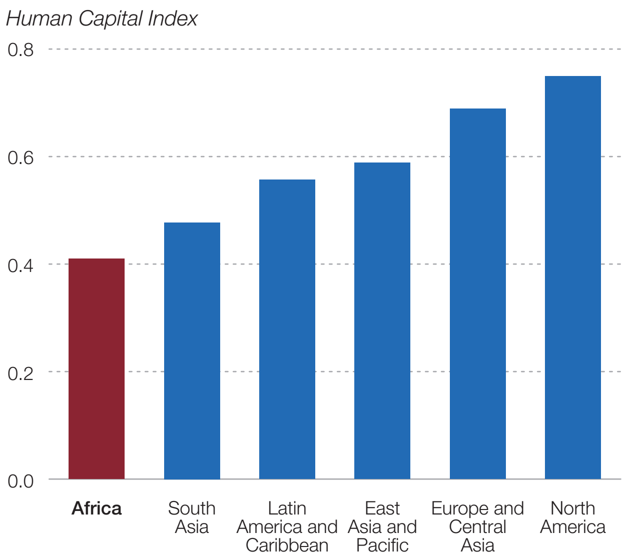
Quality education and skill development are essential for achieving true structural transformation

Africa has made significant strides in human capital development, with lower child and maternal mortality, longer life expectancy, and expanded school enrollment—but these advances remain insufficient to fully harness the continent's development potential. Most African countries rank low on key indicators of human capital development, with 34 of the lowest 40 countries in the World Bank's Human Capital Index (HCI) in Africa.[153] With a youthful population—more than 60 percent of the population under the age of 25—and a projected demographic surge to 2.5 billion by 2050, Africa holds a unique opportunity for transformation. Seizing this moment requires urgent strategic investment in human capital development, aligned with the continent's evolving needs and competitive strengths in a rapidly changing global landscape.

Current state of human capital in Africa

Further progress is needed in human capital development in Africa. Africa's human capital development remains a binding constraint, with the 2020 HCI revealing some progress but also persistent gaps relative to global peers. Africa recorded an average HCI score of 0.41, unchanged since 2010, meaning that children born a decade apart would be at the same level and only 40 percent as productive as those born in an environment with full health care and universal education. (figure 2.34). Africa's score contrasts greatly with North America (0.75), Europe and Central Asia (0.69), East Asia and the Pacific (0.59), Latin America and the Caribbean (0.56), and South Asia (0.48).

FIGURE 2.34 Human capital by region, 2020

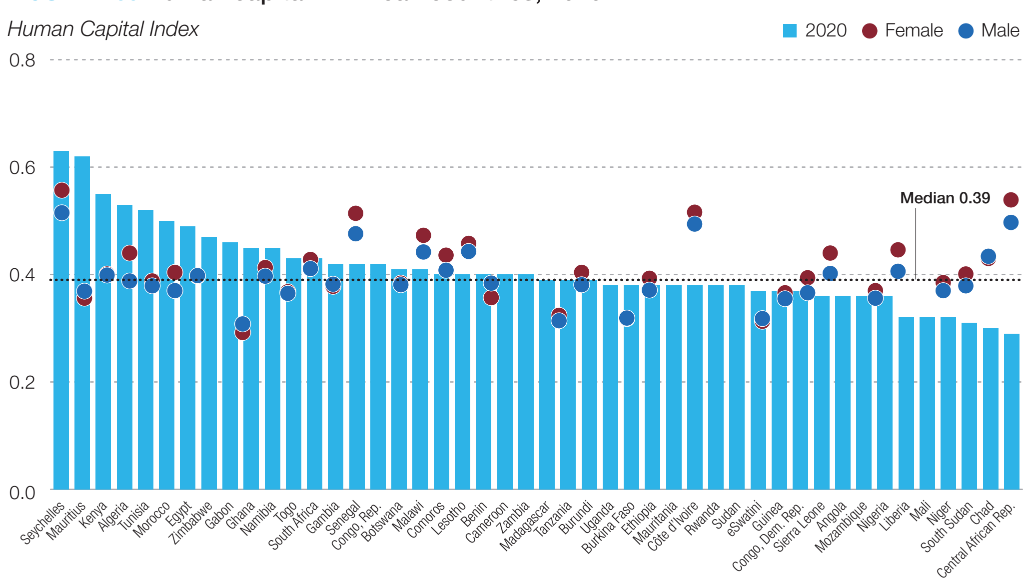


Source: AfDB calculations using the World Bank's Human Capital Index database.

However, performance varies widely across countries (figure 2.35). The low average HCI hides relatively good performers within Africa. Seychelles (0.66), Mauritius (0.62), Kenya (0.55), Algeria (0.53), and Tunisia (0.52) outperform or are near the regional and global averages, but only Seychelles and Mauritius had higher indices than Latin America and the Caribbean thanks to successful human development policies (box 2.2). The large HCI gap between Africa and other regions means that targeted investments can yield significant gains, moving the continent to an international frontier. More investment is needed in countries in the lower HCI brackets, many of which are in a state of fragility or transition: Central African Republic (0.29), Chad (0.30), South Sudan (0.31), Niger (0.32), and Mali (0.32).

The different dimensions of human capital in Africa reveal signs of progress but also persistent lags relative to other regions. In health, steady

FIGURE 2.35 Human capital in African countries, 2020



Source: AfDB calculations using the World Bank's Human Capital Index database.

BOX 2.2 Highlighting human capital success in Seychelles and Mauritius

Despite the considerable challenges facing human capital development in Africa, some countries have made remarkable progress, with Mauritius and Seychelles standing out as leading examples. Besides having high HCIs, both countries have also high scores on the UNDP's Human Development Index (HDI).

Seychelles

The Republic of Seychelles has the highest HDI in Africa, at 0.8 in 2022 and has performed consistently above the world average since 2000. Its life expectancy at birth increased from 69 years in 1990 to 71.7 years in 2022 while the expected years of schooling increased by almost 1 year, from 13 to 13.9 between 2000 and 2022.

To boost its human capital, the government introduced policy initiatives and reforms in the higher education and human resource development sectors. These included establishing the University of Seychelles in 2009 and revising the Government Scholarship Scheme in 2012. The government also created the Agency for National Human Resource Development to oversee and coordinate human resource initiatives. The changing landscape for technological innovation required changes in education and skills. So, in 2018 the government outlined a new National Human Resource Development (HRD) Policy, along with the country's first-ever HRD Strategy, aimed at harmonizing and strengthening efforts to develop the national workforce to meet the changing national and global demand for skills in the 21st century. These actions contributed to increasing the quality of human capital in Seychelles over the past decade. Seychelles had a literacy rate of 97 percent in 2021 underpinned by universal free primary and secondary education. The female-to-male labor force participation ratio was about 90 percent, and unemployment was estimated at 3 percent in 2023.

Mauritius

Between 1990 and 2022, Mauritius's HDI improved from 0.6 to 0.8, second only to Seychelles. Life expectancy at birth and expected years of schooling both increased by 4.6 years between 1990 and 2022. Mauritius provides public education from primary through university level with transportation provided for school children. It also provides free health care for all and runs a universal old-age pension with a strong social safety net. Its National Human Resource Development Plan was launched in 2007 and updated in 2010, along with an Education and Human Resources Strategy that has helped transform the country into a highly skilled nation in Africa. As the country seeks to re-invent itself in the post-Covid era, it is taking steps to address evolving labor market constraints by establishing public-private-partnership childcare centers and extending occupation permits for foreign workers. These are expected to increase women's participation and address labor shortages in the workforce.

Seychelles and Mauritius show that sustained investment in education, health, and strategic human resource development policies can yield high returns in human capital formation. African countries can draw lessons from these success stories by adopting comprehensive and forward-looking strategies that align skill development with their development agendas.

Source: AfDB 2024c; National HRD Policies.

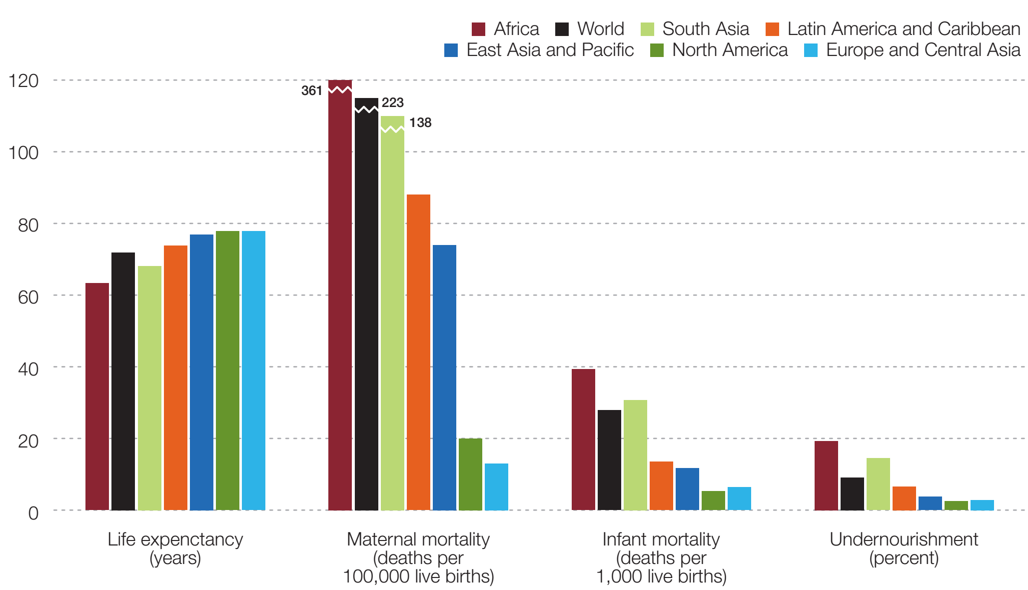
improvements have been made over the past decades. For instance, life expectancy at birth has increased to 65.4 years in 2023, 10 years more than in 2000. Maternal mortality has fallen by 42 percent to 360.6 per 100,000 live births between 2000 and 2020, and undernourishment is less prevalent (from 24.2 percent of the population in 2001 to 19.3 percent in 2022). Angola, Rwanda, and Zambia have made particularly rapid progress, with life expectancy increasing by more than 18 years and maternal mortality falling nearly fourfold since 2000. North African countries have performed strongly with life expectancy close to or above 70 years since 2000, and maternal mortality ratios below 100 per 100,000 live births since the late 2010s. Africa's small island nations—Cabo Verde, Mauritius, and Seychelles—also boast similarly strong across health outcomes.

Despite these gains, progress remains slow in most countries, dwarfing progress elsewhere, and gaps between Africa and other regions have widened. Africa remains the region with the lowest life expectancy globally—behind North America and Europe and Central Asia, where the average exceeds 75 to 80 years. Disparities in infant and maternal mortality and undernourishment are especially high (figure 2.36). Better health translates into improved productivity and escape from poverty. Therefore, lack of quality healthcare presents a significant challenge to inclusive development. For countries such as the Central African Republic, Chad, Nigeria, and South Sudan where maternal mortality ratios exceed 800 deaths per 100,000 live births, large investments in health service delivery are needed to make meaningful progress. Africa continues to bear a heavy disease burden. The incidence of tuberculosis and malaria remains high, averaging nearly 200 and 160 cases per 100,000 people, respectively. In some countries, these rates are substantially higher: malaria incidence exceeds 350 per 100,000 in Benin, Burkina Faso, and Mali, while tuberculosis incidence surpasses 500 per 100,000 in the Central African Republic, Gabon, and Lesotho. Persistent health challenges undermine people's well-being and constrain productivity growth.

In education, current outcomes remain below that required to effectively support the transformation of African economies. Expected years of schooling rose in Africa from 8.1 years in 2010 to 8.5 years in 2020, reflecting increased enrollment and a policy focus on education access (figure 2.37). But this remains well below the global

In education, current outcomes remain below that required to effectively support the transformation of African economies

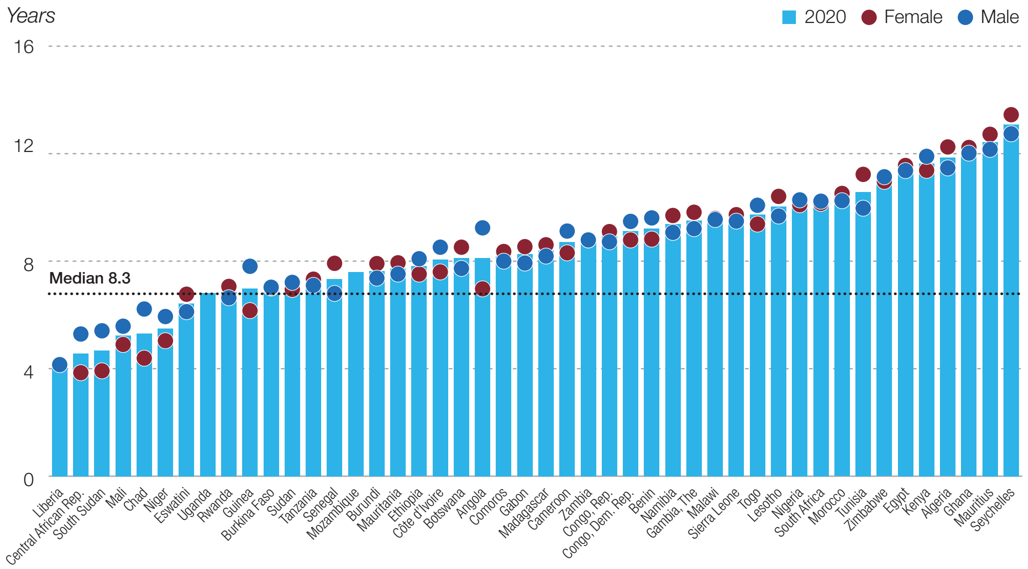
FIGURE 2.36 Health indicators by region, 2020



Note: Most recent years.

Source: AfDB calculations using the World Bank's World Development Indicators.

FIGURE 2.37 **Expected years of schooling in African countries, 2020**



Source: AfDB calculations using on the World Bank's Human Capital Index database.

Financing remains a major barrier to human capital development

average of 11.3 years, and all other regions, where levels range between 10.8 (South Asia) and 13.3 (North America). At 8.5 years, African children lose approximately three years to the global average. But some countries show a strong performance. Seychelles (13.1 years), Mauritius (12.4), and Ghana (12.1) are nearing international benchmarks, driven by sustained investment in primary and secondary education. On the extreme end is a class of countries, including Central African Republic, Liberia, and South Sudan, with years of schooling less than 5 years. In these countries, the median public expenditure on education during 2010–20 was less than 10 percent of total public spending, against more than 20 percent in such top performing countries as Ghana.

Education quality has not kept pace with increased access, and several indicators show persistent weaknesses in learning outcomes. In 2020, the average harmonized test score[154] was 374 (of the possible 625), so students reached only about 60 percent of the potential learning benchmark. This score has remained broadly unchanged since 2010, despite gains in school attendance, reflecting stagnation in learning quality. By comparison, the global average score is 423 and all regions of the world were ranked higher than Africa, except South Asia. Africa's low ranking on this metric of education quality highlights the depth of the continent's learning poverty. Only Mauritius (473), Seychelles (463), Gabon (456), and Kenya (455) ranked closer to Europe and Central Asia, the world's second top performing region after North America, thanks to investment in teacher training and curriculum reform. Conversely, countries like Niger (305) and Mali (307) face major constraints, including limited resources and fragile education systems, which exacerbate the learning gap.

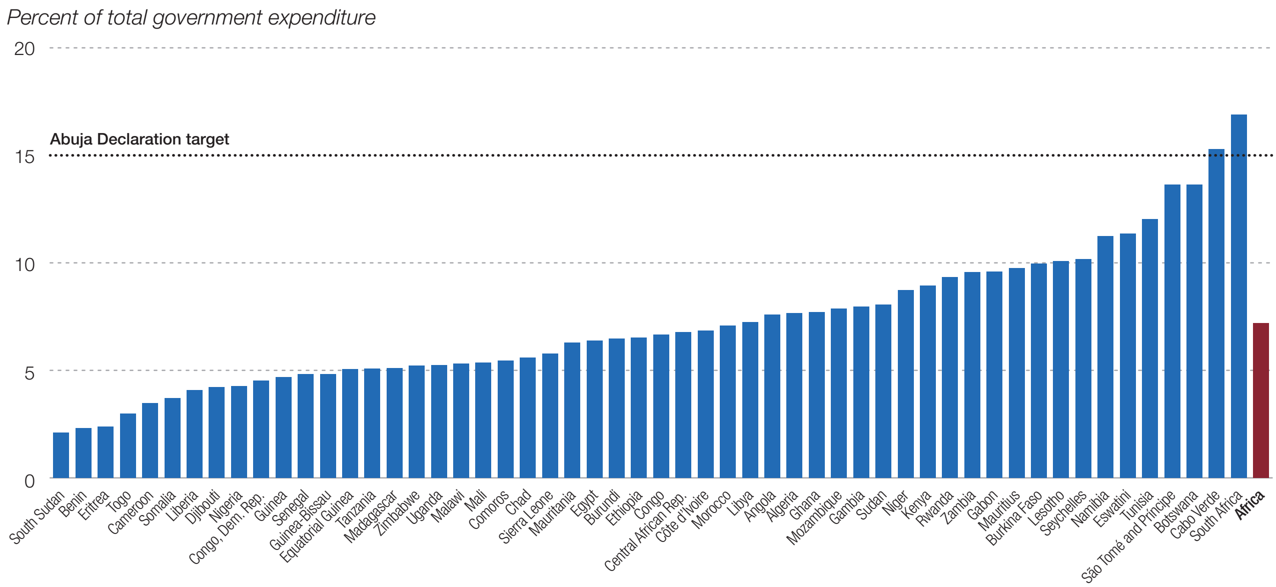
Africa's weak human capital development stems from interconnected barriers

Insufficient financing, weak spending efficiency, and poor infrastructure

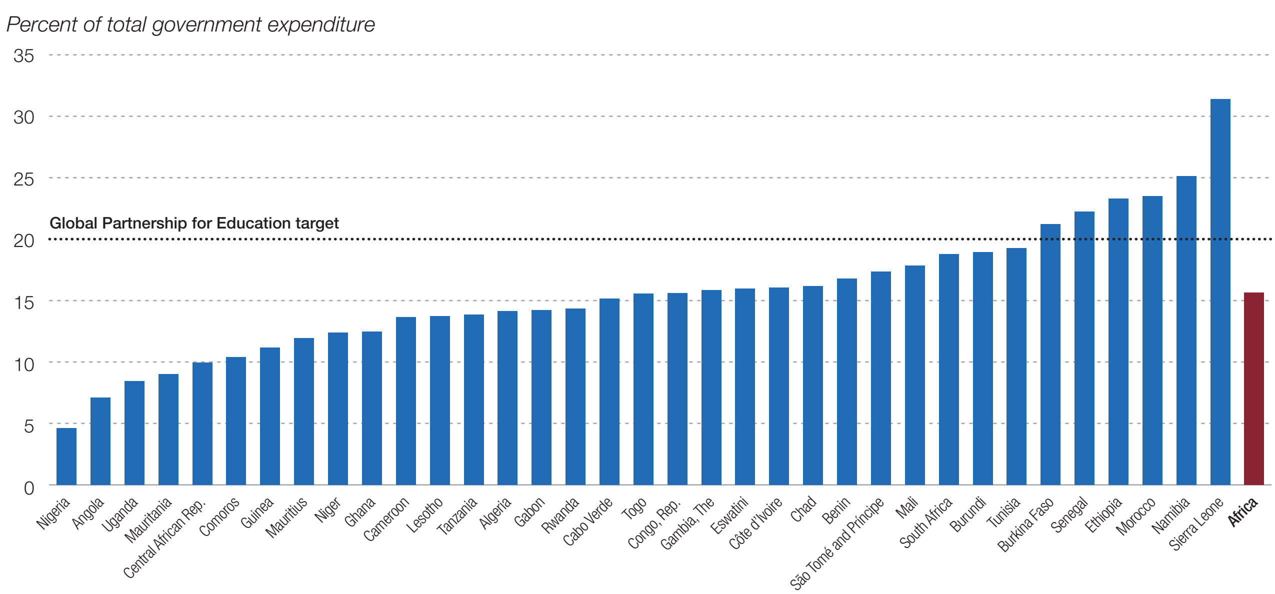
Despite African countries signing on to several global and regional commitments, financing remains a major barrier to human capital development. Since the Abuja Declaration in 2001, few countries have consistently allocated a minimum of 15 percent of total government budgets to health. The average government expenditure on health as a share of total government expenditure stood at 7 percent in 2022, less than half the Abuja Declaration target (figure 2.38a). Of the 54

FIGURE 2.38 **Government spending on health and education in selected African countries**

a. Total government spending on health, 2020–22



b. Total government spending on education, 2021–23



Source: AfDB calculations using the World Bank's World Development Indicators Database.

African countries, only Cabo Verde (15.3 percent) and South Africa (16.9 percent) exceeded the target. The remaining 52 countries were below, with Benin, Eritrea, and South Sudan spending less than 3 percent of government expenditure on health. These expenditure patterns reflect income differences as well as domestic policy priorities within and across the health sector. The top nine countries that devoted at least 10 percent of their total expenditure on health are in the middle-income or high-income category.

Most African countries also fall below the target for public expenditure on education. The Global Partnership for Education set a threshold of 20 percent of annual total public expending on education, but the average for Africa was about 15.6 percent during 2021–23 (figure 2.38b). Only six of 35 African countries with data during this period spent 20 percent or more—Burkina Faso (21.2 percent), Senegal (22.4 percent), Ethiopia (23.3 percent), Morocco (23.5 percent), Namibia (25.1 percent), and Sierra Leone (31.4 percent). African countries with lower education expenditure have scope to raise their share, but this could be limited by slow economic growth, so governments should focus on efficient spending to derive maximum benefits.

Household expenditure in health and education complements public resources. Almost 30 percent of national expenditure on education is provided by households, much of it for private education.[155] But the proportion of students attending private primary and secondary schools in Africa is small, with the median shares in total enrolment standing at 16 percent and 13 percent, respectively, compared with 18 and 19 percent in Latin America and the Caribbean. Private education is also a preserve of the rich, with children from wealthy families benefiting as much as 12 times more than their counterparts from poorer households.[156] Therefore, households in Africa are likely spending more of their income on education to compensate for the access or quality deficiencies of public schools.

A combination of low funding and weak efficiency in spending translates into low quantity and quality of health and education and corresponding weakness in performance across key indicators. Inadequate medical equipment and technology and challenges in health information management adversely affect the capacity to provide quality health services. Inadequate classroom space and sanitation facilities, outdated technology and teaching aids, high pupil-to-teacher ratios, and high prevalence of teacher absenteeism reduce the quality of education, which is directly proportional to the efficiency of expenditure. Even with the current public expenditure, completion rates could rise by as high as 98 percent if efficiency in Africa met that in Asia or Latin America without increasing spending. This implies that many African countries could achieve universal primary enrolment by increasing the efficiency of their education spending.[157]

Limits to educational programs due to teacher shortages, curriculum mismatches, and weak STEM education

Teacher shortages, coupled with absenteeism, pose a serious threat to the quality of education. The pupil-teacher ratio has improved in primary education but remains high by global standards. On average, there are 35 pupils per teacher at the primary level, less than 8 points lower than in 2000, and about 24 pupils at the secondary level, broadly stable since 2000. In contrast, other regions report much lower ratios ranging between 14 and 17 at the primary level, and between 11 and 16 at the secondary level. The proportion of qualified teachers in Africa has declined over the past two decades. In 2000, an average of 84 percent of primary school teachers held the minimum required qualifications. By 2019, this had dropped to just 65 percent.[158] With the rapid expansion of school enrollment, many education systems resorted to hiring unqualified teachers to fill the gap.

Skill mismatches in Africa reflect the continent's weak education system and curricula that have not kept pace with changing labor market circumstances. Education curricula in many countries lag the evolving needs of industry, particularly in fast-growing sectors such as the green economy, advanced tech-based manufacturing, and information, communication and technology (ICT). Employers frequently report difficulty in finding qualified candidates, while many graduates are unable to secure jobs—leading firms to fill skilled positions with underqualified workers. A majority of young Africans are undereducated for their jobs, and nearly one-third are under-skilled.[159] As a result, Africa faces a paradox of high youth unemployment alongside labor shortages in key sectors. This mismatch stifles innovation, while undermining motivation to invest in education.

Skill mismatches in Africa reflect the continent's weak education system and curricula that have not kept pace with changing labor market circumstances

Weak STEM (science, technology, engineering, and mathematics) education constrains Africa's ability to fully leverage human capital for development. Enrolment in STEM programs remains low across the continent. Less than 25 percent of higher education students pursue STEM disciplines due to various factors. Most schools face limited access to electricity, internet connectivity, smart classrooms, science laboratories, and essential learning equipment. For example, an estimated 90 percent of secondary schools in Africa lack proper science laboratories.[160] In addition, limited teacher training and capacity force many STEM educators to rely on traditional, teacher-centered approaches, which are often ineffective for experiential and inquiry-based STEM learning. These challenges result in significant gaps in STEM training and weak job prospects for graduates. So, many engineers and medical workers, such as doctors and nurses, end up in administrative roles or unemployed, discouraging new enrolments in STEM fields, thus perpetuating a vicious circle of limited STEM education on the continent.

Inadequate health insurance and social protection are the primary barriers to achieving quality health outcomes

Weak social protection and shortages of healthcare workers result in missed opportunities

Inadequate health insurance and social protection are the primary barriers to achieving quality health outcomes in Africa. A significant proportion of the population cannot afford necessary medical care, resulting in untreated medical conditions, chronic diseases, and high mortality rates. It is estimated that only 17 percent of Africa's population have access to health insurance and social protection.[161] Inadequate health insurance and social protection policies create long-term economic costs, as poor health outcomes reduce workers' productivity. Compounding the low social protection are shortages of healthcare providers. Africa has 2.3 healthcare workers per 1,000 population, compared with 24.8 per 1,000 in the Americas.[162] The shortage has been exacerbated by the exodus of health workers to wealthier countries. As a result, healthcare services are stretched thin, leading to inadequate medical care. Given the cost of training a skilled professional in Africa—between $21,000 and $59,000 for a doctor—brain drain represents a missed opportunity to reap dividends of investing to develop such skills.

Some African governments have introduced policy frameworks and initiatives to retain skilled professionals. South Africa has officially appealed to foreign governments, including Canada, to halt the recruitment of skilled South Africans through targeted campaigns. Other approaches to skilled migration appear paradoxical. For instance, in 2024, Kenya and Germany signed a labor and migration agreement allowing for about 250,000 skilled Kenyan workers to migrate to Germany. Kenya's broader goal is to send one million workers abroad annually, with the expectation that remittances and skills gained abroad will contribute to domestic development. Similarly, the Government of Ghana signed a bilateral agreement with Barbados in 2019, deploying an initial cohort of 120 nurses for a two-year term. These initiatives may solve the unemployment among skilled workers in the short term, but the consequences can be significant in the long term.

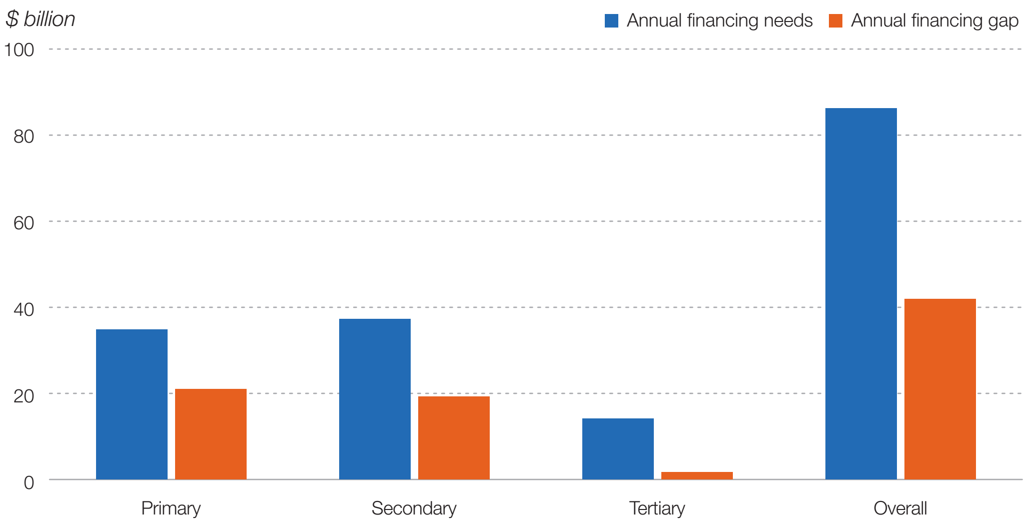
Gender inequality in access to education and job opportunities impedes human capital development. The UNDP's 2022 gender inequality index (GII) has 7 of the 10 countries with the worst GII scores in Africa. In 2022, only 30.9 percent of African females had attained at least some secondary education, compared with 42.1 percent of males. Likewise, labor force participation rates were higher for males (76.4 percent) than for females (63.9 percent), confirming the persistent gender inequalities that impede human capital development.

Investing in education to harness Africa's human capital

Addressing financing gaps to scale up investment in education and skill development for Africa's transformation

Chronic underfunding and inefficiency of education spending continue to hinder progress in education. To ensure that Africa's human capital drives its development more effectively, scaling up investments in education is essential. Africa's financing needs required to achieve quality education and accelerate Africa's structural transformation are estimated at $86.2 billion annually through 2030. At current funding levels, this leaves an annual financing gap of $41.9 billion (figure 2.39).[163] If African countries aim to catch up with other developing countries in higher education outcomes by 2030, they need to step up their investments in education's quantity and quality. Meeting these funding needs will ensure that school-age population achieve 100 percent enrolment rates in primary and secondary education and 50 percent in tertiary education (SDG 4).

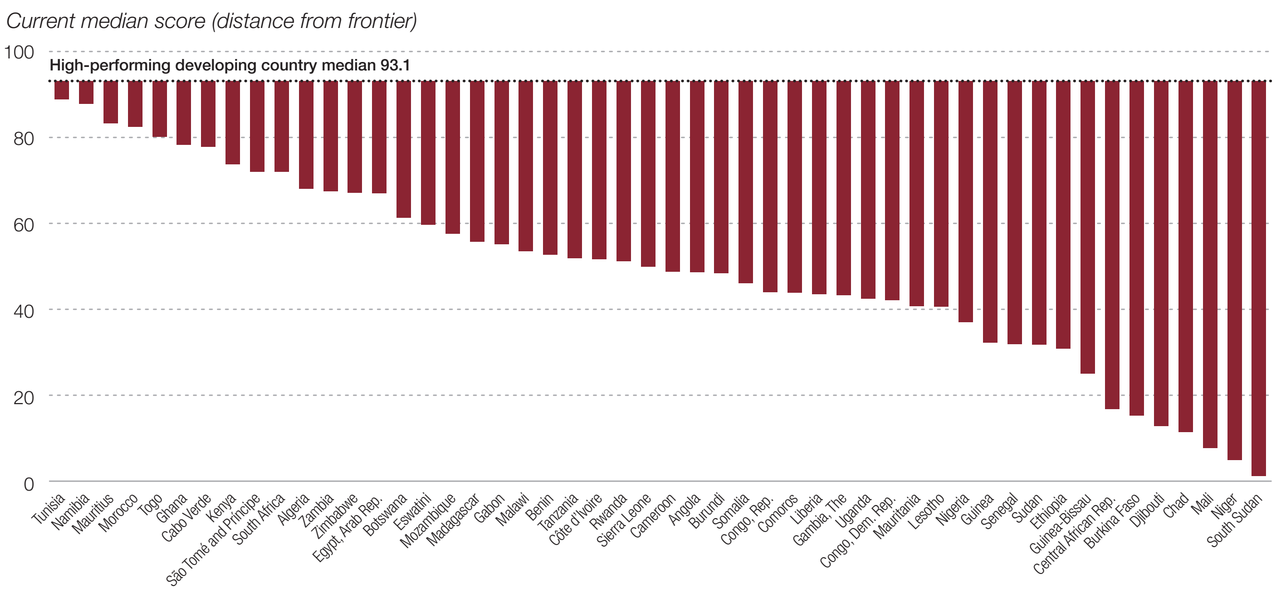
FIGURE 2.39 **Africa's education financing needs and gaps**



Source: AfDB (2024b).

Closing these gaps across the three main levels of education will require rethinking the way education is currently financed, including from households.[164] The efficiency in public spending in education will also need to be scaled up.[165] The efficiency of public spending on education in Africa during 2010–18 was 58 percent in primary school and only 41 percent in secondary school. As noted above, by improving this spending efficiency ratio to the levels in peer regions, Africa could achieve near universal primary enrolment (98 percent).[166] And countries could achieve a near doubling of Africa's current median SDG 4 score, from below 50 to 93.1. Such an increase would represent a significant leap in educational achievement, with the largest potential gains seen in countries with lower indicators—South Sudan, Niger, Mali, Chad, and Djibouti (figure 2.40).

FIGURE 2.40 **Bridging the financing gap would spur progress towards SDG 4**



Note: Frontier here means the median for high performing developing countries.

Source: AfDB calculations using UN statistics.

Addressing education financing gaps would significantly improve human capital and transform African economies

Closing the financing gap by mobilizing Africa's rich capital endowments could yield substantial economic gains as evidenced by estimation results from a model based on a conventional Cobb–Douglas production function and its accounting decomposition (see annex 2.3). The framework examines the influence of human capital policies on each of the three productivity-enhancing factors as well as their direct "effect" on overall productivity and economic diversification, both critical for Africa's transformation. The influence on life expectancy is also considered to account for broader social dimensions alongside economic performance.

Quality education could generate an additional $368.4 billion and boost GDP per capita by about $240

The findings, summarized in annex table 2.3.1, highlight substantial benefits from tackling key human capital challenges in Africa. In particular, providing adequate resource allocation by increasing public spending per student by 10 percent strengthens human capital per worker by 0.7 percent and enhances total factor productivity by 4 percent. This, in turn, drives higher overall productivity, by 4.5 percent and fosters economic diversification. More years of schooling are associated with enhanced human capital per worker, and the impact on capital intensity is also positive, as higher skills and technological knowledge encourage increased investment in capital. The estimated coefficients are 7.8 percent for human capital per worker and 2.2 percent for capital intensity for an additional year of schooling. These mechanisms are crucial for labor productivity and economic diversification, as reflected in the direct positive 'effects' of 7.6 percent and 0.1, respectively. The relationship with life expectancy is also positive, further underscoring the broad socio-economic benefits.

Expanding STEM education can be a powerful driver of economic diversification in high-productivity and skills-intensive sectors. The results show that a 10-percentage point increase in the proportion of STEM graduates is associated with a 0.1-point increase in the index of economic complexity. In complement to STEM, the empirical results also make a strong case for prioritizing TVET, as it is positively associated with the two measures of economic performance as well as their components. These steps are crucial for advancing business capital development. The association with life expectancy is also found to be positive. Countries prioritizing gender-inclusive policies tend to achieve higher human capital per worker, greater total factor productivity, stronger economic performance, and increased life expectancy. For example, a country with a gender parity index one-point higher than another is expected to be 0.3-point more productively diversified, making it better positioned to fully harness its human capital potential for sustainable development.

These results show that education is a transformative investment—not a cost or a social good with minimal or no impact on the economy. Supporting this view, estimates show that quality education could generate an additional $368.4 billion (equivalent to 4.3 percent of GDP) and boost GDP per capita by about $240 in Africa.[167] In recognition of its importance as a cornerstone for progress, the African Union declared 2024 "The Year of Education." This comes as an important call to reprioritize education to reap the full benefits embedded in human capital.

Prioritizing women's human capital is an imperative for Africa's transformation

Investing in women can unlock the continent's full development potential. Persistent gender gaps in education, health, and economic opportunities continue to undermine inclusive growth and limit women's contribution to the economy. Girls face greater barriers than boys, often due to entrenched social and cultural norms that restrict them to low-value roles, early school dropouts, early pregnancy and child marriage, and unpaid household responsibilities. These disadvantages extend into the labor force, where women are mostly at the bottom of the pyramid, and in services, where they face limited access to financing, and markets, all of which restrict their productivity and economic independence. Closing gender gaps is not only a moral imperative but also a transformative economic strategy. Evidence shows that each additional year of schooling in Africa raises a man's earnings by 11 percent and a woman's earnings even higher, by 14 percent.[168]

This highlights the substantial and broad returns and strong business case for investing in women's education.

To meaningfully enhance women's human capital, African countries must move beyond expanding access to services and address the deeper structural and sociocultural barriers that suppress women's role and potential to contribute to the economy. This includes eliminating child marriage, preventing gender-based violence, and ensuring access to reproductive health services, all of which directly affect girls' ability to learn, stay healthy, and seize economic opportunities. Legislative reforms, gender-sensitive policies, and inclusive economic strategies are essential to ensure women are not just passive beneficiaries but active agents of change and growth. By empowering women through targeted investments in education, health, and entrepreneurship, Africa can drive intergenerational human capital development and build more resilient, equitable, and prosperous societies.

Transfers of skills and talent through brain circulation can foster development

While brain drain depletes the continent's human capital and limits its potential to fully benefit from its skilled workforce, the opposite is brain circulation—the two-way flow of talent, where skilled migrants eventually return, collaborate, or invest back in their home country. Brain circulation offers a powerful mechanism to mitigate the effects of brain drain and skill shortages. In this context, short-term international labor mobility can be an effective strategy for knowledge transfer and innovation (box 2.3). The African diaspora can be a vital resource, not only as mentors and trainers, but also as champions of education and research across the continent. Initiatives such as the African Diaspora Network should be scaled up

Brain circulation offers a powerful mechanism to mitigate the effects of brain drain and skill shortages

BOX 2.3 Brain circulation through short-term labor mobility to foster innovation

Short-term international labor mobility, an effective mechanism for transferring knowledge and fostering innovation, has the potential to contribute to human capital development and foster inclusive development in Africa.[1]

While the relocation of skilled Africans to higher-income countries outside the continent may represent a physical loss of highly trained workforce, it also presents an opportunity for countries of origin to tap into the expertise these migrants acquire abroad. Short-term professional or business visits, whether virtual or in-person can help achieve this, while offering a way for skilled African diasporans 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. As the circulation of people drives the circulation of ideas and innovation, short-term mobility could be a strategic tool for enhancing human capital and providing an important resource for development of African economies.

In mitigating brain drain and developing human capital, governments and regional institutions should pay attention to such affordable, indirect, and impactful strategies for fostering innovation and productivity. Removing barriers to the free movement of people, including granting dual citizenship to African diaspora, can enhance mobility. Frameworks can be set up for exchange programs between African universities and research centers and their peers within and outside the continent. Platforms can engage the African diaspora in mentoring and knowledge-sharing with those left behind. These strategies represent practical, cost-effective ways to strengthen human capital on the continent.

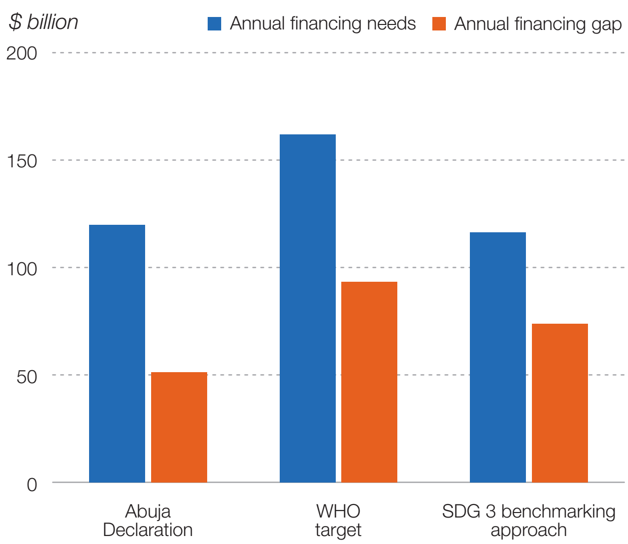
Note

1. Mbaye et al. 2024.

Source: Adapted from Okara 2024.

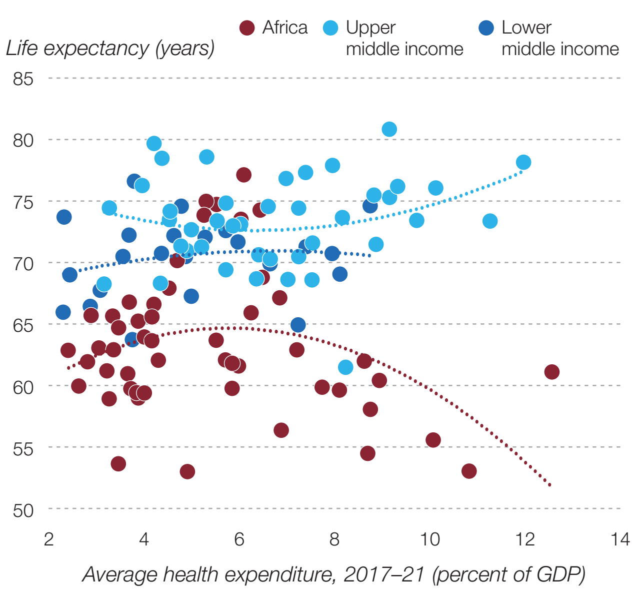
to support platforms for mentorship, collaboration, and knowledge sharing. Even in the absence of permanent return, skilled Africans living abroad should be encouraged to share their expertise.

FIGURE 2.41 **Annual financing needs and gaps to meet health spending targets in Africa**



Source: AfDB calculations.

FIGURE 2.42 **Health expenditure efficiency: Africa against middle-income countries**



Note: Countries with fewer than 100,000 people were removed from the sample.

Source: World Bank Indicators.

Investing in health to harness Africa's human capital for development

Africa continues to grapple with major financing gaps that constrain improvements in health outcomes

Universal health coverage (UHC) is one of the key pathways to improving health outcomes in Africa. The 2010 World Health Report[169] emphasizes that approaching UHC requires government health expenditure (GHE) of at least 4–5 percent of GDP. To meet the Abuja Declaration, African countries will need to spend on average about $120 billion annually between 2025 and 2030[170]. Given the projected level of GHE over the same period, this leaves an annual financing gap of $51.3 billion (figure 2.41). These financing needs and attendant gaps translate into respectively to $162 billion and $93.4 billion to meet WHO target of allocating 5 percent of GDP to GHE. To boost performance on SDG 3, Africa would need to raise its annual GHE to $116.3 billion, leaving a financing gap of $73.9 billion.

Closing Africa's health financing gaps should go hand in hand with improving the efficiency of health expenditure. Health spending efficiency in Africa remains low compared to other regions. Without greater efficiency, increased spending alone will not yield desired improvements in health outcomes. Indeed, African countries could gain on average 5 years of increased life expectancy if health expenditure efficiency reached the level of lower middle-income countries, and up to 10 years if efficiency matched that of upper-middle-income countries (figure 2.42). These estimates are supported by other findings indicating that Africa loses an average of 10.5 years of life expectancy due to inefficient health spending, the highest loss among all regions analyzed.[171] This stands in stark contrast to advanced economies, where efficiency-related losses are limited to 2–3 years, and to emerging regions such as emerging and developing Asia, where losses range from 4 to 6 years.

Addressing health financing gaps would significantly improve human capital and labor productivity. Understanding the relationship between public health expenditure and human capital outcomes is essential for African countries to design effective health policies and strengthen existing health systems. Using the analytical and empirical frameworks outlined in annex 2.3, increased public health spending has significant human capital and productivity-enhancing “effects.” The results, in annex table 2.3.1, show that a 50 percent increase in per capita health care spending would lead to a 2.7 percent rise in the human capital index per worker, 15 percent improvement in total factor productivity, and 19 percent increase in labor productivity. The economic complexity index (ECI) would improve by 0.08 points and life expectancy would increase by 0.9 years. Furthermore, reducing out-of-pocket health spending—a proxy for expanding universal health coverage—is instrumental in enhancing human capital, productivity, diversification, and life expectancy. Similarly, a 50 percent increase in total healthcare spending as a percentage of GDP would result in a 1.9 percent improvement in the human capital index per capita, a 3.5 percent increase in total factor productivity, a 5.7 percent increase in labor productivity, a 0.05-point improvement in the ECI, and an increase in life expectancy at birth of 0.33 years. In short, the findings suggest that, like education, expanding the coverage of healthcare would generate gains in human capital accumulation, increase healthy life years, foster economic diversification, and raise labor productivity. In line with these findings, WHO estimates suggest that adequate investment in health could significantly boost Africa’s GDP. They indicate that improved health outcomes could save the continent about $2.4 trillion in annual output, with the largest gains stemming from reduced productivity losses.[172]

CONCLUSION AND POLICY RECOMMENDATIONS

The evidence in this chapter shows that Africa has enormous capital potential but translating this into tangible development outcomes has been elusive. Addressing macroeconomic and structural challenges is key to effective mobilization and efficient utilization of Africa’s capital assets to drive inclusive and sustainable growth. Africa could mobilize substantial resources, estimated at $1.43 trillion annually, by just addressing the identified challenges and leveraging missed opportunities. That amount is more than enough to close the estimated financing gap ($1.3 trillion) for Africa to achieve the SDGs by 2030. In addition, Africa’s human capital potential, if well harnessed, could be a catalyst for higher productivity growth, translating into stronger and more resilient economic growth and development. For instance, better health could save the continent about $2.4 trillion in annual output while good quality education could add an extra $368 billion to gross domestic product (GDP) through productivity improvements.

Unlocking the potential of Africa’s capital thus requires bold coordinated policy actions and political commitments to better value and deploy Africa’s capital more effectively. Implementing the following policy measures provides a path out of poverty trap and deprivation and moving the continent closer to a high-income trajectory and better living conditions for all citizens.

Addressing macroeconomic and structural challenges is key to effective mobilization and efficient utilization of Africa’s capital assets

Domestic resource mobilization, retention, and efficient use

Enhance state capacity and institutions to mobilize domestic revenues, manage public finances, and curb illicit financial flows, resource theft, and corruption

Africa loses on average about $90 billion annually through capital flight, and another $275 billion annually through profit-shifting by multinational corporations. These resources can be retained in the continent by building sound institutions, macroeconomic policy management, transparency, accountability, and the rule of law. Improving the efficiency of revenue collection and the strategic use of mobilized fiscal resources is key to closing Africa’s financing gap. Strengthening tax administration through application of digital technology and better using revenues—particularly from natural resource exploitation—for growth-enhancing investments are critical. Increasing revenue should not rely solely on raising tax rates, which could have unintended impacts on already overtaxed households and businesses. Governments should therefore rebuild the social contract (fiscal pact) with citizens by ensuring that tax revenues are judiciously deployed towards improving the delivery of quality public services, thereby enhancing voluntary compliance and broadening the tax base.

African governments should also foster mutually beneficial partnerships with the international community—bilateral and multilateral agencies —to enhance their institutional and technical capacity to mobilize, retain and efficiently use resources for Africa's development. 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, including through established units such as financial intelligence agencies, can help stem money laundering. Capacity should also be built to establish such bodies where they do not exist, to reinforce the work of other law enforcement agencies such as the police that, for many African countries, lack adequate capacity and expertise to abate corruption. The success will depend, however, on international collaboration and information sharing through a formal framework between Africa and other countries as well as regional bodies, such as the African Union, to curb resource leakages from the continent.

Collecting carbon emission charges also presents opportunities for raising nontax revenues

Scale-up digitalization to improve the collection and administration of tax and nontax revenue

Digitalization is a powerful tool for enhancing tax collection and administration, even at the current tax rates. The smart use of information technology has played a key role in the success of domestic revenue mobilization reforms in many countries. A critical step is adopting Integrated Tax Administration Systems (ITAS), which enable automating and simplifying tax processes, including electronic filing and online tax payment. Electronic filing of tax returns would save time, but more important, it would reduce the likelihood of corruption by minimizing contact between tax authorities and taxpayers. Effective ITAS implementation requires robust data and identity management systems that integrate taxing authorities, banks, and taxpayers. This, in turn, demands adequate investment and strong political commitment to ensure successful rollout and sustainability.

Regularly updating and digitizing valuation rolls and land registers can help to capture the value of new establishments and the number of rate payers. Similarly, digital parking lots and road tolling can de-personalize the collection of parking and toll fees and help eliminate revenue collecting cartels. Dismantling cartels' opaque transport unions and their associates require political commitments to enforce regulations.[173] Increased accountability of collected revenues and efficient and transparent use into providing quality municipal social services help to eliminate incentives for noncompliance in paying local levies and user charges. Collecting carbon emission charges also presents opportunities for raising nontax revenues. In some countries, this is done during periodic motor vehicle registration and is therefore automated.

Undertake comprehensive public financial management reforms to foster and sustain better budget planning, execution, and control to make spending more efficient over the medium to long term

Studies of budget management frameworks in African countries frequently highlight persistent challenges in planning, implementation, monitoring, and weak controls. Reform efforts should prioritize strengthening performance-based budgeting and enhancing accounting and reporting practices to improve resource use. Countries that rely on donor support to implement major reforms of public financial management and domestic revenue mobilization should also commit to sustained domestic counterpart financing. This includes making adequate budgetary allocations to programs and projects to foster ownership. Increasing the share of domestic financing evokes a sense of pride and guarantees the autonomy of policy making without the associated conditionalities that often accompany external funding, when available.

Public financial management can also extend to active management of physical public assets and liabilities to identify income-generating opportunities. 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 ownership of the assets. As a nontax measure, governments should also rationalize tax rebates and investment expenditures for mining and other foreign companies as a practical means to raise revenues.

Tax income of the African diaspora

The relocation of skilled Africans to higher-income countries outside the continent represents a significant loss of a highly trained workforce. It also presents an opportunity for countries of origin to tap into the expertise migrants acquire abroad. Many African emigrants still have an affinity for their homelands 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 the income of 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 immigrants in the United States. Assuming an average household size of 3 and a median household annual income of $58,000, a 2 percent levy on that income would have generated more than $800 million in annual revenues for Africa. This figure is for immigrants only to the United States. Including those in other countries and within Africa would generate even more in revenue for the continent's development. Such a tax would give the diaspora a strong sense of belonging and a 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. It would also require building a digital database of the diaspora in each country, with a unique form of identification—such as a social security number or national identity card from the home country—and an assessment of household income. Examples from the United States and other countries, where citizens file and pay their taxes while living abroad, could provide some lessons on carrying out such an initiative.

Mobilizing and using natural capital

Address the fast-dwindling stock of natural capital in Africa by enhancing resource productivity through natural capital accounting, beneficiation, value addition, and prudent management of nonrenewable assets

A critical first step is to properly value these assets, including fossil fuel reserves (and the associated social and environmental cost of carbon emissions) and carbon sequestration opportunities in forests, peatlands, and agricultural systems. Proper valuation requires deploying advanced technologies such as geo-mapping to identify and estimate exact natural capital deposits and assets. To support effective policy development and asset management, countries should update national statistical systems and adopt the natural capital accounting (NCA) framework as a mandatory standard. Fast-tracking the implementation of the System of Environmental-Economic Accounting (SEEA) across the continent will be essential. This would enable the inclusion of natural capital and ecosystem services in national accounts, potentially expanding the measured size of economies, creating fiscal space, and improving sovereign credit ratings. Moreover, a robust NCA framework would provide the foundation for Africa to engage more fairly in global carbon markets. The AfDB estimates that Africa's GDP in 2022 could have increased by $66.1 billion (a potential output expansion of 2.2 percent) if carbon sequestration value had been included. Such an increase would lower debt-to-GDP ratios, improve the risk profile, and create the headroom to unlock low-cost development finance. This presents an opportunity to change the investment and development landscape of the continent, with implications for global prosperity.

Implementing mineral development agreements to enhance ownership and sustainable management of natural assets can drive productivity growth and generate value for the well-being of citizens. There is an urgent need for African countries to move away from transferring legal ownership of natural resources to foreign companies through poorly designed mining concession agreements and towards resource sovereignty, enshrined in national laws. Mineral development agreements offer win-win situations for domestic and international investors (public and privatized domestic interests) by providing citizens with a stake while preventing the pillage and mortgaging of natural resources to foreign companies, which dominate the extractives sector across Africa.

Develop natural capital corridors and regional mineral value chains and beneficiation to maximize benefits from natural capital

Africa should shift away from the longstanding pattern of exporting raw materials and instead

The relocation of skilled Africans to higher-income countries outside the continent presents an opportunity for countries of origin to tap into the expertise migrants acquire abroad accelerate value addition at home. Processing natural capital significantly increases returns. In the Democratic Republic of Congo, for instance, processing raw bauxite into aluminum has raised its value more than thirtyfold, from $65 to $2,335 per ton. By moving up the natural capital global value chain, African countries can foster sustainable economic growth through downstream industrial activities and stronger backward linkages. This shift can unlock access to new markets, generate higher tax revenues rather than just depend on royalties, reduce vulnerability to commodity price swings, and create much-needed green jobs. Zimbabwe and the Democratic Republic of Congo have begun implementing local content policies—such as export restrictions—to encourage local processing and provide benefits to mining communities. 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 critical minerals—lithium, cobalt, rare earth elements, and other natural resources—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. But broader success will depend on overcoming environmental, geopolitical, and trade-related challenges. Strengthening regional coordination and harmonizing policies across the continent will attract investments for large-scale value addition and beneficiation.

Blockchain technologies can ensure transparency, accountability, and traceability in natural resource value chains

Integrate natural capital accounting and the System of Environmental-Economic Accounting into national development plans, sectoral policies, and strategies to ensure sustainability of natural capital

This will ensure that policies cover the sustainable use of natural capital and the economic planning that considers comprehensive value of natural capital, including ecosystem services. Policy integration into plans and implementation frameworks should be underpinned by strategic evidenced-based policy analysis, and by monitoring and evaluation for course correction when unintended outcomes are identified. Successful policy integration will require including more stakeholders—such as economists, statisticians, environmental scientists, and climate experts—to ensure that the main users of the policies, such as ministries of finance and environment, are fully involved. This process will also help to assess skill gaps in the interaction between macroeconomic modeling and green and resilient transitions. There is also great value in involving local academic institutions and think tanks in policy analysis.

Digitize and publish contracts, corporate tax revenues, and royalties

Recurrent malaise in natural resource governance fails to ensure that contracts are transparent—or to imbed international best practice on licensing, exploitation, and the applicable fiscal regime to optimize revenue mobilization and curb illicit financial flows. Blockchain technologies can ensure transparency, accountability, and traceability in natural resource value chains—from the mining development agreement to the final product. Compulsory digitalization and publication of all mining lease agreements and contracts, corporate tax waivers and/or royalties paid, community development programs implemented, and how the revenues and royalties are used and the development impacts created in a natural resources investment digital dashboard will boost both investor and community confidence in the sector and create valuable data to inform future investment decisions. This is low hanging fruit for countries determined to make natural resources work for inclusive growth and sustainable development.

Mobilizing and using financial capital

Integrate and consolidate capital markets to broaden and deepen their size

Most stock exchanges remain small and thin, with limited asset bases, low capitalization, and low trading activity—lagging peer low-income countries outside Africa. One of the most effective policies to boost market capitalization and trading volume is to leverage economies of scale through regional financial market integration and joint listings. This will require stronger cross-border cooperation, harmonization of trading laws and accounting standards, and currency convertibility. The AfCFTA and ongoing regional integration efforts offer a strong foundation for creating a unified capital market. Africa's banking sector is already showing signs of integration, with the expansion of pan-African banks headquartered in countries such as South Africa, Nigeria, Kenya, Morocco, and Togo. The AfDB, in collaboration with the African Securities Exchange Association and other stakeholders, is leading initiatives to promote cross-border trading and investment aimed at deepening African capital markets and increasing access to long-term financing.

Address regulatory bottlenecks and alignment with the new digital world order to enhance the growth of financial capital in Africa

The development of robust financial capital in Africa has been impeded by ill-designed regulatory systems that restrict entry and product innovation, such as fully fledged mobile and internet banking. In a rapidly changing world, Africa's financial sector needs to embrace and quickly adjust to the current technology revolution by enacting financial regulations that are fit for purpose, ensuring compliance with the rapid pace of innovation and dynamism in financial systems while ensuring protection of personal data against cybercrime and internet fraud. Regulations will then act as enablers and not stiflers of financial capital growth.

Adopt strategic policies for securitization of remittances through diaspora bonds to fund inclusive growth and sustainable development on the continent

Diaspora bonds should offer citizens a meaningful opportunity to contribute to the development of their home countries. To increase the investment appetite of the diaspora—Africa's sixth region—bond issuances tapping into remittances should be anchored in trust, ensuring that funds are safeguarded against misappropriation and governed by principles of transparency, accountability, and international financial reporting standards. For this to succeed, policymakers should link bond proceeds to clearly defined, economically viable projects—such as infrastructure, education, and health—that address pressing development needs that the diaspora can easily associate with while generating sufficient returns to ensure timely repayment. Building this trust and alignment with investment needs can unlock the diaspora's financial potential for national development.

Enhance the credibility of investment opportunities and overcome the challenge of diaspora's lack of trust in institutions

Governments should catalyze financial deepening through institutional and regulatory reforms—particularly around processes and digitalization of financial transfers, to ensure that remittances and the flow of diaspora savings are more affordable, accessible, and integrated into a broader ecosystem of financial services. To facilitate and distribute mobilized diaspora funds, governments should partner with credible intermediaries and institutions specializing in financial transactions with Africa's diaspora. Full implementation of proposals by the African Development Bank for bank-funded credit enhancements to countries and regions considering issuing diaspora bonds, and the African Union's framework for African Diaspora Finance Corporation can expand the range of diaspora investment instruments and enable countries to overcome high planning and preparation costs, pool resources and attract diaspora savings region-wide.

The AfCFTA and ongoing regional integration efforts offer a strong foundation for creating a unified capital market

Mobilizing and using business capital

Supporting the development of business capital requires addressing the structural challenges constraining its growth, including the predominance of small firms, limited access to finance, and widespread informality

Effective strategies should improve both the operational environment for businesses and the broader systems that enable capital mobilization. Key priorities include investing in general education, vocational training, and entrepreneurship programs—especially for youth—to build human capital and foster entrepreneurial capacity. At the same time, governments need to reduce the cost of formalization by streamlining regulations and easing tax burdens that discourage businesses from entering the formal economy. Governments can help small firms learn to compete with regional and global peers in export markets by reducing regulatory burden such as through gradual reduction in marginal tax rates and cost of compliance that discourage investment in business capital. Continued efforts to enhance the business climate—through digitizing administrative processes, improving governance, and upgrading infrastructure—remain essential.

While several African countries have made notable progress in a number of these areas, implementation is patchy, ad hoc and selective. Local investors often bemoan exclusion from incentives designed to attract investment. 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 bank funding for small businesses. Closing these gaps is critical, as Africa's economic transformation depends on the emergence of a strong, inclusive, and dynamic business ecosystem.

Digitizing administrative processes, improving governance, and upgrading infrastructure remain essential

Prioritize preferred procurement policies to stimulate domestic production and deepen regional value chains

By encouraging African countries to source raw materials and intermediate inputs from one another, these procurement strategies can enhance SME growth, promote mutual comparative advantages, and build resilient, interconnected markets. Such intra-African trade and investment —"friend-shoring"—would reduce dependence on volatile global supply chains, shield economies from external shocks, and foster industrial capabilities within Africa. Governments should also support national champions—strong domestic firms capable of driving economic diversification —through transparent, merit-based mechanisms to avoid picking winners based of political patronage. These firms, operating in clusters, whether in industrial parks or outside, need to be encouraged to build linkages with smaller enterprises, facilitating knowledge and technology spillovers and broader market participation, ultimately leading to deeper and more dynamic domestic markets. These efforts should be aligned with national development priorities and based on detailed assessments of domestic capacity gaps.

Promote franchising and local content strategies for technological upgrading and business capital development

In sectors where technical and financial capacities are still limited, countries can promote franchising arrangements with foreign firms to facilitate access to critical technologies and frontier innovations. These partnerships should include structured technology transfers and workforce training that enable local firms and workers to acquire skills and build lasting capabilities. To be effective, franchising should be grounded in detailed assessments of domestic capacity gaps and tailored to national development priorities. In parallel, local content policies should be flexibile, encouraging foreign participation while ensuring that local actors are integrated into value chains. Where possible, joint ventures between foreign and local businesses should be encouraged and supported. Together, these strategies—anchored in regional integration, targeted support for domestic firms, and smart partnerships with global actors—can unlock Africa's business capital as a transformative engine for inclusive growth and development.

Mobilizing and using human capital

Make education a budget priority by allocating at least 20 percent of government expenditure to the sector, in line with the African Union–Dakar Commitment on Education for All

Increased investment in education can drive equitable growth, improve health outcomes, and ensure access to quality learning that meets future workforce demands. Investments should be strategically targeted towards teaching and learning materials and capital expenditures. And they should resolve persistent foundational barriers such as weak infrastructure, teacher shortages, and inequities in access to quality education. To achieve this, African governments should recommit to building strong education data systems to set clear priorities, implement robust national education programs, and monitor progress regularly.

Leveraging initiatives such as the UNICEF/UNESCO–World Bank Learning Data Compact can help address the chronic underuse of data and evidence in policy decisions. This will help ensure accountability—through transparent education performance tracking—by empowering parliaments, civil society, and communities to advocate for results. In designing strategies, special attention should go to preprimary and primary education, where foundational skills are formed—say, by placing qualified teachers in lower grades where pupil–teacher ratios are highest. In this regard, domesticating education and training systems—including the language of instruction—will improve the quality, relevance, and inclusiveness of curricula, particularly in rural and marginalized communities. Priority should also be given to building inclusive education systems that leave no one behind.

Integrate education and skills development strategies into broader national economic and industrial development plans

This alignment will ensure the development of relevant technical and soft skills, tailored to local economic priorities, realities, and contexts. For example, resource-rich countries should invest in training geologists, agronomists, engineers, and other specialists to fully harness their natural endowments and drive structural transformation. National development plans should guide curriculum reform to ensure countries are equipped to compete in the digital and innovation-driven global economy. In this regard, STEM education, supported by partnerships with global leaders and development partners, should be prioritized and properly resourced. Examples of partnerships abound and include the need to scale the 2019 launch of Google's AI research lab in Accra, Ghana.

Leveraging support from development partners can have significant payoffs. The AfDB has been in the forefront, pioneering partnership initiatives and efforts to upgrade education curricula across Africa. One notable example is the support for establishment of the Regional Center of Excellence in ICT in Rwanda, supported by the AfDB. Making education programs serve Africa's development will also require aligning training systems with labor market demands to reduce widespread skills mismatches. The AfDB is playing a pivotal leading role through its Coding for Employment program, a flagship initiative that equips African youth with demand-driven digital skills. Scaling this up calls for stronger public-private partnerships to ensure that graduates acquire relevant job-ready skills. All these efforts should be underpinned by the strategic allocation of resources guided by a clear vision to enhance the efficiency and impact of education spending, ensuring that investments deliver the highest socioeconomic returns.

Intensify efforts to strengthen health systems by meeting the Abuja Declaration target of allocating 15 percent of their national budgets to health

This would unlock resources for critical investments in health infrastructure, workforce development, and system modernization. To ensure long-term sustainability, countries should prioritize the development of predictable domestic health financing mechanisms, in line with commitments under the Abuja Declaration and WHO recommendations. This is key to supporting and expanding social protection mechanisms, including social health insurance schemes, which are essential for achieving universal access to health and social services.

Domesticating education and training systems will improve the quality, relevance, and inclusiveness of curricula

The Covid-19 pandemic exposed deep structural vulnerabilities in Africa's health systems, underscoring the need for large-scale, sustained investment. As the continent continues to face a high disease burden and recurrent epidemics such as Ebola and Mpox, a paradigm shift is needed to establish effective disaster preparedness and response systems at both regional and national levels. To advance this agenda, governments can leverage support from institutions like the Africa Centers for Disease Control and Prevention (Africa CDC), and should also promote locally driven, sustainably financed research. Empowering national research institutions and innovation hubs is critical for generating context-specific solutions and reducing dependence on externally developed responses to common and recurring diseases.

In advancing health priorities, it is essential for African countries to leverage all their available resources, including by curbing the emigration of skilled health professionals. To this end, governments should adopt robust retention strategies, including competitive remuneration, improved working conditions, and clear career development pathways. Put together, these measures will enable the strategic allocation of health resources, enhance spending efficiency, and accelerate human capital development across the continent.

Strengthen health care provision through digital technologies

With enhanced ICT infrastructure, countries can scale up upskilling of healthcare workers in rural areas, with associated positive impacts on motivation and retention of rural healthcare workers. Telemedicine, e-health, and several other similar emerging technologies based on off-grid power systems for healthcare delivery can be provided at minimal cost in rural areas and other underserved populations such as refugee communities and fragile situations. Countries should therefore leverage the Global Observatory for eHealth of the World Health Organization (WHO) to develop capacity in emerging technologies new to Africa.

Digital technologies 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 proved valuable in providing information on preventive measures against the Covid-19 pandemic and other ICTs such as drones were used to deliver essential Covid-19 test kits and blood to health centers. These technologies are currently deployed in Tanzania and some other African countries in the diagnosis and treatment of malaria.

Enhancing women's human capital will require African countries to eliminate restrictive gender norms, discriminatory laws, and unequal power relations

Place women at the center of human capital development strategies by tackling structural barriers to gender inclusivity

Enhancing women's human capital will require African countries to eliminate restrictive gender norms, discriminatory laws, and unequal power relations that define women's roles primarily as caregivers and homemakers, rather than as full participants in the economy. This requires a comprehensive, multisectoral approach. Governments must work with community leaders and faith-based and civil society organizations to challenge and transform harmful norms and practices. Public awareness campaigns, inclusive curricula, and community dialogue can help shift mindsets and foster a culture that values women's education, leadership, and economic contribution. Legislative reforms are equally essential, not only to criminalize practices like child marriage and gender-based violence, but also to guarantee women's rights to own property and land, access credit, and make independent economic decisions. These efforts must be supported by strong political will and consistent implementation to ensure lasting change.

Gender-sensitive economic strategies should be integrated across all sectors—agriculture, industry, finance, and technology—to create enabling environments where women can thrive. 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.

Greater impacts from strategic support of nonregional member countries and the international community

Forge strategic and equitable partnerships to enhance Africa's resource mobilization and economic sovereignty

African countries must foster mutually beneficial partnerships with bilateral and multilateral agencies that prioritize strengthening institutional and technical capacities for resource mobilization, retention, and efficient utilization. International support should focus on strengthening the capacity of African countries to identify opportunities, mitigate risks, and address challenges in 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. This commitment should extend to advancing a fair and inclusive reform of the international tax system. Current global tax rules enable multinational corporations to shift profits to low-tax jurisdictions, depriving African economies of vital revenues. Reforms should aim to ensure that taxation rights are more equitably distributed, particularly by granting greater taxing authority to source countries where economic activities actually occur.

At the same time, Africa must recalibrate its global engagement strategy in a rapidly evolving multipolar world, where economic and security interests are shaping international relations: trade, aid, economic diplomacy. The age of multilateralism is waning, giving way to plurilateralism. Africa's international partnerships must no longer be driven by historical dependencies or elite-driven interests but by the continent's long-term economic objectives. To achieve this, there is an urgent need for true African Unity driven by strengthened and adequately capitalized pan-African institutions—including the African Union, the African Development Bank Group, and national development banks—to lead in resource mobilization and regional integration. These institutions must champion Africa's strategic interests on the global stage. As a guiding principle: global capital will follow African capital—when the continent speaks with one voice and proudly owns its development agenda.

Catalyze a mindset shift to mobilize and leverage Africa's capital

A fundamental mindset shift across African leadership, institutions, and society, is needed to optimize Africa's domestic capital for development. Africa must move beyond the inherited development models that prioritize external validation, preference for consumption of foreign goods, and dependency on global systems that were never designed to serve its long-term interests. As demonstrated in successive editions of the African Economic Outlook (2022–24), the current global financial architecture systematically channels capital away from common challenges, and the places and people that need it most. Risk perception biases, perverse incentives, and flawed rating methodologies further distort the allocation of development finance, raising the cost of capital for developing countries and reinforcing a vicious cycle of debt, underinvestment, low productivity, and persistent poverty. Therefore, to break free from this structural trap, African leaders and citizens must adopt a new development paradigm, rooted in self-belief, economic sovereignty, and continental solidarity. This begins with a collective commitment to a unified Africa—where factors of production move freely, sovereignty over natural and human capital is safeguarded, and intra-African trade, investment, and innovation are prioritized. The reflex of looking outward for rescue must be replaced by a mindset of strategic self-reliance, where Africa's capital works first and foremost for Africa's people.

At the societal level, a shift in consumer preferences is equally essential. The widespread appetite for foreign-made goods undermines local industries and drains scarce foreign exchange. Without a deliberate effort to cultivate demand for "Made in Africa" products, industrialization will remain elusive. Mindset change is also needed among development partners. Their approach must evolve from an extractive paradigm to one of shared vision, mutual respect and win-win partnerships. Ultimately, mindset change is not a soft or symbolic reform. It is a strategic lever, arguably the most important, for transforming Africa's capital into a foundation for inclusive, sustainable, and sovereign development. It requires courage to question inherited norms, vision to imagine new pathways, and unity to implement bold, homegrown solutions on a larger scale.

Africa must recalibrate its global engagement strategy in a rapidly evolving multipolar world, where economic and security interests are shaping international relations

ANNEX 2.1
REVENUE ADMINISTRATION REFORMS

ANNEX TABLE 2.1.1 **Revenue administration reforms and initiatives in selected African countries**

	Identified measures
Angola	Fuel subsidy reform Reducing the VAT threshold to increase compliance Adjusting personal income tax (PIT) brackets Introducing corporate income tax reforms Developing a property registry through georeferenced property registration and implementing a property tax Streamlining tax incentives Introduction of a tax compliance certificate Expanding the tax base by reducing informality through registering 20,000 informal business entities
Egypt	Reducing untargeted fuel subsidies Removal of 19 VAT exemptions out of 58 in the current VAT law Removal of other tax expenditures identified in the April 2024 tax expenditure report Adopting a carbon tax to support emissions reduction in line with the EU's Carbon Border Adjustment Mechanism Adopting a withholding tax on sales from freezones in Egypt to the domestic market Participating in the OECD Automatic Exchange of Information (AEOI)
Ethiopia	Streamlining and eliminating tax exemptions for imported intermediate inputs for new local and foreign investments Revising excise rates and full implementation of excise duty stamp Rolling out of the digital track and tracing component Closing gaps in the corporate income tax regime and streamlining the presumptive tax system for small and unincorporated businesses Implementing revenue raising motor vehicle ownership taxes Developing and implementing an integrated tax administration IT system Strengthening taxpayer registration, e-filing, e-payment, and e-invoicing platforms Strengthening compliance risk management and tax audit efficiency Strengthening policy coordination and implementation capabilities, modernizing IT infrastructure, and enhancing human resources
Central African Economic and Monetary Community (CEMAC)	New regional tax directives—including tax procedure codes, income tax, tax expenditures, and customs procedures Implementation of the new VAT directive Strengthening tax administration capacity, including in international taxation Developing a regional domestic revenue mobilization strategy Addressing understaffing at the CEMAC Commission to help combat tax and customs fraud Modernizing tax policy and tax administration through the implementation of e-procedures and mobile tax payments Broadening the tax base by implementing more efficient tax incentive regimes, improving the progressivity of personal income tax, enhancing governance in tax policymaking, and strengthening taxing rights over multinational income Improving tax compliance risk management in the extractive sector
Ghana	Removal of selected VAT exemptions Alignment of the exemption and relief provisions in the VAT Act with the Customs Tariffs, and introduction of 5 percent VAT rate on rental of commercial premises Introduction of the Emission Tax and the Plastic and Packaging Tax Introduction of Commissioner-General's authorized VAT invoice for Income Tax purposes Revision and expansion of taxes on gambling revenues Expansion of entities subject to Communication Service Tax Increase of Stamp Duty Introduction of a simplified mechanism for the modified taxation scheme for small taxpayers
Nigeria	Creation of online portals for assessment and payment of stamp duties (e-stamp) Digitalization of tax clearance certificates (e-TCC) Automation of withholding tax remittances by MDAs Deployment of the Integrated Tax Administration System (ITAS) to tax offices Expansion of the taxpayer register Creation of a specialized collection enforcement function Improve the integrity of the audit process Improve staff capacity and infrastructure Compliance levels across all levels of tax payments remain low Strengthened collection efforts and one-off initiatives (such as the Nigerian Voluntary Asset and Income Declaration Scheme, VAIDS

Source: AfDB compilation from IMF Article IV reports.

ANNEX 2.2
IMPACT OF FORMALITY AND INFORMALITY

The private sector is a key engine of economic growth. However, its contribution in Africa, while important, has remained limited, potentially due in part to the size and dynamics of the informal sector, which may influence the overall impact of the private sector on economic performance. To explore this relationship, the effect of growth in informal and formal sector on output growth is examined using a panel of 29 African countries with requisite data for 2010–22. The estimations rely on the following model specification:

$$y_{it} = \alpha_0 + \beta_1 y_{it-1} + \vartheta_1 F_{it} + \beta_2 X_{it} + \gamma_i + \mu_t + \varepsilon_{it} \tag{1}$$

where y_{it} is the growth rate of the aggregate output in country i at time t, Y_{it-1} is the lag of the dependent variable, F_{it} refers to the informal or formal sector growth rate, and X_{it} is the vector of control variables, including an infrastructure development index, a financial development index, government expenditure on education as a percent of GDP, natural resources rent as a percentage of GDP, and an index of quality of governance. Informal and formal sector contributions to GDP are proxied using the multiple indicators–multiple causes models (MIMIC).[174] Data on other variables are from AfDB statistics, the World Bank's World Development Indicators database, and IMF statistics. The model is estimated through pooled OLS, the fixed effects (FE) estimator, and the system GMM.

Annex table 2.2.1 shows that the informal sector limits the growth of the overall economy. Higher levels of informal sector growth constrain economic growth under the FE and SYS-GMM estimations. For example, a 1 percentage point increase in the growth of the informal sector leads to a 0.013 and 0.021 percentage point decrease in economic growth for the two estimation techniques (see columns 2 and 3). Conversely, formal sector growth has significant boosting effects on economic growth (see column 4, 5 and 6). Moreover, these results are statistically significant under the three estimation techniques, with the positive effects on economic growth rate being 0.012, 0.015, and 0.025 percentage points, respectively for a 1 percentage point increase in the size of the formal economy.

ANNEX TABLE 2.2.1 Empirical investigation of the impact of formality and informality on growth

	(1)	(2)	(3)	(4)	(5)	(6)
	OLS	**Fixed effects**	**SYS-GMM**	**OLS**	**Fixed effects**	**SYS-GMM**
Informal-growth	−0.010 (0.006)	−0.013*** (0.004)	−0.0210** (0.010)			
Formal-growth				0.012* (0.007)	0.015*** (0.005)	0.0253*** (0.007)
Constant	0.026*** (0.003)	0.055*** (0.018)	0.3270** (0.124)	0.026*** (0.003)	0.051*** (0.018)	−0.0287 (0.040)
Control variables	Yes	Yes	Yes	Yes	Yes	Yes
Observations	262	262	262	262	262	262
R-squared	0.100	0.160		0.096	0.148	
Number of countries	29	29	29	29	29	29
Hansen *p*-value			0.550			0.453
Number of instruments			13			13

Note: Robust standard errors in parentheses: *** $p < 0.01$, ** $p < 0.05$, * $p < 0.10$. All columns include the control variables listed above with coefficients broadly aligning with the literature.

ANNEX 2.3
FACTORS EXPLAINING DIFFERENCES IN PRODUCTIVITY BETWEEN NATIONS

To study the factors explaining differences in productivity between nations, an often-used analytical framework includes a standard Cobb–Douglas production function through the following equation:

$$Y_{it} = {K_{it}}^{\rho}(A_{it}H_{it})^{1-\rho} \tag{1}$$

where Y_{it} stands for country *i*'s PPP-adjusted gross domestic product (GDP) for period *t;* K_{it} is its physical capital stock for the same period; *A* is its total factor productivity (TFP); and $H_{it} \equiv h_{it}L_{it}$ denotes the total labor factor, which is made up of human capital per worker (h_{it}) and the number of workers (L_{it}). A rewrite of this production function in terms of output per worker gives:

$$y_{it} = \left(\frac{K_{it}}{Y_{it}}\right)^{\frac{\rho}{1-\rho}} A_{it}h_{it} \tag{2}$$

where $y_{it} = Y_{it}/L_{it}$ denotes output per worker. Applying the logarithm to the two sides of Equation 2 gives:

$$\ln\left(y_{it}\right) = \frac{\rho}{1-\rho}\ln\left(\frac{K_{it}}{Y_{it}}\right) + \ln\left(A_{it}\right) + \ln\left(h_{it}\right) \tag{3}$$

This decomposition is then used to empirically examine the impact of education and health policy variables on productivity and its drivers as outlined by Equation 3. The empirical analysis relies on an unbalanced panel dataset covering 163 emerging and developing countries using nonoverlapping 5-year averages over the period 2000–23. The data on labor productivity and on the education and health variables are taken from the World Development Indicators (WDI) database. The human capital indicators (human capital, capital intensity and TFP) are calculated using data from the Penn World Tables. The economic complexity index (ECI) from the Harvard Growth Lab is used as a measure of economic diversification and as an (alternative) proxy of productivity.

ANNEX TABLE 2.3.1 Empirical investigation of the transformative potential of education and health

	(1)	(2)	(3)	(4)	(5)	(6)
	Ln(H/L)	**Ln(K/Y)**	**Ln(TFP)**	**Ln(Y/L)**	**ECI**	**Life**
Public funding per student (log)	0.070*** (0.018)	−0.015 (0.012)	0.403*** (0.040)	0.453*** (0.037)	0.318*** (0.058)	0.786 (0.482)
Mean years of schooling	0.078*** (0.002)	0.022*** (0.004)	−0.023* (0.014)	0.076*** (0.011)	0.066*** (0.012)	0.419*** (0.077)
Graduates from STEM (percent)	0.000 (0.001)	0.000 (0.001)	0.002 (0.004)	0.003 (0.004)	0.014*** (0.004)	0.062* (0.036)
15–24 in vocational education (%)	0.008*** (0.002)	−0.002* (0.001)	0.022*** (0.005)	0.019*** (0.005)	0.026*** (0.005)	0.114*** (0.031)
Gender parity index, tertiary enrol.	0.281*** (0.041)	0.032 (0.039)	0.598*** (0.136)	0.872*** (0.110)	0.329*** (0.126)	6.925*** (0.845)
Public exp. per capita, log	0.054*** (0.009)	0.013 (0.008)	0.305*** (0.021)	0.373*** (0.015)	0.150*** (0.024)	1.723*** (0.169)
Out-of-pocket exp. (% health exp.)	−0.001* (0.001)	0.000 (0.000)	−0.011*** (0.002)	−0.010*** (0.002)	−0.008*** (0.001)	−0.022* (0.013)
Public exp. on health (% GDP)	0.037*** (0.007)	0.011* (0.005)	0.070*** (0.020)	0.113*** (0.019)	0.105*** (0.021)	0.655*** (0.176)

Note: Standard errors in parentheses are robust to heteroscedasticity. *, **, and *** denote significance at the 10%, 5% and 1% confidence level, respectively. Each line reports the estimated coefficient on the variable it refers to, using the proportion of the population with basic drinking water, trade openness, natural resources rents, terms of trade, and political stability as control variables. The selection of these variables is informed by the literature (Ahn et al. 2019; Teresiński, 2019; Alexandre et al. 2022; Noumba et al. 2022; Gnimassoun 2025), while the sample size and period of analysis are determined by data availability. Regression was done using Ordinary Least Squares. The *R*-squared ranges between 0.116 and 0.912, and the number of observations between 179 and 543 depending on the regression. Detailed results are available upon request.

NOTES

1. AfDB/AUC/AUDA-NEPAD (2024)
2. AfDB 2024a.
3. According to Adeseye (2021) and other analysts, 70 percent of remittances are for consumption while 30 percent is for investment
4. IMF 2022a.
5. World Bank 2020.
6. This figure assumes that Africa's Africa's debt-to-GDP ratio in 2025–30 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
7. 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).
8. African Development Fund, the African Development Bank Group's concessional financing arm to low-income regional member countries.
9. G20 Independent Experts Group 2023.
10. Wickberg 2013.
11. Ndikumana and Boyce 2025.
12. For detailed discussion of the policy actions on the valuation of natural capital, see AfDB (2024d).
13. AfDB 2024b.
14. UNECA 2020.
15. AfDB 2024b.
16. AfDB 2024a.
17. UNCTAD 2020 estimated capital flight to be $88.6 billion. Recent estimates by Ndikumana and Boyce 2025 suggest that capital flight in 30 African countries with available data from 1970–2023 amounted to $2.7 trillion in real terms. Expressed annually, this amounts to $97 billion in real terms and $81.3 billion annually in nominal terms. Therefore, the coverage and methodology used greatly determine the value of these estimates.
18. See AfDB (2024b) for African countries' tax effort.
19. Crivelli and Gupta 2014.
20. AfDB 2024b
21. Besley and Persson 2014.
22. Yamou, Thomas, and Cai 2024.
23. Shimeles et al. 2017.
24. Medina et al. 2017.
25. AfDB/AUC/AUDA-NEPAD (2024).
26. AfDB 2024b.
27. AfDB 2024b.
28. See Akitoby et al., 2018.
29. Adegboye and Akinyele 2022.
30. Garcia-Escribano et al. 2022.
31. IMF 2023.
32. IMF, Public Investment Management Assessment (PIMA) framework. https://www.imf.org/external/np/fad/publicinvestment/pdf/PIMA.pdf
33. Klemm 2010; Bird 2008.
34. Andreonia and Avenyob 2023.
35. Rare earth elements (REE) are a group of seventeen metallic elements including 15 silvery-white metals called lanthanides, or lanthanoids, plus scandium and yttrium.
36. AfDB 2023.
37. AfDB 2024d.
38. World Bank 2021.
39. World Bank 2024a.
40. OECD, AUC, and ATAF 2024.
41. Yamaguchi et al. 2019.
42. AfDB 2023.
43. AfDB 2024d.
44. AfDB 2023.
45. Barhoumi et al. 2018.
46. https://www.wri.org/insights/forests-absorb-twice-much-carbon-they-emit-each-year; https://www.worldbank.org/en/news/feature/2022/10/24/journey-into-the-congo-basin-the-lungs-of-africa-and-beating-heart-of-the-world.
47. Mitchell and Pleeck (2022).
48. Cust and Zeufack 2023.
49. Ndikumana and Boyce 2025.
50. UNEP 2016.
51. World Bank 2019.
52. Ortega et al. 2020; UNCTAD 2020.
53. Environmental Investigation Agency 2018.
54. FAO and UNEP 2020.
55. UNCTAD 2020.
56. UNODC 2020.
57. World Bank 2022.
58. World Bank 2022.
59. https://www.afdb.org/en/documents/strengthening-africas-role-battery-and-electric-vehicle-value-chain-volume-14-issue-7.
60. Data are from Statista.

61. https://www.afdb.org/sites/default/files/2022/12/14/afdb_acmcs_concise_final_report_23_july_2022_isc.pdf.
62. OECD 2024.
63. Irving et al. (2022).
64. Mathieu et al. 2019; El Moussawi 2024.
65. Raga and Tyson 2021.
66. Ojah and Kodongo 2024.
67. Madrian 2012.
68. Ojah and Kodongo 2015.
69. Xu et al. 2021.
70. See for example Amoussou et al. 2024.
71. See also, AfDB (2024b) on different innovative financing the AfDB has utilized since 2015 to raise resources for Africa's development.
72. The African Development Funds, the African Development Bank Group's concessional financing arm to low-income regional member countries.
73. https://cdn.gihub.org/umbraco/media/5354/g20-ieg-report-on-strengthening-mdbs-the-triple-agenda.pdf.
74. AVCA 2024a.
75. BCG 2025.
76. AVCA 2024.
77. AVCA 2024a.
78. AVCA 2024a.
79. AVCA 2024b.
80. AVCA 2024a.
81. Jaoui et al. 2022.
82. Grand View Research 2025.
83. Soumonni and Soumonni 2011.
84. Cambridge Centre for Alternative Finance (2021).
85. ICREPORT (2023): https://www.icr-facility.eu/wp-content/uploads/2024/10/ICReport-on-Crowdfunding_EN.pdf.
86. Cambridge Centre for Alternative Finance (2021).
87. ICREPORT (2023): https://www.icr-facility.eu/wp-content/uploads/2024/10/ICReport-on-Crowdfunding_EN.pdf.
88. REMITSCOPE Africa n.d.
89. FSDAfrica n.d. https://fsdafrica.org/projects/africa-pensions-supervisors-network-programme/#:~:text=Africa's%20pension%20assets%20represent%20less,risk%20of%20old%20age%20poverty
90. AfDB 2024b.
91. AVCA 2024c.
92. AfDB 2024b.
93. Marsh McLennan - Insurance and Blended Finance.
94. IMARC 2024.
95. Ecofin Agency 2024.
96. See AfDB (2024b).
97. RMB 2021.
98. AfDB (2022).
99. APRI 2024.
100. APRI 2024.
101. https://www.afdb.org/en/news-and-events/press-releases/global-green-bond-initiative-joins-african-development-bank-strengthen-green-bond-markets-africa-66491.
102. https://www.ifc.org/en/pressroom/2021/ifc-amundi-launch-2b-bond-strategy-to-support-green-resilient-inclusive-recovery
103. Léon and Rabary (2024).
104. UNDP 2016.
105. Mihalyi et al. 2022.
106. These countries include Angola, Chad, Democratic Republic of Congo, Ghana, Guinea, Niger, the Republic of Congo, São Tomé and Príncipe, South Sudan, Sudan, and Zimbabwe.
107. GTR 2024.
108. Biekpe and Kodongo 2019.
109. Kodongo 2024.
110. Ouma, et al. 2017.
111. Ojah and Kodongo 2024.
112. Michael and Latkovska 2021.
113. Turp-Balazs (2025)
114. According to Adeseye (2021) and other analysts, 70 percent of remittances are for consumption while 30 percent is for investment
115. See https://www.daimagister.com/resources/remittances/
116. Harare, Victoria Falls, and Bulawayo International Airports.
117. These are the Egyptian Pound (EGP), West African Franc CFA (XOF), Central African Franc CFA (XAF), Rwandan Franc (RWF), Ghanaian Cedi (GHS), Nigerian Naira (NGN), Botswana Pula (BWP), Mozambican Metical (MZN), Kenyan, Tanzanian and Ugandan Shilling, (KES, TZS, and UGX respectively) and Zambian Kwacha (ZMW).
118. Barro 1991; Malikane 2015; Mthanti and Ojah 2017, 2021; Mugano 2024.
119. AfDB 2021b.
120. As noted by Malikane (2015) drawing from a comprehensive review of firm-level analyses.
121. The sizes of firms are expressed in ranges of employees and are country-specific. See MSME database.
122. Based on 2019 MSME Economic Indicators Database.

123. McKinsey & Company 2023.
124. ILO 2018.
125. Medina et al 2017.
126. World Bank (2024b).
127. The informal sector employs about 80% people in some African countries and mainly 9 in 10 workers are women and youth (see https://www.leadersofafrica.org/analysis/youth-unemployment-dilemma-in-africa-recent-data/)
128. AfDB 2017.
129. https://www.omfif.org/2023/08/unlocking-africas-population-potential/#:~:text=If%20the%20workforce%20had%20grown,the%20actual%20value%20in%202022.
130. AfDB 2019.
131. Gurib-Fakim and Signe 2022.
132. WIPO 2021.
133. WIPO 2022.
134. Mazzucato 2013.
135. See AfDB/AUC/AUDA-NEPAD (2024) for key statistics on infrastructure deficits in Africa.
136. Malikane 2015.
137. Malikane2015; Ojah and Kodongo 2015; Muhanji et al. 2019.
138. AfDB, UNDP, and OECD Development Center 2017.
139. UNECA 2020.
140. Ndung'u 2018.
141. Fowowe 2017.
142. Ichikowitz Family Foundation 2022.
143. ActionAid 2018.
144. IMF 2022a.
145. World Bank (2018).
146. Mbogo 2010.
147. AfDB/AUC/AUDA-NEPAD (2024).
148. Klinger 2022.
149. Klinger 2022.
150. World Bank 2020.
151. AfDB/AUC/AUDA-NEPAD (2024).
152. Acemoglu et al. 2014; Herrendorf et al. 2013; Diao and Rodrik 2017; Barro 2001.
153. The World Bank's HCI measures the human capital a child born today can expect to attain by age 18, expressed on a scale from 0 to 1, where 1 indicates full potential in health and education.
154. The harmonized test score provides a cross-country measure of learning quality on a scale from 300 to 625.
155. Aikins and Cilliers 2024.
156. UNICEF 2021.
157. AfDB 2020.
158. https://teachertaskforce.org/knowledge-hub/closing-gap-ensuring-there-are-enough-qualified-and-supported-teachers-sub-saharan.
159. Morsy and Mukasa 2019.
160. https://www.globalpartnership.org/blog/ghana-pocket-size-labs-turn-more-children-studying-science.
161. World Bank et al. (2016).
162. Naicker et al. 2009.
163. AfDB 2024b.
164. Aikins and Cilliers 2024.
165. AfDB 2020.
166. AfDB 2020.
167. Aikins and Cilliers 2024.
168. Montenegro and Patrinos 2014.
169. WHO 2010.
170. All estimates for the different targets are based on the methodology developed in AfDB 2024b
171. Garcia-Escribano et al. 2022.
172. WHO Regional Office for Africa 2019.
173. Beardsworth et al. 2022 and Anudu 2021
174. See Schneider et al. (2010), Feld and Schneider (2010).

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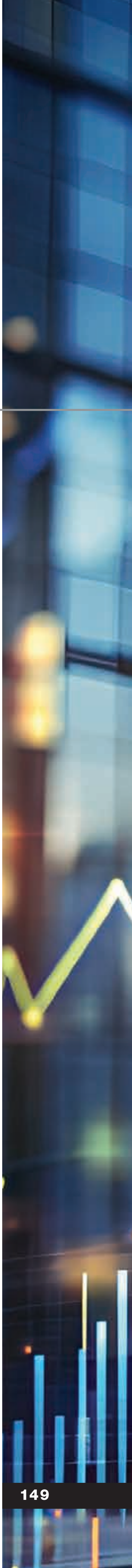
HARNESSING AFRICA'S CAPITAL ASSETS FOR DEVELOPMENT: THE ROLE OF INSTITUTIONS, ECONOMIC GOVERNANCE AND THE RULE OF LAW

3



KEY MESSAGES

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 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.[1]

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 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.

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 public investment, 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.

Mobilizing domestic resources and efficiently using resources will require deep improvements in governance and institutions

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.[2] Developing countries, including in Africa, carry the largest burden of the reduction in FDI, averaging 2 percent in 2024.[3] 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.

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.[4] 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.[5] In addition, inefficient public expenditure limits the government's ability to manage fiscal resources effectively.[6]

Limited institutional capacity and lack of expertise in designing and managing tax agreements[7] 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.[8] 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.[9]

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.[10] 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.[11] 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.[12]

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,[13] 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.[14] In contrast, a perception of low corruption at different levels of the executive branch has a positive impact on tax morale.[15] 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.

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[16] 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.[17] 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.[18]
- *Strengthen governance and institutional frameworks.* Building human and institutional capacity could amplify 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.[19]
- *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

Enhancing oversight institutions could help prioritize government investments, reduce waste, and ensure that public spending aligns with national development goals 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.[20]

> In many resource-rich economies, the implementation of mining codes conflicts with the public interest

- *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 on the 11 countries that have not ratified the convention on prevention and combating corruption to do so.[21] 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.[22] 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.[23]
- *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.

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.[24]

Poorly crafted natural resource contracts between governments and investors lead to overexploitation and losses of natural capital. Production-sharing agreements balance risks and 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 forms 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.[25]

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 (AVM) 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 AVM, 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 minerals 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 that creates challenges for governments in revenue sharing and regulatory oversight.

The bidding process for extractive contracts in Africa should be guided by clear criteria that include local content requirements and environmental safeguards

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.

The lack of sound legal and regulatory frameworks restricts access to capital and limits the ability of marginalized populations to participate in the economy

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.[26] 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.[27] 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.

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 2024 Business Ready report notes 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.[28] 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

- *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.[29] 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.[30] 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.[31]
- *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,[32] exceed the estimated financing gap of $402.2 billion annually to accelerate structural transformation, and countries hold more deposits in the bank for

Central banks' foreign exchange reserves can be channeled towards investment in growth enhancing sectors, further boosting exports and reserves 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.[33] 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[34] 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.

Reversing net portfolio flows out of Africa can boost the opportunity for businesses to tap into international capital markets, helping them to scale, grow, and create jobs

- *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.[35] 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 plan to start one in five years.[36] 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. Reversing net portfolio outflows out of Africa from the $1.7 billion recorded in 2023 can boost the opportunity for businesses to tap into international capital markets, helping them to scale, grow, and create jobs. The negative value 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.[37] 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.[38]

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.[39] 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 help 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"[40] 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.[41] Fiscal largesse that leads to wanton domestic borrowing can crowd-out private investment, impeding overall economic growth.[42]

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.[43] 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.

Better control of corruption strengthens the productivity returns of both tertiary and primary education

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.[44] And yet, as shown in chapter 2, emigration effectively means African countries subsidize developed nations' human capital needs.

Low-quality institutional governance, characterized by corruption, has been cited as one of the causes of underfunded education systems and broken health care

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.[45] It is therefore critical to recognize strides that a country like Rwanda has made in tying school funding to outcomes, demonstrating how governance innovations can enhance quality and equity.[46] 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.[47] 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.[48]

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) towards 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.[49] 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.[50] Progress in education and health governance, such as improved inclusivity and access, is linked to decentralization with stronger institutional support.[51] 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 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.[52] 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.[53]
- *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, education and health services.* According to some estimates, of Africa's 54 countries, only 30 grant the right to vote to their nationals abroad.[54] 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.

INTRODUCTION

Africa has enormous capital assets—from vast natural resources and a young labor force to emerging financial markets and growing business and fiscal resources. These assets hold immense potential for driving sustainable development. However, low institutional quality, poor governance, and weak and inefficient legal systems hinder their effective mobilization and efficient management. Corruption, political instability, and ineffective laws, some of which reflect the legacy of colonialism, create an uncertain business environment and incentive systems that discourage local and foreign investment. Further, lack of transparency and accountability in public sector management results in misallocated resources, undermining efforts to achieve long-term inclusive growth and development.

Africa has enormous capital assets that hold immense potential for driving sustainable development

Institutions—as formal and informal rules, organizational structures, and norms that shape economic and social interactions, including legal frameworks, regulatory bodies, and public administrations—are critical in enhancing the efficient allocation of resources and creation of wealth to confront poverty and promote economic and human development. Governance, including transparency, accountability, effectiveness of policies, and control of corruption, is the process through which authority is exercised to effectively manage resources. The rule of law means that laws are public, determined independently and predictably. These laws protect property rights and provide for the enforceability of contracts and the right to seek redress in the courts.

This institutional and governance apparatus creates an environment in which various forms of capital are generated and used. African historiography points to long-standing traditions that emphasize justice and contract enforcement—principles that remain relevant as countries pursue institutional and governance reform.[55] Good governance and the rule of law instill confidence that investments will be protected and that public funds will be properly managed—in contrast, institutional failures are responsible for mismanagement and uncertainty.

Institutions, governance, and the rule of law are important pillars for achieving macroeconomic stability and socioeconomic development

The current situation in Africa highlights the dilemma that, despite significant commitment to reform, lack of effective policy implementation still hinders progress in institutions and governance. Many African countries have made progress in setting up formal institutions—including constitutions, anti-corruption commissions, and semi-autonomous tax agencies—and have signed up to regional and international conventions designed 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 capital mobilization. Corruption, tax evasion and avoidance —often facilitated by an opaque international tax architecture in the form of profit shifting and other illicit outflows—cost Africa substantial resources of some 7–8 percent of gross domestic product (GDP) or more, that could otherwise be used to invest in sustainable development. These losses far exceed annual aid flows to Africa, highlighting that governance and institutional failures are the main obstacles to self-funded development.

Importantly, governance problems are exacerbated at a time of decreasing external development assistance. In an era of geopolitical fragmentation, rising protectionism, and policy calibration towards growing nationalism, many traditional donors have cut back on their humanitarian aid and concessional financing. Global foreign direct investment (FDI) has also become more selective, and the economic pressure of the Covid-19 pandemic squeezed aid budgets in developed countries. In Africa, this means that mobilizing domestic resources and reducing—perhaps, eliminating—fiscal leakages are paramount for retaining mobilized capital and deploying it to productive activities. This imperative is more urgent than ever. Countries increasingly need to finance their own development through better revenue administration, prudent management of mobilized resources, and creation of conditions to mobilize local savings at scale. Institutions, governance, and the rule of law are important pillars for achieving macroeconomic stability and socioeconomic development. In the words of Dr. Akinwumi A. Adesina, President of the African Development Bank Group, "Africans cannot carry on relying on the benevolence of others."[56] Indeed, development should be endogenous and owned by citizens and, without improvements in governance and institutional quality, neither infrastructure development, industrialization, nor social programs will be implemented because of a lack of funding and capacity.

Africa's governance failures have also contributed to the loss of investment and growth opportunities. Weak contract enforcement, policy uncertainty, and political risks discourage domestic and foreign investors, leading to a loss of investment and fewer job opportunities. Countries with unstable governance systems or property rights that are not well defined, for example, struggle to attract long-term private investment, despite abundant natural resource endowments and market potential. Similarly, the illegal transfer of funds by wealthy individuals and firms to offshore jurisdictions deprives local economies of capital. This effectively limits public investment in infrastructure, education, and health, perpetuating slow economic growth and continued reliance on external financing. Unfortunately, official development assistance usually comes with conditionalities that make it difficult for African countries to invest in areas that are important to domestic development. External debt is also often contracted at extremely high interest rates and unfavorable repayment conditions.

Against this background, this chapter explores how strong institutions, good governance, and respect for the rule of law are the lynchpins for harnessing Africa's capital-raising potential and why weak governance constitutes a bottleneck for mobilizing and using domestic resources. The chapter proposes a pan-African approach, in partnership with the international community, to strengthen governance, recognizing that problems such as money laundering, tax evasion, and corruption are transnational and require collective action by African states and institutions as well as the global community. In proposing this approach, the chapter outlines successful reforms in Africa and elsewhere and how these could translate into better development outcomes.

Building on lessons from Africa's success stories, this chapter presents concrete policy recommendations, clearly categorized according to the type of capital and relevant actors spanning national governments, international financial institutions (IFIs), multilateral development banks, the African Union, and regional actors. The recommendations prioritize depth and impact of, rather than breadth and focus on, the most important interventions. By implementing these targeted reforms, supported by regional and international efforts, African countries can significantly increase capital mobilization and its use, reduce external dependence, and chart a path towards sustainable and inclusive growth.

A FRAMEWORK FOR THE ROLE OF INSTITUTIONS AND GOVERNANCE IN MOBILIZING CAPITAL

Harnessing Africa's capital for development can be viewed through the prism of a capital conversion-based development model. In this framework, development is a process of converting, for example, natural resource capital, such as oil, minerals, forestry, fisheries, water, and land, into financial capital and fiscal revenues, which are then invested in infrastructure and human capital development to complement business capital.[57] By implication, rather than the mere presence of abundant natural or human resources, of importance is *how effectively* such resources are converted and reinvested to generate sustained growth and development (box 3.1).

Institutions and good governance systems are the "conversion factors" determining the efficiency with which one form of capital can be transformed into another. For instance, in the case of a resource-rich country with good institutions, natural capital can easily be converted into long-term assets that can contribute greatly to positive development outcomes. But without good governance and effective legal institutions, resource revenues might be lost to corruption and impunity, reducing their impact on development. In addition, where the education system enhances the development of a country's human resources, individuals can acquire the skills they need to function as productive entrepreneurs, as well as skilled workers. Such a process can lead to the creation of wealth to confront poverty and improve human development.

In a resource-rich country with good institutions, natural capital can easily be converted into long-term assets that can contribute greatly to positive development outcomes

In many African countries, weak institutions and rule of law, alongside low quality of governance, mean that the conversion of natural and human capital into tangible development outcomes is suboptimal. The discussions that follow analyze institutional arrangements and performance for each form of capital, demonstrating how governance shortfalls have constrained domestic capital mobilization and what improvements are needed for course correction.

Conceptual framework: Governance and the mobilization of capital in Africa

The quality of a country's governance and institutions is crucial in shaping the incentives, level, and efficiency of investment. Improving governance is key to unlocking Africa's ability to mobilize resources across different types of capital. Figure 3.1 presents a conceptual framework that connects governance and institutions to resource mobilization through various forms of capital. It shows how strong governance supports the

BOX 3.1 **Understanding the capital conversion-based development model**

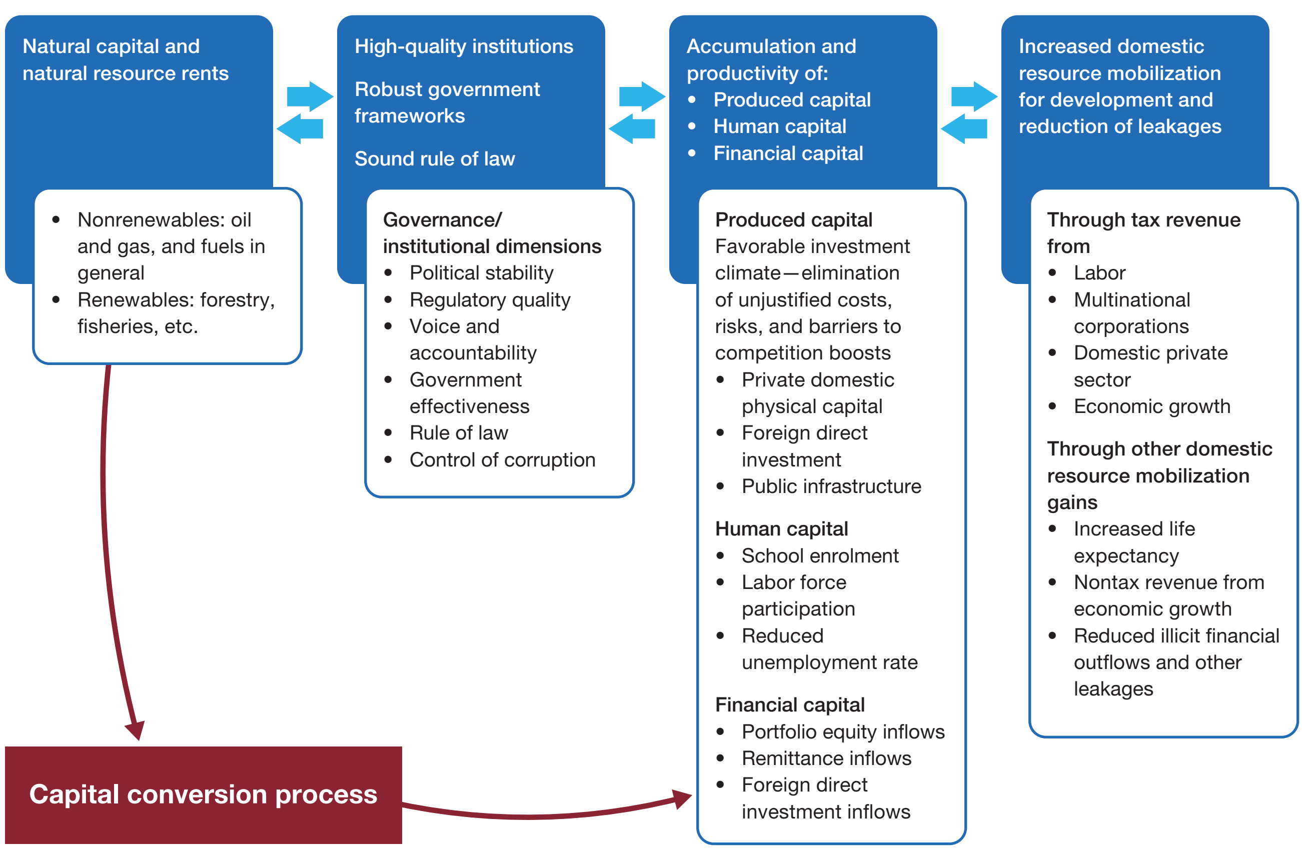
This model frames development as a process where a country transitions its portfolio of assets from a reliance on natural capital to a dependence on reproducible capital such as infrastructure, human capital, and financial resources. In this model, natural capital, including minerals, oil, and ecosystems, is a foundational stock that countries can leverage to generate wealth and improve living standards.

For African countries, this process requires careful rebalancing of their asset portfolios. Countries with abundant natural capital but limited reproducible capital often begin their development journey by exploiting natural resources to create the financial, human, and infrastructure capital required for economic transformation. Examples of this dynamic are evident in the extraction of gold and diamonds in South Africa and diamonds in Botswana. These activities have historically reshaped the “balance sheets” of these countries, transitioning them towards economies increasingly reliant on human-made capital.

The societal goal in this context is to achieve an optimal portfolio of assets that balances the flows from natural and human-made capital. In this framework, the revenue from natural capital extraction must be strategically invested in assets that provide long-term growth and resilience, such as education systems, infrastructure development, and financial instruments.

Source: Stokey 1998; Sarr and Swanson 2017.

FIGURE 3.1 **Conceptual framework for institutions and governance and for capital mobilization and use for Africa’s development**



Source: AfDB construct.

transition from an economy dependent on natural capital to one driven by human-generated capital, including financial, business, fiscal, and human. This transition is vital for sustainable economic growth and development.

Strong institutional quality and good governance are crucial for enhancing domestic resource mobilization efficiency. Transparent, accountable institutions and effective tax collection systems foster trust and compliance, leading to higher tax revenues and improved mobilization of Africa's fiscal resources. In the business sector, stable governance enhances regulatory frameworks, which in turn provide a favorable environment for investment and foster entrepreneurship, leading to economic growth and job creation. The management of natural resources is improved through strong institutions that enforce environmental protection laws, ensure sustainable extraction practices, and optimize the revenue generated from these resources. Human capital development is enhanced by good governance through the provision of quality education, healthcare, and policies that promote the development of marketable skills and significantly improve workforce productivity. Skilled labor has a higher level of economic mobility and so can easily move to sectors where it is needed most or where it can earn a positive return. Such mobility can contribute strongly to the effective and efficient use of a country's labor resources. Similarly, a well-regulated financial sector, supported by strong institutions, attracts domestic and foreign investment, improves access to credit, and promotes financial inclusion, leading to economic stability and sustainable growth.

Institutional architecture and quality: Africa in a global context

Institutions and the rule of law as cornerstones of governance

High-quality institutions and effective governance are fundamental to creating a favorable environment for investment and economic development. Institutions encompass multiple dimensions, such as accountability, political stability, the rule of law, and regulatory quality, all of which are pivotal for shaping the political, social, and economic fabric of society. Institutions can be *inclusive* by upholding property rights, promoting market freedom, and ensuring broad access to economic opportunities. They can also be *extractive*, that is, characterized by weak property rights, limited market freedom, and governance structures that serve narrow private interests, stifling economic growth and development.

The rule of law is central to ensuring that governance supports economic and social development. By protecting property and contractual rights, it creates a stable environment for investment and trade. A strong, independent judiciary —an essential element of the rule of law—is critical for enforcing these rights and for preventing undue influence from political or private interests. By contrast, weaknesses in the rule of law undermine economic activity by eroding trust and increasing transaction costs. For instance, if property rights cannot be reliably enforced, businesses may be reluctant to invest or seek credit. Strengthening the judiciary and ensuring its independence from external pressures are therefore critical steps in improving governance—and not just in Africa.

Economic implications of governance

By ensuring transparency, accountability, and the rule of law, good governance creates an enabling environment for investment, entrepreneurship, and innovation. Strong institutions uphold property rights and enforce contracts, reducing risks and boosting investor confidence, which drives private sector development and attracts FDI and other external financial flows. Good governance enables effective implementation of institutional reforms, promotes equitable access to resources and opportunities, and enhances public service delivery while minimizing resource waste and avoiding elite capture. For African countries, this translates into higher productivity, competitive markets, and resilience against economic shocks, laying the foundation for long-term shared prosperity.

By ensuring transparency, accountability, and the rule of law, good governance creates an enabling environment for investment, entrepreneurship, and innovation

In contrast, insufficient protection of property and contractual rights alongside burdensome regulations fosters economic instability. Without guarantees from enforceable property and contractual rights, investors face heightened risks, including policy uncertainty and expropriation of private capital. This discourages investment and innovation and leads to inefficient resource allocation. Barriers to competition are another sign of weak governance, distorting markets and stifling innovation by protecting entrenched interests. For instance, politically connected firms may receive preferential access to resources such as credit or land, while new entrants face burdensome licensing requirements and regulatory hurdles that hinder entrepreneurship or increase the cost of investment. Additionally, regulatory capture —where industry incumbents influence policies to safeguard their market dominance—further limits competition and discourages new entrants. These barriers reduce competitive pressures on existing firms, dampening efficiency, leading to suboptimal investment and low productivity, while passing on the cost to citizens who may be paying more for low-quality products and services.

Many African countries suffer from poor governance, resulting in severe economic and social costs, undermining their development aspirations

Trends in governance and institutional quality in Africa

Many African countries suffer from poor governance, resulting in severe economic and social costs, undermining their development aspirations. Corruption, for instance, imposes significant economic costs, diverting resources from essential sectors like education and health, but also distorts public spending priorities and increases rent-seeking behavior, favoring projects with less scrutiny and higher opportunities for kickbacks. High corruption in procurement leads to inflated costs, delays in project execution, and substandard outcomes. Regulatory burdens, inefficient tax systems, and poor infrastructure further raise the cost of doing business, reducing competitiveness and productivity, and discouraging investment.

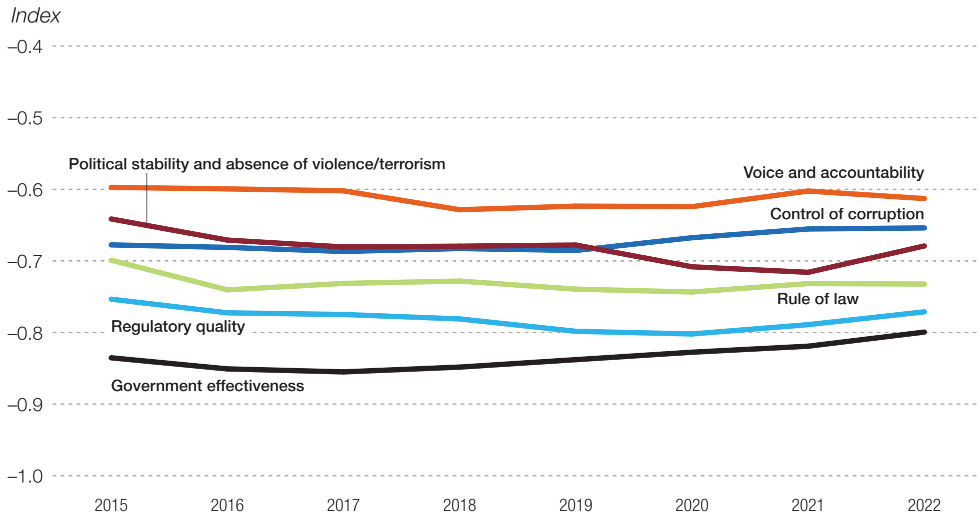
As peaceful transitions and democratic governance became more common on the continent, many African countries also embarked on reforms to improve the quality of institutions and the rule of law. However, efforts to anchor these reforms and improve the effectiveness and quality of governance were often muted by resource challenges and emerging shocks. As a result, governance quality across the continent declined on average in the period between 2000 and 2014. From 2014 onwards, many African countries, aided by budget support and technical assistance programs from international partners and multilateral development institutions such as the African Development Bank, have invested financial resources to improve and strengthen the quality of institutions through enhancing the efficiency and transparency of public resource management, promoting transparency and accountability in public service delivery, and supporting measures to build economic and social resilience. This led to improvements in governance, particularly in measures of government effectiveness, control of corruption, and voice and accountability (figure 3.2).

The resilience of institutions and the positive out-turn of institutions after 2014 occurred despite Africa facing multiple shocks. While reflective of the global dynamics of rising geopolitical fragmentation and declining participation in democratic processes, leadership changes—sometimes disruptive and destabilizing, including military takeovers and violent contestations of election outcomes—threaten the progress Africa has achieved in enhancing social and economic development through sound governance, as well as economic and social development, as well as the advances yet to come in addressing fragility and building resilient, inclusive economies

Africa’s institutional and governance quality in the global landscape

Africa’s institutional and governance quality remains uneven compared with that in other regions, with notable challenges in political stability and absence of violence/terrorism and in government effectiveness. To understand the decline in governance across Africa, it may be important to consider the broader global shift towards nationalist ideologies, which could be contributing to governance erosion worldwide. However, this explanation falls short, as a comparison of governance indicators across Africa, Latin America and the Caribbean, and Southeast Asia reveals a troubling decline in governance quality, with Africa falling further behind in all areas (figure 3.3). While Africa showed progress in the early 2000s, particularly in the rule of law, regulatory quality, and control of corruption—due in part to reforms implemented as part of adjustment programs—these gains have been eroded and the gap has since widened, especially in political stability and government effectiveness, perhaps due to ineffective

FIGURE 3.2 Evolution of governance indicators in Africa, 2015–23



Source: AfDB calculations using Worldwide Governance Indicators.

coordination, inability to sustain political will, and lack of focus on monitoring and evaluation.[58]

THE ROLE OF GOVERNANCE AND INSTITUTIONS IN HARNESSING CAPITAL FOR DEVELOPMENT

Fiscal resource mobilization: The role of governance and institutional frameworks

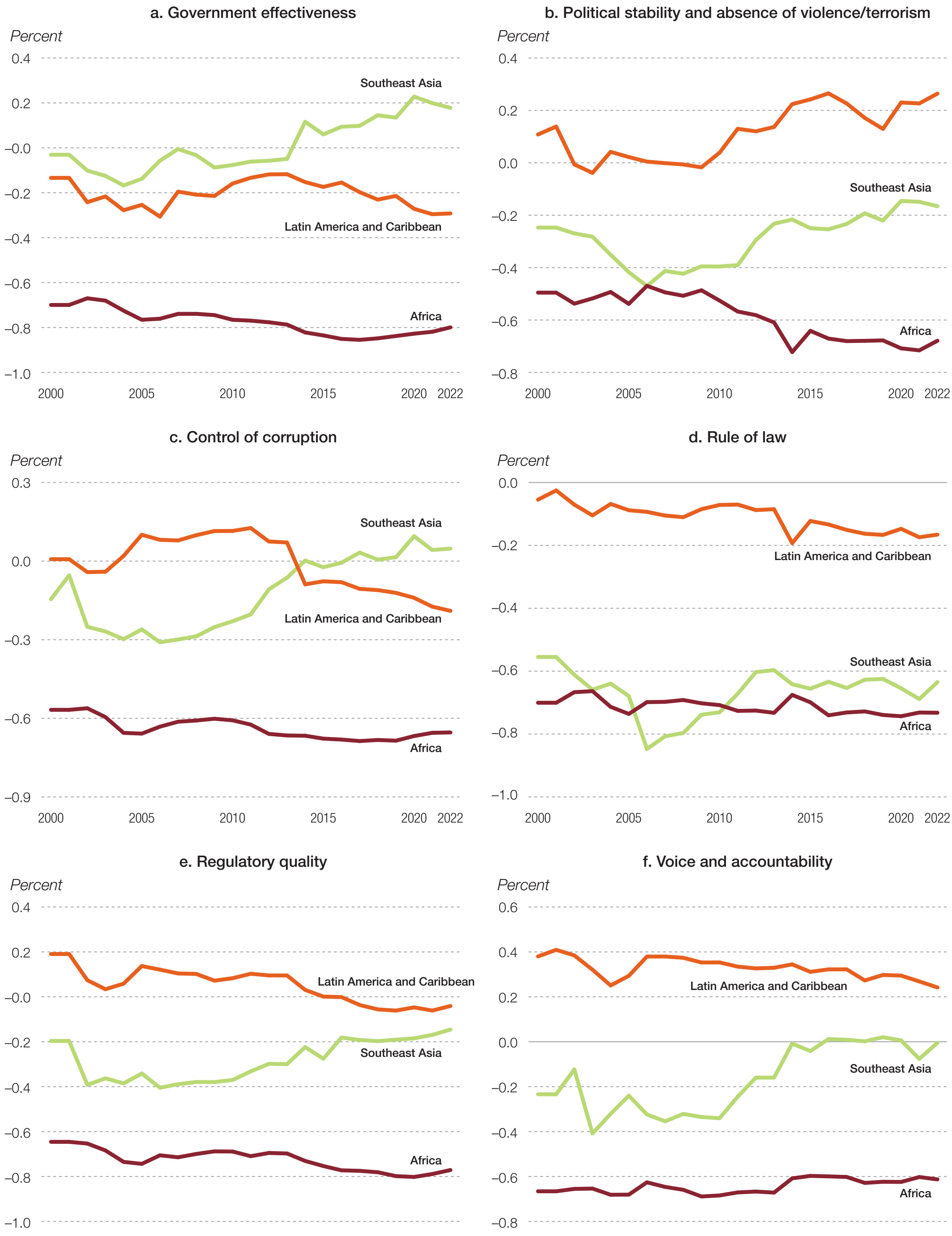
Strong governance and institutional frameworks are crucial for effective fiscal resource mobilization. Well-functioning institutions foster public trust, reduce corruption, and enhance the ability of governments to implement policies that generate and effectively allocate revenue for development. Corruption, lack of transparency, and political instability undermine trust in government institutions, reducing compliance with tax policies and the ability to increase tax and nontax revenues. Additionally, fragile institutional capacity, including poorly equipped tax authorities and inefficient public expenditure management, further limits the ability to mobilize and manage fiscal resources effectively. Figure 3.4 shows strong positive relationships between transparency, accountability, and corruption in the public sector and respect for property rights and rules-based governance with the efficiency of fiscal resource mobilization in Africa, with correlation coefficients of more than 77 percent.

Institutional arrangements and governance structures are fundamental to shaping the effectiveness of tax systems in Africa. Some African countries have revamped their fiscal resource mobilization processes. For example, countries such as Ghana, Kenya, and Uganda have adopted centralized and Semi-Autonomous Revenue Authorities (SARAs). These agencies are intended to professionalize tax administration, reduce corruption, and increase revenue collection.[59] While there is evidence that SARAs improve performance in the collection of direct taxes, such as corporate and personal income taxes, their overall impact on total tax performance remains limited.[60] SARAs often operate within governance environments that limit their autonomy in practice, where political interference, capacity constraints, and lack of oversight reduce their effectiveness.[61]

These drawbacks hinder efficient tax collection and enforcement, leading to low tax compliance and revenue generation. The taxation architecture in many African countries includes both formal, centralized tax authorities and decentralized systems, which can create challenges in coordination and consistency across different levels of government. The relationship between central and local governments in property tax administration has

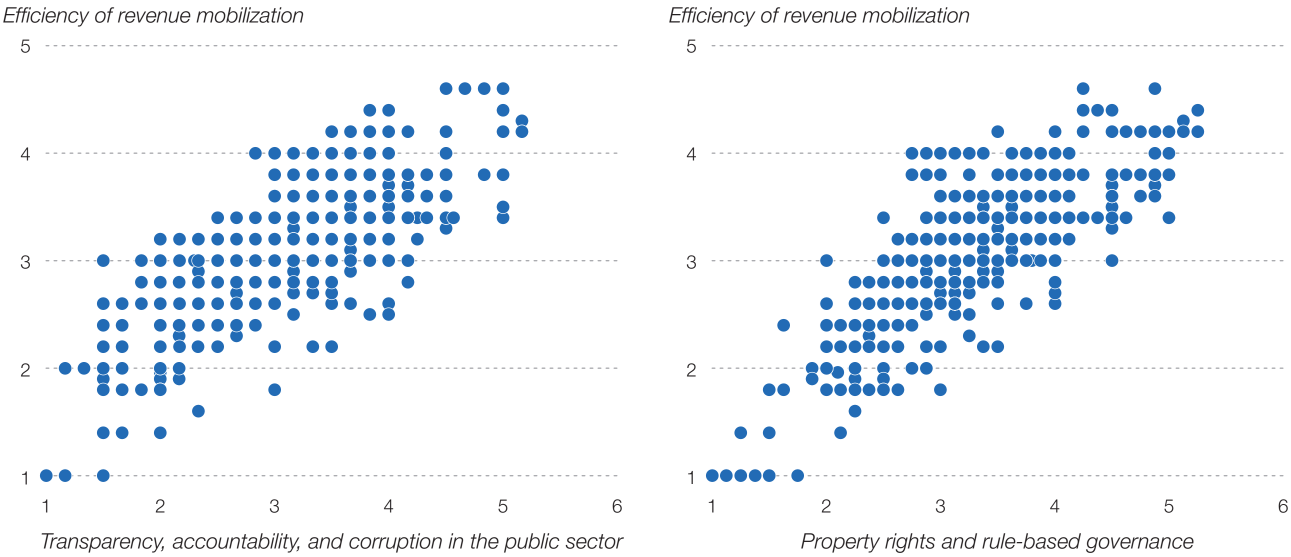
Gains in good governance have eroded, perhaps due to ineffective coordination, inability to sustain political will, and lack of focus on monitoring and evaluation

FIGURE 3.3 Regional comparison of selected governance indicators, 2000–22



Source: AfDB calculations using Worldwide Governance Indicators.

FIGURE 3.4 **Governance indicators and efficiency of fiscal resource mobilization, 2004–23**



Source: AfDB Country Policy and Institutional Assessment scores.

sometimes been characterized by dysfunctional systems. Studies have shown how a central government's policies and politics negatively impact local governments' ability to manage property taxes effectively, hampering local revenue generation and service delivery.[62]

While many countries in Africa have undertaken reforms to improve tax administration, tax evasion and avoidance by multinational corporations (MNCs) continue to rob the continent of valuable resources. The MNCs, with their complex accounting processes and expertise, exploit loopholes in existing tax laws and skills inadequacies in national revenue agencies in Africa to siphon resources out of the continent. Further, tax frameworks in many countries are ambiguous and so provide the opportunity for competing interpretations, including those that disadvantage many African economies. For instance, in some countries, statutes regulating corporate income tax are not explicit on the treatment of production costs, allowing MNCs to exaggerate their costs to reduce profits and minimize taxes owed to the host country.[63]

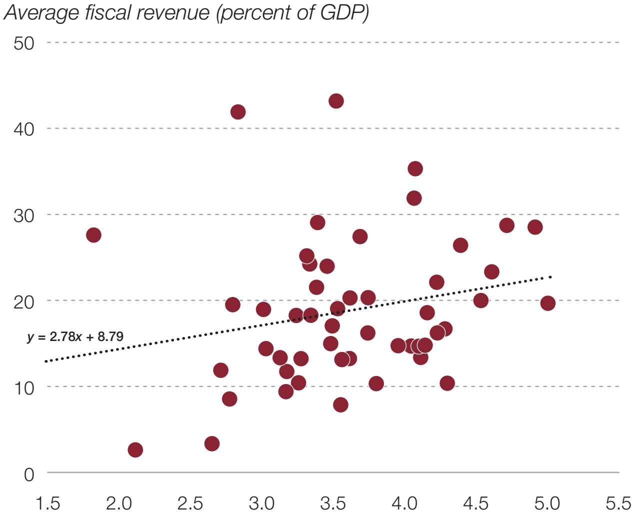
The rule of law forms an important framework for mobilizing a country's fiscal resources. Citizens' adherence to the rule of law improves policy and legal certainty, raising expectations that contracts will be enforced. There is empirical evidence that countries with efficient tax systems are supported by legal instruments that promote the rule of law.[64] This is seen where countries undertake reforms to improve the efficiency and effectiveness of institutions that influence the rule of law. For example, guaranteeing judicial independence can lead to more efficient and timely settlement of legal disputes, especially those involving businesses, and can significantly improve incentives for investment.

An independent judiciary is an indispensable part of an effective separation of powers and a contributor to a fully functioning democratic system. However, the ability of the rule of law to improve mobilization of public financial resources cannot produce the desired outcomes without supportive institutions. Africa's low performance on governance indicators and corruption perceptions, and its weak institutions, hamper adherence to the rule of law and improvements in public resource mobilization.

The effectiveness of tax administration is shaped not just by a country's institutional architecture but also by the political and informal norms that govern state–society relations. Factors such as rent-seeking behavior, clientelism, and informal networks of influence weaken accountability in tax and customs administrations.[65] Afrobarometer data corroborate this, with tax and customs often ranked among the most corrupt institutions in African countries. Anti-corruption efforts have often focused on technical and organizational reforms, such as new reporting systems, performance benchmarks, and training workshops, without addressing the deeper political economy of tax enforcement, generating only limited gains in reducing corruption or building a culture of voluntary tax compliance.[66,67]

Improvement in the overall Country Policy and Institutional Assessment (CPIA) score is closely linked to a higher fiscal revenue-to-GDP ratio, reflecting stronger governance and institutional frameworks. African countries with higher CPIA scores tend to have more efficient tax systems, better public financial management capacity, and lower levels of corruption, which directly contribute to improved revenue collection (figure 3.5). Stronger institutions also enhance the capacity of governments to implement policies that boost tax compliance and reduce tax evasion. Mauritius, South Africa, and Uganda are exemplary cases, showcasing governance innovations in their tax regimes that other African countries can learn from (box 3.2). In contrast, countries with lower CPIA scores often struggle with weak governance, political instability, and ineffective institutions, limiting their ability to mobilize fiscal resources. Improving the different components of the CPIA score is therefore a key driver in increasing a country's fiscal revenue and ensuring sustainable development.

FIGURE 3.5 Correlation between CPIA scores and fiscal resources in Africa, period average, 2019–23



Source: AfDB statistics.

In addition to increasing fiscal resources, strong governance and institutional frameworks ensure that government funds are allocated and spent efficiently. Public Expenditure and Financial Accountability Performance Assessment reports in the continent highlight weaknesses in public financial management indicators, such as budget reliability; transparency of public finances; management of assets and liabilities; policy-based fiscal strategy and budgeting; predictability and control in budget execution, accounting, and reporting; and external scrutiny and audit. Effective institutions, including public account select committees of parliaments and audit agencies, provide oversight to help address some of these challenges. Such institutions can help in prioritizing government investments, in reducing waste, and in ensuring that public spending aligns with national development goals. Transparency and accountability —key components of good governance—allow for better oversight, ensuring that funds are used for their intended purposes.

Many African countries have adopted an Integrated Financial Management Information System (IFMIS) to improve public financial management; enhance transparency; and streamline government budgeting, accounting, and reporting processes. Still, in some African countries, IFMIS does not fully capture the financial activities of state-owned enterprises (SOEs), and agencies implementing government projects This limitation undermines the comprehensiveness of financial oversight and reporting, as these entities often account for significant shares of public expenditure.[68] Without accurate data from these bodies, it becomes hard to assess the full extent of government spending and to ensure that funds are used efficiently. The exclusion of such entities can also lead to a lack of accountability, as there may be little scrutiny of how public funds are allocated to and spent by them, hindering efforts to combat corruption and improve fiscal management.

BOX 3.2 Investing in institutional capacity of tax administration as an innovative mechanism for improving resource mobilization

Investing in institutional capacity, such as strengthening tax policy units, professionalizing public officials, and adopting new technologies, enhances tax efficiency and promotes effective resource mobilization by improving the design, administration, and implementation of tax systems.[1] Poor tax administration capacity in Africa, arising from an interplay of factors including weak institutional frameworks, corruption, limited resources, a large informal sector, and a lack of public trust due to breakdowns in the social contract, have been noted as hindering effective tax collection and revenue mobilization in Africa.[2] To overcome these challenges and enhance administrative performance, many African countries have implemented a range of tax administration reforms, such as establishing Semi-Autonomous Revenue Authorities.

To strengthen institutional capacity, not only to interpret and implement tax legislation but also to establish expert knowledge of business operations in different economic sectors, the South African Revenue Service (SARS) re-established its Large Business Centre and its Illicit Economy Unit in 2018 to provide a differentiated and improved service to large businesses and high net-worth individuals, and to operate as a tool in fighting illicit trade in the country. Through the Illicit Economy Unit's investigation of 198 cases linked to international organized tax and customs schemes involving illicit economic activities—illicit financial flows and illicit trade—SARS recovered 30 billion rand (equivalent to $2 billion) from syndicated crime in the 2024/25 fiscal year.[3] Taxation of high net-worth individuals remains a challenge in many low-income countries, where the bulk of revenue is derived from personal income tax. Despite legal provisions for taxing such individuals, compliance has generally been low due to weak enforcement, political sensitivities, and a lack of dedicated tax administration structures and capacity. However, Mauritius, South Africa, and Uganda have pioneered governance innovations by establishing specialized tax units for high net-worth individuals to improve compliance and expand the tax base.

In Uganda, the unit, introduced in 2015, achieved significant levels of tax compliance in its first year of operation, increasing such individuals' tax return filings from 13 percent to 78 percent and boosting revenue collection by about $5.5 million. This success was driven by strong political commitment, proactive action on available taxpayer data including verification of tax audits, investigations, matching against third party data, and an education-first approach spanning advisory services and direct support for improving tax administration, rather than aggressive enforcement. The Uganda Revenue Authority also merged its high net-worth individuals' unit with its Very Important Persons (VIP) unit, which was then tasked with managing the tax affairs of the country's high-ranking government officials as well as influential nongovernment officials and public figures to mitigate political resistance; it closely collaborated with its research department to refine compliance strategies.[4]

In South Africa, taxation of high net-worth individuals was boosted by the digitalization of tax filing and payment systems, which greatly reduced compliance burdens while improving efficiency of processing payments and refunds. Even for face-to-face interactions with tax officials, digital integration has enhanced transaction speed, accuracy, and transparency, contributing to higher trust in the tax system. In 2023, SARS registered 2.7 billion rand (equivalent to $145 million) in tax collections from the efforts of its specialized high net-worth individuals' unit, representing growth of 7 percent over the previous year.

Notes

1. Adan et al. 2023.
2. Moore et al. 2018.
3. SARS 2025.
4. Kangave et al. 2018; Santoro and Waiswa 2024.

Source: IMF 2018; Kangave et al. 2018; Santoro and Waiswa 2024; SARS 2025.

Governance challenges in harnessing fiscal resources: Corruption and resource leakages
Corruption—real or perceived—remains high in Africa, with negative effects on optimal allocation of fiscal resources. Although many African countries have anti-corruption laws, these are seldom implemented or are poorly enforced due to a lack of political will and poor institutional frameworks.[69] Lack of political will to fight corruption, weak training and capacity building for anticorruption personnel, severe underfunding of anti-graft bodies, and lenient penalties for corrupt practices have been cited among the main causes of corruption in Africa.[70]

The blatant enrichment of elites can provoke widespread social unrest and undermine macroeconomic and sociopolitical stability. In some countries, persons with networks in government influence policies that have precipitated political protests leading to slower GDP growth.[71] In other countries, policies influenced by political elites have contributed to "hidden debts" triggering sovereign defaults with a currency devaluation of 40 percent.[72] Such events often lead to distrust of the state, which in turn can hamper even positive endeavors by the state.

Corruption and poor governance diminish the quality of public services, eroding citizens' willingness to pay taxes, which creates a vicious circle of low revenue and poor services

Corruption and poor governance diminish the quality of public services, and feed into unreliable power and water supply, as well as broken health and education systems. This degradation of service delivery can lead to disparities in education access and enrolment, eroding citizens' willingness to pay taxes, which creates a vicious circle of low revenue and poor services.[73] For fiscal resource mobilization, low tax morale is both a symptom and a cause of weak governance.[74] Countries with high corruption levels tend to have lower tax-to-GDP ratios.[75] All of these can weaken the pipeline for future tax contributions by citizens who perceive state condonement of tax evaders. Countries such as Mauritius where anti-corruption agencies enjoy prosecutorial independence attract more foreign investment, averaging more than $2,000 per capita, and tax-to-GDP ratios tend to be higher—an improvement of up to 22 percent in some cases.[76]

Illicit financial flows (IFFs), tax evasion, and corruption cost African economies huge resources each year. African countries lost enormous financial resources through capital flight, with some estimates pegging this at $2.7 trillion between 1970 and 2022. Annual figures could be up to about $90 billion.[77] These leakages stem from various channels, including bribery (companies bribing tax officials to lower liabilities), mismanagement of SOEs, and outright theft of public funds. National audit offices have frequently revealed systemic fraud, including "ghost workers" on payrolls, inflated procurement contracts, and off-budget and unsanctioned expenditures.[78]

Owing to limited institutional capacity and the lack of expertise in managing tax agreements, many African countries struggle to detect national-tax base erosion and profit shifting (BEPS) by MNCs, resulting in the loss of crucial tax revenues. While there is no precise information on the extent of BEPS in Africa due to lack of comparable data on the activities and profits of MNCs, the revenue forgone is nontrivial, estimated in some cases at 2.7 percent of the continent's economic output.[79] Even a 1 percentage point increase in corporate tax rates can lead to a 3 percent decline in reported profits in the extractive industries, reflecting aggressive tax avoidance strategies.[80]

Weak state capacity and inadequate governance mechanisms hinder the effective use of available infrastructure and funding, resulting in limited access and poor service delivery. For example, in the health sector, high-profile initiatives, such as the Abuja Declaration, the universal health coverage framework of the World Health Organization, and Agenda 2063 health targets, have failed to materialize as greater investment in healthcare. Inefficiencies are compounded by weak regulatory oversight, which has allowed private healthcare actors to operate in unregulated environments while public facilities remain underresourced. These inefficiencies have led to poor working conditions and the steady migration of skilled professionals.[81] Addressing these challenges requires structural reforms to improve governance coordination, institutional capacity, accountability in health systems, and scaled-up investment to improve people's wellbeing and the economy.

Weak public financial management systems and lack of strategic linkages among stakeholders lead to expenditure misallocation and inefficiencies. Inefficiencies in public financial management systems and poor procurement practices limit spending efficiency. In some cases, weak institutions allow for procurement processes to be bypassed or manipulated through unregulated "single sourcing," enabling wasteful spending through overpriced contracts and resource misallocation, undermining the delivery of essential services and exacerbating poverty. Still, progress is being made. For instance, the implementation of Rwanda's e-Government Procurement System to automate and streamline procurement processes, and the use of electronic platforms like the eTender Publication Portal and the Central Supplier Database in South Africa, aim to streamline government procurement, promote transparency, and reduce corruption.

Although several African countries have initiated reforms to transition from traditional line-item budgeting to program- and performance-based budgeting, implementation remains slow and uneven. Line-item budgeting often focuses on inputs and expenditures without assessing the outcomes or effectiveness of government programs, frequently leading to inefficient use of fiscal resources. In contrast, program- and performance-based budgeting link fiscal resources to specific, measurable goals, making it easier to assess the impact of public spending and to prioritize programs and projects based on their effectiveness in achieving set objectives. Medium-term expenditure frameworks in several countries link budget allocations to specific performance targets and outcomes. But in other countries, weak institutional frameworks and political interference hinder effective application of program and performance-based budgeting systems. While some nations have made progress therefore, the full potential of program and performance-based budgeting as a lever for fiscal restraint and management is yet to be realized in many African countries.

Africa's high level of informality also weighs on fiscal resource mobilization. The informal sector generates more than 80 percent of job opportunities,[82] with the lack of incentives such as access to credit and markets for finished products contributing to this preponderance.[83] While taxation of the informal sector presents an important potential source of government revenue, the unregulated nature of the sector and the lack of business registration increase the cost of tax collection and administration.

Governance challenges in harnessing fiscal resources: State capture and its implications

State capture represents a systemic subversion of public institutions and legal frameworks by elite interests. Unlike petty corruption, which involves individual malfeasance, state capture refers to the manipulation of policy, legislation, and regulatory frameworks to advance the narrow interests of a few powerful individuals or businesses at the expense of public welfare. It erodes judicial independence and regulatory oversight, weakening the rule of law and property rights protection. State capture has profound implications for capital mobilization and usen because it can entrench policies that cause resource misallocation and can inhibit competition and investment.

State capture in Africa exacerbates IFFs and corruption, shaping laws and regulations to secure tax exemptions, monopolies, and preferential access to public contracts and other privileges. Numerous cases in African countries reveal that state capture is a critical issue. Through it, wealth—especially from extractive resources—is diverted from the public domain into private hands through a combination of corruption, legal manipulation, and international financial facilitation.

Empirical evidence shows the effect of state capture on economic outcomes. At the height of the Covid-19 pandemic in 2020, with countries marshaling resources to mitigate the pandemic's effects, one country lost the equivalent of $28 million for the supply of treated mosquito nets for a tender reportedly awarded to companies linked to political elites.[84] Family networks and political connections with elites have contributed to state capture leading to protests and slower GDP growth.[85] State capture has also been boosted by countries enacting laws that criminalize the disclosure of economic information, such as the government's use of oil revenues—highlighting how legal frameworks, while ostensibly intended to protect the national interest, can sometimes limit transparency and public accountability, potentially creating

Program- and performance-based budgeting link fiscal resources to specific, measurable goals, making it easier to assess the impact of public spending and to prioritize programs and projects based on their effectiveness

conditions conducive to state capture. The trend is still expanding and appears in varying degrees by country.[86]

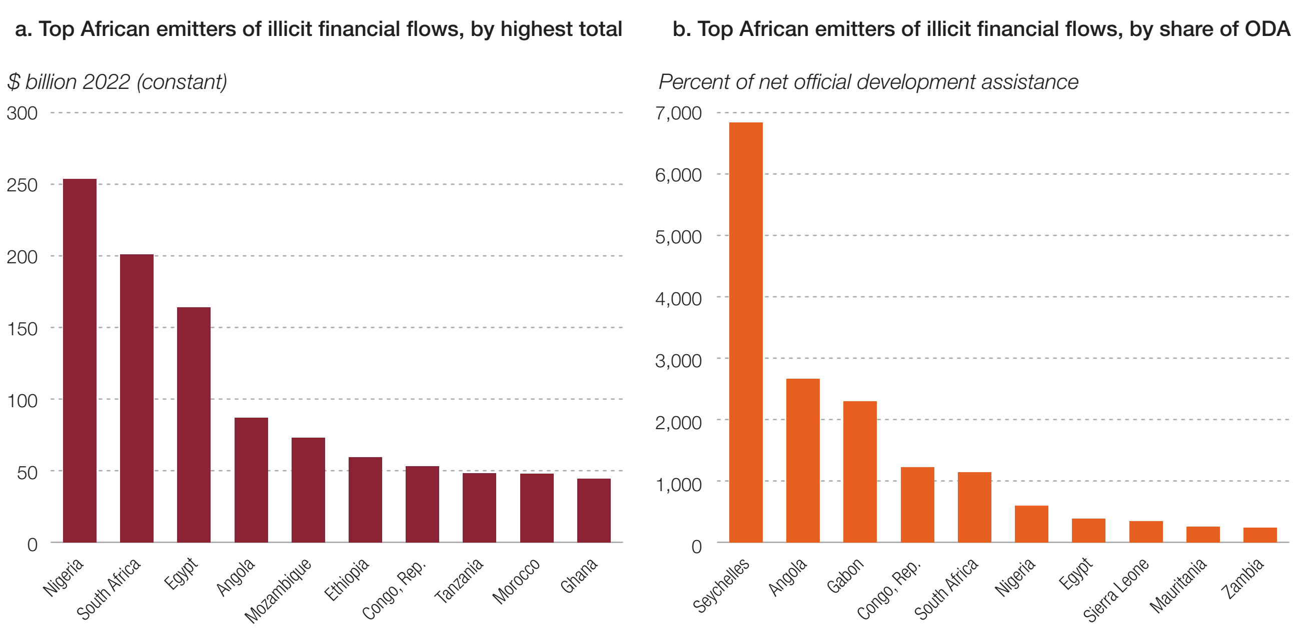
States that are "captured" can be drawn into manipulating oversight agencies or laws to enable capital flight, for instance, by exploiting loopholes that they helped design. State capture also propagates a culture of impunity that trickles down, worsening petty corruption. The latest estimates[87] based on data from 30 countries indicate that between 2010 and 2022 countries in the continent lost a cumulative $1.3 trillion, equivalent to 4.4 percent of their combined GDP.[88] Weak institutional oversight and lack of transparency can also undermine strategic procurement processes,[89] especially in the health sector, as exposed during the Covid-19 pandemic when some African countries incurred estimated value losses of 10–25 percent for non-open competitive procurements.[90]

These leakages undermine domestic resource mobilization and threaten the achievement of development objectives. Many IFFs are siphoned away through tax evasion and avoidance and by corruption facilitated by offshore havens.[91] In 2000–15, underinvoicing from extractive exports in Africa translated into 16 percent of merchandise exports.[92] Some of Africa's largest economies have been among the top sources of IFFs by total volume since 2010 (figure 3.6). However, for IFFs as a percentage of aid flows, smaller economies stand out, with IFFs amounting to nearly 70 times the aid received. For these countries, and Africa more generally, curbing IFFs could serve as a powerful substitute for aid.

All countries are vulnerable to corruption but resource-rich African countries are more so than most. Natural resource endowments can create opportunities for rent appropriation and state capture. Many governments suffer from insufficient administrative capabilities, inadequate staffing, and weak enforcement mechanisms. These institutional fragilities create fertile ground for widespread corruption and resource leakages that heavily undermine fiscal capacity and public service delivery.

Even so, Botswana's experience demonstrates that African countries are not *destined* to fall into this trap. The country's transparent management of diamond revenues illustrates how robust institutional frameworks can ensure that natural resource wealth benefits the broader population.

FIGURE 3.6 Top sources of international financial flows in Africa, 2010–22



Source: AfDB computations based on data from PERI.

Governance challenges in harnessing fiscal resources: Peace and Security

The institutionalization of weak governance and rule of law erodes the effectiveness and legitimacy of the state, fosters a culture of impunity, and undermines public trust in state institutions. Such weaknesses amplify governance vacuums that nonstate actors exploit to perpetrate violence and assert control. The persistence of fragility and conflict in Africa—linked in large part to weak governance and poor quality of institutions—represents one of the greatest impediments to economic development and resilience. A third of African countries, home to some 200 million people and a growing share of Africa's poor, can be classified as fragile. The effect of instability in these countries transcends national borders.[93] Evidence indicates that compared with other low-income countries, Africa's group of fragile states are characterized by slower economic growth, higher poverty, and persistent inequality.[94]

Beyond the direct economic costs of conflict, such as damage to infrastructure and loss of life, conflict and heightened fragility impose significant indirect costs that can have a long-term impact on a country's economic development.

The World Bank estimates that armed conflicts cost the average developing country roughly 30 years of GDP growth, and in affected African countries, conflict-related disruptions in production, trade, and investment yield losses of approximately 30 percent in GDP growth.[95]

The destruction of communities and social networks have a telling impact on the ability of fragile and conflict-prone states to achieve inclusive growth. Indeed, estimates indicate that in conflict-affected African countries, GDP per capita is about 28 percent lower, 10 years after the onset of a conflict, with average annual growth of GDP per capita in countries affected by conflict more than 2.5 percentage points lower than in countries without conflict.[96] This creates a vicious cycle of poverty, inequality, and slow growth, outcomes that deter investment and economic activity and place severe limitations on the capacity of states to mobilize fiscal resources for sustainable development.

To contend with escalating insecurity and manage conflicts, many African countries have increased military expenditure. In 2024, African governments committed $52.1 billion to military and defence-related purchases, 3 percent more than in 2023 and 11 percent higher than in 2015.[97] In some countries, the share of military expenditure in GDP exceeds that of health and education, crowding-out public investment in social programs and economic growth, potentially affecting the overall economic and social well-being of the population.[98]

Natural capital mobilization: The role of institutions, economic governance, and the rule of law

While African countries aim to use their natural capital for development, the effectiveness is often called into question by weak enforcement, limited negotiating capacity, lack of openness and transparency, and regulatory inefficiencies. The effectiveness of natural capital in facilitating development is partly affected by the complex structure of the natural resources sector that involves state, private, and global actors. Due to the capital-intensive nature of the extractives sector, governments rely on foreign MNCs for investment and technical expertise. This gives MNCs an advantageous position that creates challenges for governments in revenue sharing and regulatory oversight.

Governments often create SOEs to manage the commercial interests of the public sector in resource extraction and sale, and to regulate the sector. Yet, this dual role can lead to conflicts of interest, particularly when commercial objectives overshadow broader regulatory responsibilities. In many countries, this role is split across multiple ministries and agencies, sometimes with overlapping mandates, undermining the state's ability to implement a cohesive approach to resource management and reducing the effectiveness of regulatory oversight.

While the extractives sector remains a central component of Africa's natural capital portfolio, it represents only one dimension. A more comprehensive understanding of natural capital must include renewable resources such as forests, fisheries, land, water, and ecosystem services. Like minerals and oil, these renewable resources can be converted into financial capital, fiscal revenues, and productive assets, but their development is

A comprehensive understanding of natural capital must include renewable resources such as forests, fisheries, land, water, and ecosystem services

similarly constrained by governance challenges, weak institutional capacity, corruption, and lack of value addition.

In most African countries, natural resources are constitutionally vested in the state and managed on behalf of the public through sector-specific legislation, such as mining codes and petroleum laws, which define the rights and obligations of investors and outline the regulatory environment for exploration, extraction, and production. However, their implementation often conflicts with the public interest. For instance, licensing and permits, which are critical for controlling access to these resources, largely involve opaque processes, established through direct negotiations rather than competitive bidding, which creates opportunities for corruption and uneven distribution of resource wealth.

Effective governance of natural resources requires more than laws, regulations, and contracts—it also requires the state's ability to enforce contractual agreements, monitor activities, and adapt to global market dynamics

Contracts between governments and investors are central to the extractives industry. Common contractual arrangements for sharing revenues from resource extraction include *production-sharing agreements* in African countries such as Cameroon, Democratic Republic of Congo, Equatorial Guinea, Gabon, Nigeria, Senegal, and Uganda; and *concessions* in countries such as Angola, Botswana, Burkina Faso, Nigeria, and Zambia. Production-sharing agreements balance risks and rewards, making them attractive to the oil sector, while concessions grant companies the right to extract resources in exchange for royalties and taxes, but lack flexibility to adjust to market conditions. Box 3.3 provides discussions on fiscal regimes and revenue sharing in the extractive industry between the government and investors.

Similar concerns arise in Africa's renewable natural resources sector, particularly timber and fisheries, where contractual arrangements also shape access and benefit-sharing. In timber, concession agreements are common, granting MNCs rights to harvest in designated forest zones. In the case of some resource-rich African countries, many such concessions have been criticized for weak regulatory oversight, opaque allocation processes, and failure to meet social and environmental obligations.[99] Cameroon and Ghana, in contrast, have signed Voluntary Partnership Agreements under the European Union's Forest Law Enforcement, Governance and Trade Action Plan to promote the legal timber trade and improve governance transparency.[100]

In fisheries, African countries often enter into bilateral fisheries access agreements or Sustainable Fisheries Partnership Agreements (SFPAs) with foreign governments or companies. For example, Mauritania's SFPA with the European Union, one of the bloc's largest and most financially valuable, grants European vessels fishing rights in exchange for financial compensation and sector support. Yet, concerns persist about limited enforcement capacity, overfishing, and inadequate benefits to local communities.[101] Similarly, agreements between African countries and private companies have often sparked local protests over declining fish stocks and perceived lack of transparency.[102]

These arrangements in timber and fisheries, as in extractives, are often marked by information asymmetries, limited public oversight, and power imbalances that can undermine sustainability and equitable development outcomes.

Quality of governance, natural capital, and domestic resource mobilization

The extractives sector in Africa offers considerable economic development potential, but poses challenges for governments in fiscal management, contract negotiation, and MNC regulation. Effective governance of natural resources requires more than laws, regulations, and contracts—it also requires the state's ability to enforce contractual agreements, monitor activities, and adapt to global market dynamics. Apart from Botswana, with a relatively stable political system and good governance scores, most African countries often fail to meet these goals in the extractives sector, as evidenced by the negative relationship between governance indicators and resource rents (figure 3.7).

Ineffective governance in resource-rich nations prevents African governments from collecting a fair share of resource revenue. Natural resource rents negatively impact resource mobilization across Africa, as evidenced by negative relationships between tax revenue and resource rents (figure 3.8). These patterns point to a deeper issue: weak institutions undermine efforts to turn natural capital into lasting public benefits.

BOX 3.3 Characteristics of fiscal regimes and revenue sharing in the extractives sector

The fiscal regime within national legal and contractual frameworks is crucial for determining how revenues from natural resources are shared between the state and investors. Fiscal regimes in Africa's extractives sector typically center on royalties and corporate income tax.[1]

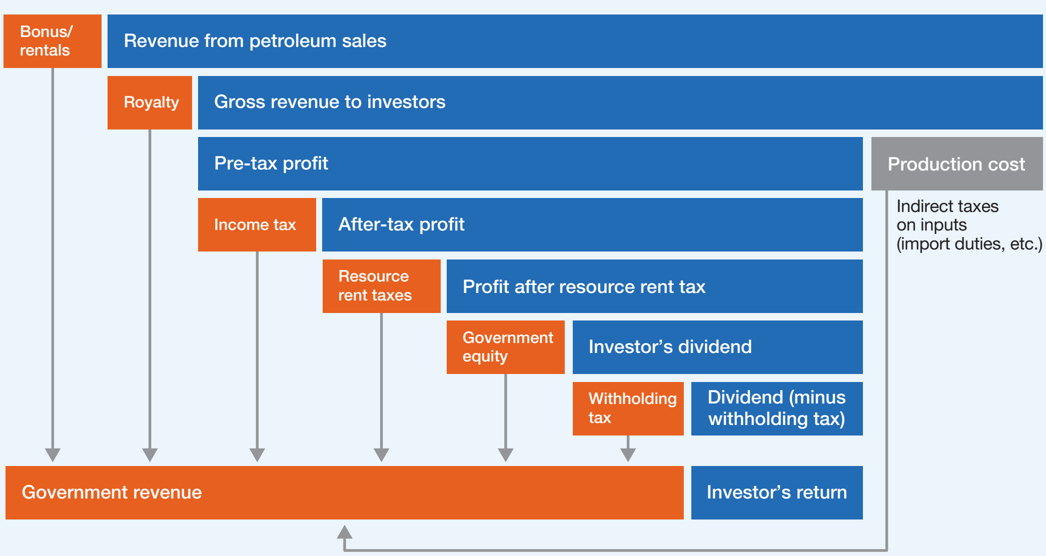
Royalties are calculated as a percentage of the value or volume of extracted minerals (box figure 3.3.1). They provide a predictable and immediate revenue stream for governments, making them particularly valuable in economies that rely heavily on mining revenues. However, their effectiveness depends on striking a balance between maximizing revenue and maintaining a competitive investment climate. Excessively high royalty rates can deter investment, while rates that are too low may fail to generate adequate revenues.

Corporate income tax, by contrast, is levied on net profits, aligning government revenues with the profitability of mining operations. While potentially lucrative during periods of high profitability, corporate income tax is more susceptible to tax avoidance and tax evasion practices, such as profit shifting and transfer pricing manipulation. MNCs often use complex intra-group transactions to artificially reduce taxable profits in high-tax jurisdictions, minimizing their overall tax liabilities.[2]

Other fiscal terms include the state holding a noncontrolling ownership stake in projects, allowing it to receive dividends from corporate profits. Alternative minimum taxes are often employed to reinforce corporate tax obligations when tax payments would otherwise drop below a specified minimum threshold. In contrast, taxes aimed at economic rents are used less frequently.[3]

Lack of transparency, though, is a major issue because the negotiation process is often confidential and does not provide for participation by civil society and usually includes terms that prevent disclosure to the public. This leads to agreements prioritizing investors' priorities over the national interest, especially when stabilization clauses are included. (Cases in point are Mali's recent disputes with Barrick Gold and Resolute Mining after it introduced a new mining code, and the decision by the government of Senegal to renegotiate oil and gas contracts, particularly those with MNCs, to increase the state's share of revenues from these resources.)[4] These clauses protect investors from changes in tax rates or regulatory conditions but limit the government's ability to adjust terms to their benefit, especially during upside market conditions, which can result in states forfeiting additional revenues or being locked into unfavorable contracts for extended periods. The case of Zambia's development agreements signed during privatization of its vast mining empire at the bottom of the copper market downturn illustrates this challenge.[5]

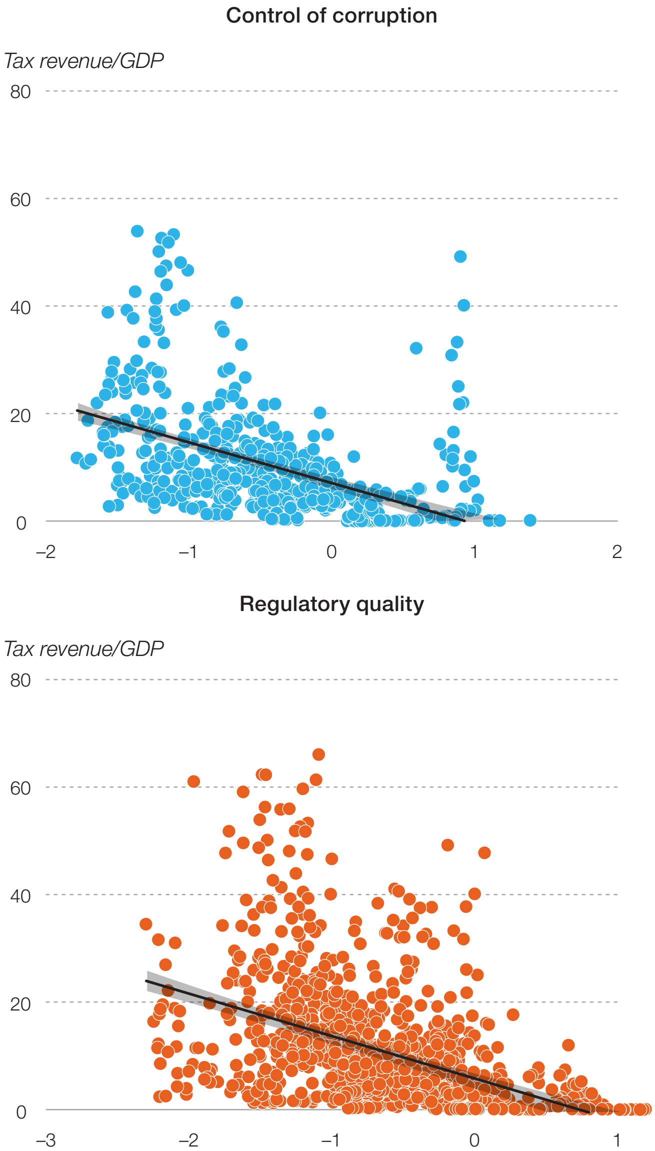
BOX FIGURE 3.3.1 Typical allocation of fiscal benefits between governments and investors



Source: Natural Resource Governance Institute 2025.

Notes
1. Natural Resource Governance Institute 2025.
2. Albertin et al. 2021.
3. Albertin et al. 2021.
4. See https://www.ft.com/content/d94b37ff-419e-4e65-ae1f-8c7b0ab26865; https://www.ft.com/content/da63f749-1ebe-42f7-b43e-b832962d5c49; https://resourcegovernance.org/articles/ready-set-renegotiate-senegal-reassesses-its-mining-and-petroleum-contracts.
5. Adam and Simpasa 2009; Adam and Simpasa 2011; Adam et al. 2014.

FIGURE 3.7 **Most African countries fail to meet goals for the extractives sector, 2000–21**



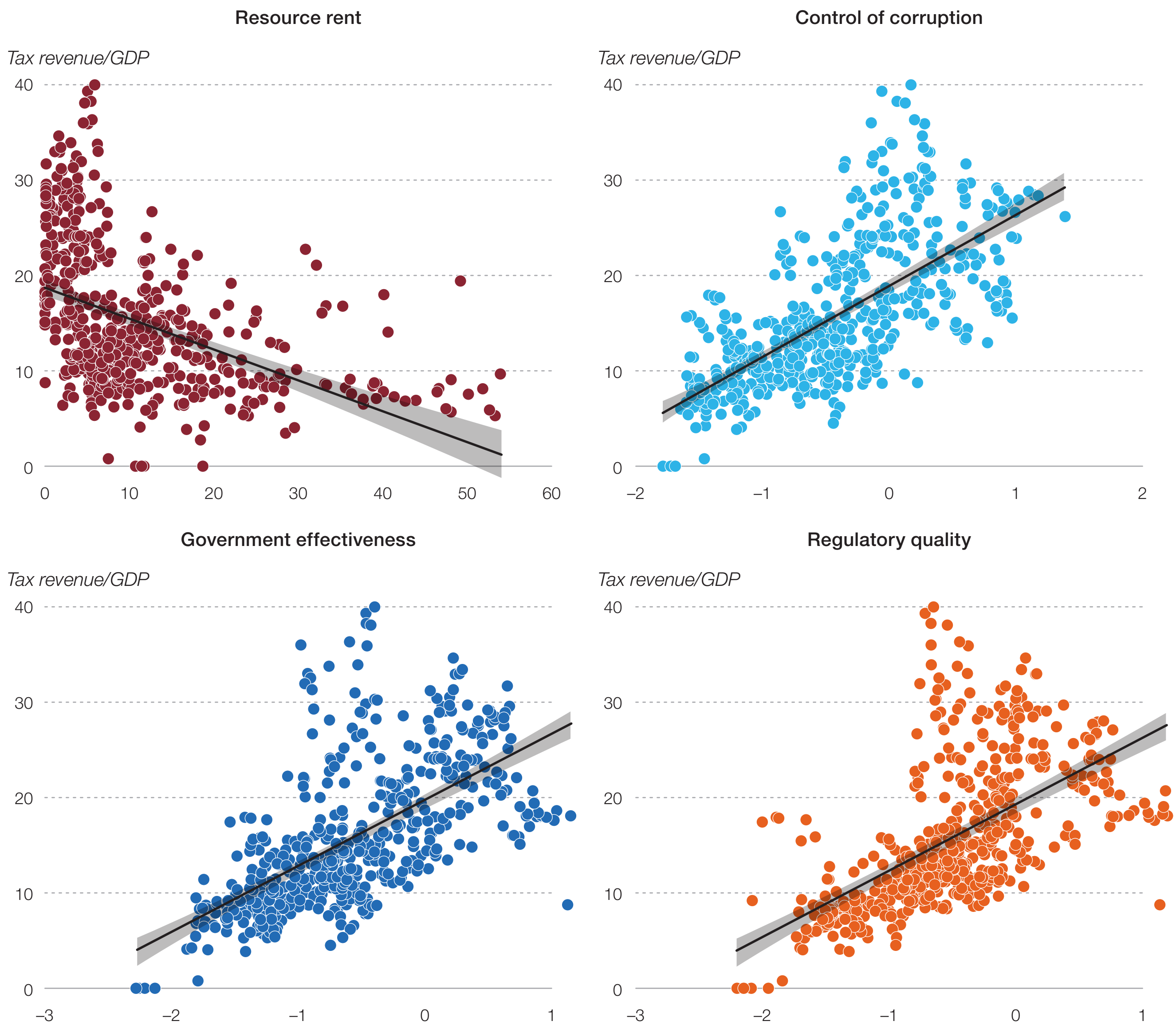
Source: World Development Indicators.

Quality of governance and natural capital use

While capturing revenue is fundamental, the effective use of natural capital is equally vital. Many resource-rich African states remain stuck in the trap of exporting crude resources and importing finished products at high cost—squandering opportunities for industrialization and development. In the renewables natural capital sector, Africa's timber sector is hampered by limited processing capacity, which traps countries in low-value commodity exports. Even though processed timber products such as furniture could earn $44–$271 more per cubic meter than raw sawn wood and generate four to 12 times more jobs,[103] most African nations continue to import finished wood products despite their abundant forest resources, highlighting the institutional structural failure to transform renewable resources into higher-value outputs due to weak industrial policies and fragmented governance.

Further, value addition in other sectors, such as the fisheries sector, also remains underdeveloped.

FIGURE 3.8 High natural resource rents tend to mean less tax revenue



Source: World Development Indicators.

Raw fish exports fetch $1–$4 per kg, while processed products such as fillets or canned fish can earn $7–$12 per kg. Countries like Côte d'Ivoire, Ghana, Morocco, and Seychelles have developed modest canning industries, but local processing remains limited. In 2021, Africa exported more than 1 million metric tons of unprocessed frozen fish, underscoring a substantial opportunity for domestic industrial development that remains unrealized due to inadequate infrastructure, financing constraints, and weak institutional coordination. In the extractives sector, public refineries in some countries have become vehicles for rent seeking rather than service delivery. Governance gaps, political interference, inconsistent policy implementation, weak accountability mechanisms, fuel subsidies, opaque procurement and maintenance contracts, and a culture of poor maintenance have prevented investments in domestic refining capacity.[104]

On the use of natural capital for energy and infrastructure development, Africa's power sector deficit highlights further inefficiencies in natural capital use, though some fossil fuel-rich countries are making progress. Ghana has developed gas-to-power infrastructure that stabilized power generation. The country increased domestic gas use for electricity generation from 1,985 gigawatt-hours (GWh) in 2016 to 14,505 GWh in 2022.[105] Ghana's Energy Transition Framework launched at COP27 in Egypt also identifies natural gas as a transition fuel. Yet, challenges have limited the country's ability to maximize value from the sector, including huge energy sector indebtedness, inadequate gas-processing capacity, and high financing costs, particularly for infrastructure. In addition, according to the Natural Resource Governance Institute, corruption continues to undermine realizing benefits from the sector through opaque contracting, ineffective cost monitoring, tax evasion, and revenue leakages.[106]

Water resources have a vital role, not only for agriculture and livelihoods but also for powering the continent's transition to low-carbon energy systems

South Africa relies on coal for more than 80 percent of its electricity generation, providing near-universal access. But aging infrastructure—due to failure to invest in new capacity in the early 2000s, politicized management, and leadership instability that undermined strategic planning and operational coherence—alongside governance issues at Eskom have hit the utility's power generation capacities. In 2022, South Africa experienced more than 3,773 hours of load shedding, costing the economy between 204 million and 899 million rand—between about $10.6 billion and $46.6 billion—in lost productivity.[107]

As for renewable natural capital, water resources have a vital role, not only for agriculture and livelihoods but also for powering the continent's transition to low-carbon energy systems. With roughly 40,000 megawatts (MW) of installed capacity, hydropower is Africa's leading renewable resource for electricity generation, yet only about 10 percent of its total hydropower potential is used.[108]. The Grand Inga Dam complex, on the Congo River, has the potential to generate up to 40,000 MW of electricity—enough to power much of Sub-Saharan Africa—but successive phases of the project have been stalled by inadequate regional coordination, political instability, and weak institutional oversight.[109]

In contrast, Senegal's experience with the Manantali Dam on the Senegal River, coordinated under the Senegal River Basin Development Authority,[110] demonstrates how shared governance institutions can promote cooperative infrastructure management. The authority has established joint ownership of assets, cost-sharing frameworks, and legal agreements among Senegal, Mali, and Mauritania, enabling more stable hydropower generation and irrigation schemes. These cases indicate the centrality of strong institutions, transparent legal frameworks, and effective cross-border water governance in harnessing hydropower for sustainable development.

Governance challenges in harnessing natural capital

Weak state institutions and governance frameworks still undermine Africa's ability to translate its natural resource wealth into sustainable development outcomes. While the continent's natural capital offers vast potential for Africa's development financing, the lack of clear regulations and of transparent management of extraction revenues limits the ability of governments to invest effectively in development. Both the extractives and renewables natural resources sectors, such as forestry and fisheries, are among the most vulnerable to IFFs, large-scale capital flight, and BEPS. These activities have constrained natural capital's ability to drive Africa's development.

Weak state institutions and governance systems, lack of transparency in contract management, and the impunity of politically connected elites contribute to the wealth hemorrhaging, exacerbated by permissive global financial systems that permit opaque corporate structures, inadequate oversight, and legal arbitrage.

The dominance of artisanal and small-scale mining (ASM) in Africa's natural capital assets is holding back the continent's ability to improve its resource revenues due to high informality. There are 9 million ASM operators, with more than 90 percent of their activities in the informal sector, given weak institutions and governance.[111] More than 100 million people depend on ASM for their livelihoods.[112] That ASM remains largely informal stems from numerous factors, including weak institutional oversight, insecure land rights, financial barriers, and bureaucratic regulatory frameworks that overwhelmingly favor large-scale mining companies,[113] given the relative ease of regulation and taxation.[114] In addition, regulatory agencies are frequently under resourced and lack the capacity to enforce mining laws.

Corruption further undermines oversight, with local officials sometimes complicit in illegal mining through rent-seeking practices.[115] For instance, weak rule of law in fragile countries is fueled by high corruption and conflicts where ASM miners bribe government officials to let them undertake their activities despite the lack of permits.[116]

The environmental and health consequences of informal and unregulated ASM practices are severe. In many countries with widespread ASM activities, mercury use in gold processing, deforestation, and water pollution are common, posing serious public health risks[117] and eroding transparency, accountability, and sustainability in the sector.

Formalization offers a chance to address current challenges and a path towards improving livelihoods, environmental management, and state revenues. It involves bringing operations into legal frameworks through licensing, technical assistance, environmental safeguards, and integration into mineral value chains,[118] while avoiding criminalizing miners who work out of necessity. Formalization must address land tenure and financial barriers, and provide social protection. Many African countries have taken steps to improve ASM operations, but more is required to help formalize their activities and improve resources generated from natural capital assets. For instance, measures by Burkina Faso to license and improve monitoring of ASM have improved mineral prices and living standards of ASM miners.[119]

Many African countries provide overly generous tax holidays, reduced corporate income tax rates, and exemptions to MNCs without proper cost-benefit analyses. These incentives, granted in opaque and discretionary ways, result in massive forgone revenues and foster opportunities for corruption. The absence of transparent policy and regulatory frameworks undermines investor accountability and public trust. In addition, MNCs, backed by global legal and accounting firms, frequently outmatch state negotiators, resulting in contracts that favor investors at the expense of national development goals. Thus, mining contracts often include stabilization clauses that lock in outdated fiscal terms, preventing governments from adjusting royalty rates or introducing new taxes—even during commodity booms—without creating an impression of policy instability deemed unfavorable to investors.

While intended to ensure regulatory predictability, these clauses constrain governments' flexibility, hindering their capacity to capture windfall revenues and underscoring the need for African countries to strengthen their capacities to negotiate such contracts. Tanzania provides a good illustration of how political will helped it renegotiate contracts with major gold companies like Barrick Gold, after it enacted an aggressive mining reform. Renegotiations led to increased state equity holdings in the company and improved revenue sharing.

Similarly, Zambia—following amendments to its Mines and Minerals Development Act—challenged stabilization clauses by increasing royalty rates and introduced a variable royalty system tied to international copper prices. This process required a more direct legislative strategy announced in the 2008 budget, which canceled the existing development agreements with individual mining companies and established a new fiscal regime for the sector after a coordinated transparent renegotiation process failed to achieve common ground among mining firms.[120]

MNCs frequently engage in aggressive BEPS tax planning. Due to weaknesses in regulatory quality, the private sector in most African countries features private enterprises, with substantial economic and political power, that can influence economic and tax policy in ways that best serve their interests. These include "thin capitalization" by financing subsidiaries through related-party loans to shift profits as interest payments; assignment of profits to branches in lower-tax jurisdictions; transfer pricing manipulation through export value underreporting or overcharging intragroup services to distort taxable income; and "treaty shopping" to exploit outdated bilateral tax treaties to secure reduced withholding tax rates on dividends, royalties, and interest payments.

Such schemes can result in larger tax revenue losses for African countries because of their weaker tax administration capacity. Further, African countries are particularly vulnerable because of their heavy reliance on corporate income tax and the challenges that they face in enforcing domestic tax regulations. Digitalizing the global

Formalization of artisanal and small-scale mining offers a chance to address current challenges and a path towards improving livelihoods, environmental management, and state revenues economy has further complicated taxation, making it difficult for African authorities to capture revenue from digital businesses.

In addition, tax authorities in Africa often lack the technical capacity to assess complex mining operations, financial models, and geological data on spatial location and availability of mineral deposits and other forms of natural capital. Inadequate digital infrastructure and a shortage of skilled personnel impair the ability of tax authorities to conduct audits, monitor intragroup transactions, and enforce compliance. Thus, tax administrations struggle to access accurate geological and market data critical for setting reference prices, verifying costs, and enforcing arm's-length principles. For instance, price adjustments for mineral grades often spark disputes because of poor documentation, delaying revenue collection. Weak coordination among government institutions also exacerbates these inefficiencies.

Inadequate digital infrastructure and a shortage of skilled personnel impair the ability of tax authorities to assess complex mining operations

Governments often lack the capacity to monitor cost-recovery mechanisms in production-sharing agreements, enabling companies to inflate exploration and development costs, delaying profit sharing, and losing revenues. Many cost declarations remain unchallenged due to complex audit requirements and weak enforcement. Environmental impact assessments and community consultations are poorly enforced, heightening the risk of degradation and local unrest. Further, regulatory agencies often lack the resources or independence to ensure compliance with social and environmental standards. Such gaps limit the ability of African governments to capture fair returns, reduce IFFs, and reinvest resource wealth in inclusive, long-term development. Moreover, frequent changes to fiscal regimes—driven by political pressures or short-term revenue needs—create instability, which not only deters long-term investment but also enables corporations to engage in opportunistic tax planning.

Financial capital: The role of institutions, economic governance, and the rule of law

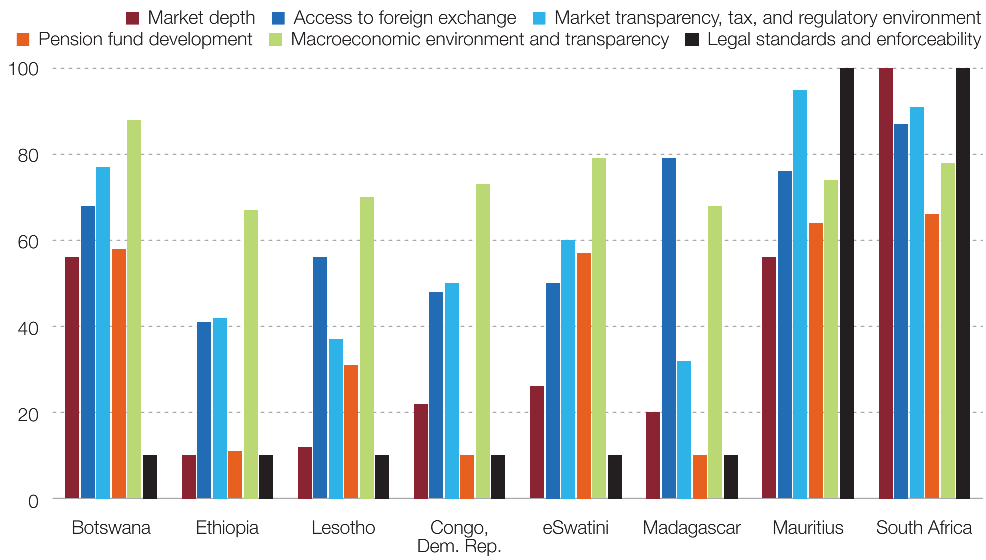
Africa's portfolio of external public debt carries a premium, which is costly and deepens many countries' vulnerabilities. The share of commercial borrowing in external debt nearly doubled from 27 percent in 2011 to 52 percent in 2020, largely in the form of eurobonds.[121] Almost half of the external public debt of Egypt, Morocco, Nigeria, and South Africa is commercial. The commercial debt of some 17 African countries[122] accounts for one-third of their total debt. Eurobonds have shorter maturities, higher interest rates, and higher coupon payments than concessional loans. They are therefore more expensive than concessional loans, and African eurobond interest payments are more expensive relative to other countries. Due to poor governance and accountability, excessive issue of eurobonds in the continent contributes to fiscal indiscipline. The poor quality of public expenditure, especially when financed by sovereign external debt, combined with weak governance, further aggravates the debt situation. Issuing eurobonds to fund poorly selected and executed projects contributes to recurrent borrowing.[123]

Rwanda, however, offers a lesson on the prudent governance of eurobonds through the repayment of its $400 million debut eurobond. It ensured that borrowed funds were allocated to the intended megaprojects of the loan, including $270 million for the Kigali Convention Centre, $80 million to incentivize the national carrier RwandAir, and $50 million for the Nyabarongo hydropower project.

In short, capital market development in Africa is crucial for sustainable economic growth, enabling funding for infrastructure and businesses, and addressing global challenges like climate change. Yet, weaknesses in the regulatory frameworks of many African countries are often cited as major hindrances to developing capital markets, leading to a lack of depth and scale (chapter 2). Tedious and prohibitive regulatory requirements have prevented many companies in some African countries from accessing capital markets.[124]

Many African stock markets are illiquid and highly fragmented and operate in weak regulatory environments. Inadequate regulatory skills in some forms of instruments such as fixed income have stifled growth in bond markets, contributing to underdeveloped securities markets. In addition, stock markets also suffer from lengthy administrative procedures for listings and high transaction costs. Figure 3.9 shows the development of 29 African countries financial markets across six components (100 is the maximum for the overall pillar scores). South Africa, which has the greatest market depth in Africa, scores 91 on market transparency, tax,

FIGURE 3.9 Capital market indicators, selected African countries, 2024



Source: Amalgamated Banks of South Africa (Absa) Africa Financial Markets Index (https://www.cfainstitute.org/insights/articles/capital-market-development-africa-future).

and regulatory environment and 100 on market depth and legal standards and enforceability, two indicators that directly measure institutions, economic governance, and the rule of law.

Countries with relatively shallow market depth also tend to have low scores on legal standards and enforceability, and on market transparency, tax, and regulatory environment. This provides justification for developing strong institutions, economic governance, and the rule of law harness financial capital in Africa.

With a view to strengthening domestic resource mobilization and contributing to development financing, the African Development Bank (AfDB) developed the African Financial Markets Initiative in 2008 to enhance the development, stability, and integration of financial markets across the continent. Complementing the Bank's initiative, the African Union prioritized the development of capital markets as a key pillar in its Agenda 2063.

Capital market regulators are important for ensuring that markets operate fairly and efficiently. While stringent supervision and regulation are important for financial stability, they may also prevent companies from coming to capital markets, such that it is important for capital market regulators in African countries to strike a delicate balance and simplify market regulations that make them more attractive to foreign investors. In addition, cross-listing of firms is still in its infancy, denying firms alternative sources of funds. Cross-listing faces several structural bottlenecks, such as lack of supportive regulatory and technology frameworks. Each country has laws and regulations that have vested the supervision of stock and bond markets in their capital market authorities.

Capital market integration, technology, and improved regulations and governance could help overcome the challenges to developing capital markets. Further development of capital markets, including stock and bond markets, as well as regional stock exchanges, thus remains vital for Africa to harness the financial capital needed for long-term development finance.

Governance challenges in harnessing financial capital

Many African countries lack strong, consistent, and transparent regulatory frameworks for their financial institutions. Some regulatory bodies are underfunded, lack the necessary expertise, or are subject to political interference, hampering their ability to regulate and supervise financial institutions. Without a robust regulatory environment, financial institutions may engage in risky practices, mismanage funds, or act irresponsibly, which can lead to financial instability and less trust in the financial system, with customers reluctant to open

The African Development Bank developed the African Financial Markets Initiative in 2008 to enhance the development, stability, and integration of financial markets

accounts, all the while slowing financial inclusion and limiting the ability of financial institutions to channel investments into development projects.

The small size and shallow depth of Africa's financial sector make it harder to diversify risk and maintain liquidity. They also make regulation and supervision more expensive, and in periods of bank failures, the public sector bears the burden of both the financial and social costs. For instance, in the 1980s and 1990s when bank failures were most common, the fiscal costs of rescuing failed banks in African countries ranged from 10 to 25 percent of GDP.[125]

Strengthening financial regulatory bodies and implementing more comprehensive and transparent regulations is thus critical. Regulatory reforms should focus on increasing the independence of financial authorities, improving the supervision of financial institutions, and enhancing the capacity of prudential regulatory bodies to detect and prevent financial misconduct, including insider lending.

Financial regulations should strike a balance between pursuing macroprudential objectives and unleashing the ability of financial institutions to meet the unique needs of the population

While regulations are essential for maintaining macroeconomic and financial system stability, excessive or poorly designed regulations can create barriers to economic activity, 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, and extensive anti-money laundering (AML) and "know your customer" requirements. These regulatory bottlenecks discourage investment, increase borrowing costs, and hinder financial inclusion.

Financial regulations should therefore aim at striking a balance between pursuing macroprudential objectives and unleashing the ability of financial institutions to competitively engineer innovative products and services to meet the unique needs of a broad segment of the population. These would include fit-for-purpose microfinance products, agricultural financing, insurance, and savings programs that cater to different income levels and business types. The World Bank's Business Ready report for 2024 reveals that the cost of regulating foreign firms and the cost of transactions in the capital market are quite low in Rwanda. The country also ranks top in Africa on providing quality public services to support businesses and on facilitating firms' operational efficiency. Comprehensive regulation and supervision, alongside a strong data and disclosure framework, are essential for creating the conditions necessary for attracting portfolio investments.[126]

Currently, inadequate financial infrastructure limits the ability of financial institutions to support economic development. Rural and underserved areas in many African countries lack access to basic banking services, and informal financial systems often dominate. Without sufficient financial infrastructure, financial institutions cannot provide loans, investments, and savings products to individuals or businesses, restricting access to capital for small and medium enterprises, which are key drivers of job creation and economic growth. Financial exclusion also limits the ability of marginalized populations to participate in the economy.

Governments should therefore promote inclusive financial systems that bring banking services to underserved regions and encourage the use of technology to increase access to financial services. Another approach could involve developing shared regional infrastructure for processing financial transactions, which would enable intermediaries in each participating country to sell and deliver their products and services anywhere in the region with no cost disadvantage against their regional competitors.

Still, financial institutions are not immune to corruption, which undermines the efficiency of financial intermediation, distorts financial markets, and discourages private investment. Many African countries have weak anti-corruption laws and regulations and inadequate political will to fight the scourge. In addition, the failure of the judicial system to apprehend high-value and politically connected people makes the fight against corruption costly, ineffective, and rhetorical.

Yet, lessons can be drawn from Botswana, one of the success stories in governance, especially in fighting corruption. There are several instruments that some countries have used to fight corruption.[127] Botswana's success in fighting corruption does not stem from a single initiative but rather a combination of strong leadership, effective institutions, legal frameworks, and public participation. Many African countries can learn lessons from Botswana's comprehensive approach, focusing on prosecuting corrupt officials and creating a culture of accountability and integrity at all levels of society.

Political instability and frequent changes in government can lead to policy inconsistency, which discourages long-term investment. Sudden and frequent changes in government and lack of policy continuity after government transitions create a volatile investment climate, which undermines effective use of Africa's financial capital. This is also true[128] in countries that experienced constant restrictions and harassment of opposition parties and election-related violence and intimidation. Cessations of hostilities and an increased number of democratic regimes in Africa, signal easing conditions for investment—a prerequisite for mobilizing Africa's financial capital.

Africa's investment climate has been hampered by unfavorable and unpredictable policy changes in domestic investment policies. This unpredictability over, for example, the repatriation of profits and investment restrictions, such as foreign exchange controls, in some sectors reduces investor confidence, increases the cost of doing business, and hinders economic growth.

To attract FDI, Mauritius, for example, offers incentives that include zero taxation of dividends and import duty exemptions for subsidiaries operating in the country. Mozambique has opened most sectors of its economy without discriminating between foreign and domestic investors, thus encouraging private investment. When properly targeted and well executed, tax exemptions can attract investment and create employment in core sectors of the economy.

Institutional inefficiencies hinder Africa's financial capital from functioning optimally for the continent's broader development. Institutions such as the judiciary, law enforcement agencies, parliament, and anti-corruption authorities are the bedrock for upholding the rule of law. However, these institutions are usually underfunded, understaffed, and undercapacitated to perform their functions effectively. In addition, political interference and arbitrary appointments of judiciary staff further undermine legal protections, creating uncertainty for property rights and contract enforcement. With enforcement agencies constrained by inadequate budgets, they cannot address organized crime, leading to public distrust in the legal system. Weak contract enforcement and ineffective legal systems fail to protect minority shareholders' rights or ensure equitable profit sharing. Botswana, Cabo Verde, Mauritius, Namibia, Sao Tome and Principe, Seychelles, Rwanda, and South Africa have been credited with having the most effective judiciaries in Africa.[129]

To address these institutional inefficiencies, African governments should streamline and harmonize regulatory processes while leveraging technology to reduce paperwork and delays. By cutting down on unnecessary bureaucracy, they can create a more conducive environment for businesses to thrive and contribute to sustainable economic development. Some countries, such as Botswana, South Africa, Togo, and Zambia, have established autonomous financial intelligence agencies that identify, and monitor the proceeds of crime laundered through the formal financial system. Strengthening these bodies, by granting them more resources and greater independence to investigate, could reduce the burden on mainstream law enforcement agencies, such as the police, which lack capacity, resources, and expertise in many African countries.

By cutting down on unnecessary bureaucracy, African governments can create a more conducive environment for businesses to thrive and contribute to sustainable economic development

Additionally, "diaspora bonds" could help drive investment in the continent by enabling African governments to diversify funding sources through long-term borrowing at below-market rates. Given the challenges faced by many African governments due to multiple shocks, diaspora bonds could be the new source of investment capital. Governments could raise money for infrastructure and social safety net programs, drawing on patriotic ties for diaspora bonds.

Although several African countries have attempted to use such bonds, only two countries —both outside Africa—have established multiple successful rounds of diaspora bonds: India and Israel. One characteristic of their bonds is that both countries relied on institutional mechanisms. For example, Israel registered its bond with the US Securities and Exchange Commission, while India relied on a global network of Indian and foreign commercial banks that specialized in dealings with diaspora Indians.

Of the African countries that have experimented with diaspora bonds, most have seen only one relatively successful round—Kenya and Nigeria—or the funds have failed to attract much interest. The risk of defaulting on diaspora bonds; volatility in African financial markets due to overreliance on commodities; and lack of transparency and confidence in domestic financial markets have decreased diaspora interest in these instruments.

Despite its potential, Africa faces huge challenges, including inadequate infrastructure, weak governance structures, and limited access to finance, all of which hinder mobilization of business capital

Likewise, remittance-linked investment vehicles in Africa could be used to channel capital inflows into productive investments, rather than primarily into consumption. The unfavorable investment climate in many African countries makes it hard to start a business, even at small scale, tending to favor remittances for consumption purposes at the expense of investment. Maximizing the development impact of migrant remittances can create economic opportunities for sustainable development. Given the predictable and stable flows of remittances, governments can use future remittances as collateral for securing loans from international sources through securitizing remittances as financial assets—a powerful tool, with the potential to generate development financing.[130]

Although African countries have not leveraged such securitization, the experiences of Brazil, El Salvador, Guatemala, Kazakhstan, Mexico, and Türkiye provide valuable lessons, with their collective success in raising more than $15 billion in longer-term and cheaper financing since 2000 in international capital markets through securitizing future remittance flows.[131] Still, the quality of the investment climate matters in migrants' and remittance beneficiaries' decisions to invest, as it shapes their risk perceptions, including of competent—or otherwise—financial institutions that can facilitate the marketing of such financial instruments.

Business capital: The role of institutions, economic governance, and the rule of law

Africa is home to some of the fastest-growing economies in the world, driven by a young population, abundant natural resources, and emerging markets, but despite its potential, the continent faces huge challenges, including inadequate infrastructure, weak governance structures, and limited access to finance, all of which hinder mobilization of business capital. Still, Africa has seen a rise in entrepreneurship, particularly in the technology and innovation sectors, driven by a young, dynamic population.

Increased business capital is essential to address these challenges, as it can fuel infrastructure development, stimulate industrialization, and create jobs. Africa's business capital is a blend of financial resources, human capital, and entrepreneurial potential that holds immense promise. Attracting both domestic and foreign investment is critical for diversifying economies beyond natural resources to promote sustainable growth.

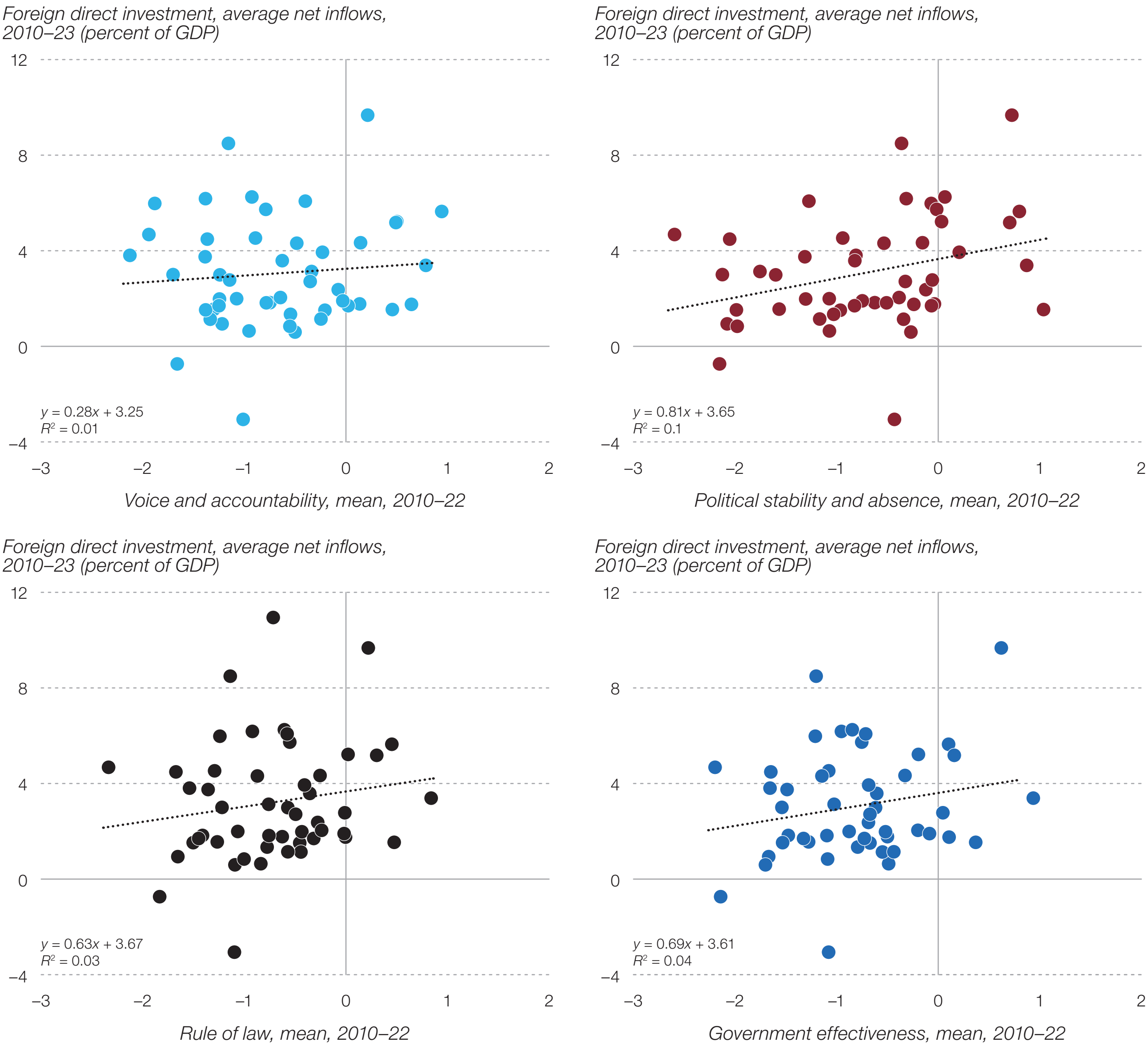
Institutions, economic governance, and the rule of law are crucial in mobilizing Africa's business capital by providing a stable and transparent environment for investment and economic activity. Strong institutions ensure that investors access capital, while sound economic governance fosters trust in public and private sectors. The rule of law is fundamental for protecting property rights, enforcing contracts, and resolving disputes, which encourages domestic and foreign investment. When these elements are weak, businesses face increased risks, which deter capital inflows. Improving institutions, economic governance, and the rule of law can create a more conducive environment for investment, realizing Africa's immense promise.

Governance challenges in harnessing business capital

Expanding business capital is crucial for Africa's economic growth, job creation, and infrastructure development. But governance challenges stifle investment, reduce efficiency, and prevent Africa from fully realizing its potential. Africa is often perceived as a high-risk region for foreign investment, though this view is not supported by the evidence. A 2020 study by Moody's Analytics found that Africa has the lowest infrastructure loan default rate globally at just 1.9 percent, compared with 12.4 percent in Eastern Europe and 10.1 percent in Latin America.

Political stability and absence of violence, respect for the rule of law, and government effectiveness are closely linked to higher FDI inflows (figure 3.10), largely because countries with these attributes provide a stable and predictable environment, which attracts foreign investors by assuring investment security. The positive correlation between political stability and absence of violence and FDI suggests that unstable governments struggle to credibly commit to policies that attract FDI. Additionally, there is a strong and positive relationship between control of corruption and FDI, highlighting that high corruption levels

FIGURE 3.10 Association between FDI and governance indicators



Source: AfDB calculations using Worldwide Governance Indicators.

increase the cost of doing business and hinder FDI inflows into the host country.

The upshot is that investors may resort to bribing corrupt bureaucrats to facilitate transactions and secure investment licenses or permits. Similarly, government effectiveness and the rule of law are positively correlated with FDI, indicating that poor public service delivery in African countries often hampers foreign investment. A significant concern for foreign investors is the risk of expropriation, where investment losses arise from government actions that see the state take partial or full control of private assets. Investors also worry about losses due to breaches of contract or inadequate compensation awarded by courts.

Four key factors drive FDI flows into Africa: economic and structural reforms; spatial factors; resource endowment, such as the availability of natural resources; and domestic sectoral policies like investment expenditure and tax incentives (box 3.4). Despite some successes, good

BOX 3.4 Determinants of foreign direct investment

Most African economies incur high-risk premiums due to global investors' perceptions of the continent as risky for foreign direct investment (FDI). To allow greater private sector participation, many countries have put measures in place to reduce regulatory barriers. For example, Ghana, Kenya, Nigeria, Tanzania, Uganda, and Zambia have expanded scope for foreign investment by opening sectors previously closed to it by either reducing or abolishing requirements for government equity participation in joint ventures. Further, several countries, including Ghana, Kenya, Malawi, Namibia, and South Africa, have set up one-stop investment centers with the aim of expediting approval procedures.[1]

Other reforms include relaxing controls on repatriating profits and dividends, liberalizing currency markets, and retaining export proceeds. Divesting state-owned enterprises has also been used to attract FDI in many African countries, including Ghana, Mozambique, South Africa, Uganda, and Zambia.These reforms have targeted various sectors, spanning manufacturing, utilities, and mining.

Investment linked to natural resources: Botswana

Botswana has consistently maintained higher GDP per capita—$6,052—than the African average—$2,511 between 2000 and 2023—and avoided the "resource mineral curse."[2] With its endowments of diamonds, soda ash, coal, and copper, over two-thirds of private investment is in Botswana's mining sector. Mineral revenues, including taxes and royalties, account for more than 50 percent of GDP. Diamonds accounted for 90 percent of exports in the past decade, though this share declined by 30 percent in 2023 on weak global demand. Due to a combination of factors that include respect for the rule of law, low levels of corruption, political stability, strong macroeconomic fundamentals, and low tax rates, Botswana's good governance and economic performance have enabled the country to rise from low-income status at independence in 1966 to upper-middle-income status.

On macroeconomic fundamentals, sound fiscal and monetary policies—including low public debt, high foreign exchange reserves, and a well-functioning stock market—have been instrumental in promoting a robust private sector to drive growth. Efficient political institutions and stable multiparty parliamentary democracy have ensured good governance, which includes transparency and accountability in government operations.

To attract export-oriented FDI, the country's tax regime has been overhauled to provide one of the simplest and most comprehensive tax regimes in the Southern African Development Community (SADC) region. Corporate tax rates in Botswana are the lowest in the SADC region, at 15 percent for all manufacturing concerns and all companies operating within the jurisdiction of the Botswana International Financial Services Centre. For other nonmanufacturing firms, tax rates are relatively low, with 22 percent levied on corporate taxable income of resident companies and 10 percent withholding tax on all dividends distributed. This has boosted investments in the beef industry, as well as investments from South Africa and Zimbabwe—as well as Malaysia—in textile companies.

The country has also attracted FDI in manufacturing and mining, including a $125 million loan guarantee in 2018 to boost diamond cutting and polishing. The loan, intended to support Botswana's economic diversification efforts and enhance the local mining value chain, was backed by New York City diamond manufacturer Lazare Kaplan International, the US government's Overseas Private Investment Corporation, and Stanbic Bank. Another initiative includes the Financial

(continued)

BOX 3.4 Determinants of foreign direct investment *(continued)*

Assistance Policy, which has substantially reduced the cost of setting up a business. To remove structural constraints faced by foreign investors, the government established a National Productivity Centre, restructured the Trade and Investment Promotion Agency, and launched the Selebi–Phikwe Special Economic Zone.

Investment associated with investment incentives: Mauritius

When Mauritius gained independence in 1968, the economy was entirely reliant on sugar farming and processing, which represented 30 percent of GDP and 90 percent of export revenues. Amid global competition for export-oriented FDI from newly industrialized Asian economies, a conducive foreign investment framework has been critical for Mauritius's success in attracting FDI. Political stability, low levels of corruption, sustained macroeconomic stability, economic reforms, and preferential access to the European Union and United States have been vital in channeling FDI flows to Mauritius. Absent mineral resources, the country developed export processing zones to attract FDI in export-related industries, enabling it to diversify from a sugar-based to an export-oriented economy, led by textile and garment manufacturing, and food and beverages. The country also developed a modern, well-regulated offshore financial sector.

To attract FDI, the country offers incentives, including zero taxation of dividends and import duty exemptions for subsidiary firms in the country. Foreign investors are not required to form joint ventures with the government, in sharp contrast to many other African countries. This enabled Mauritius to attract significant export-oriented foreign investment, especially in the textile industry, from Hong Kong SAR, China and from Europe, as well as special opportunities to export to the European Union and South Africa. On macroeconomic fundamentals, the removal of exchange controls facilitated FDI inflows. The establishment of the Mauritius Export Development and Investment Authority, of the Mauritius Offshore Business Activities Authority (a one-stop shop for foreign investors), and legislation for offshore services, including the Mauritius Offshore Business Activities Act and the Freeport Act, also provided incentives for FDI.

A consensus among the main political parties on economic reforms and policies favorable to FDI has contributed to the low cost of doing business, transparent accounting practices, cheap skilled labor, and a sound legal system for dispute settlement.

Notes

1. Basu and Srinivasan 2002.
2. World Development Indicators 2024.

Source: Basuand Srinivasan 2002; World Development Indicators 2024.

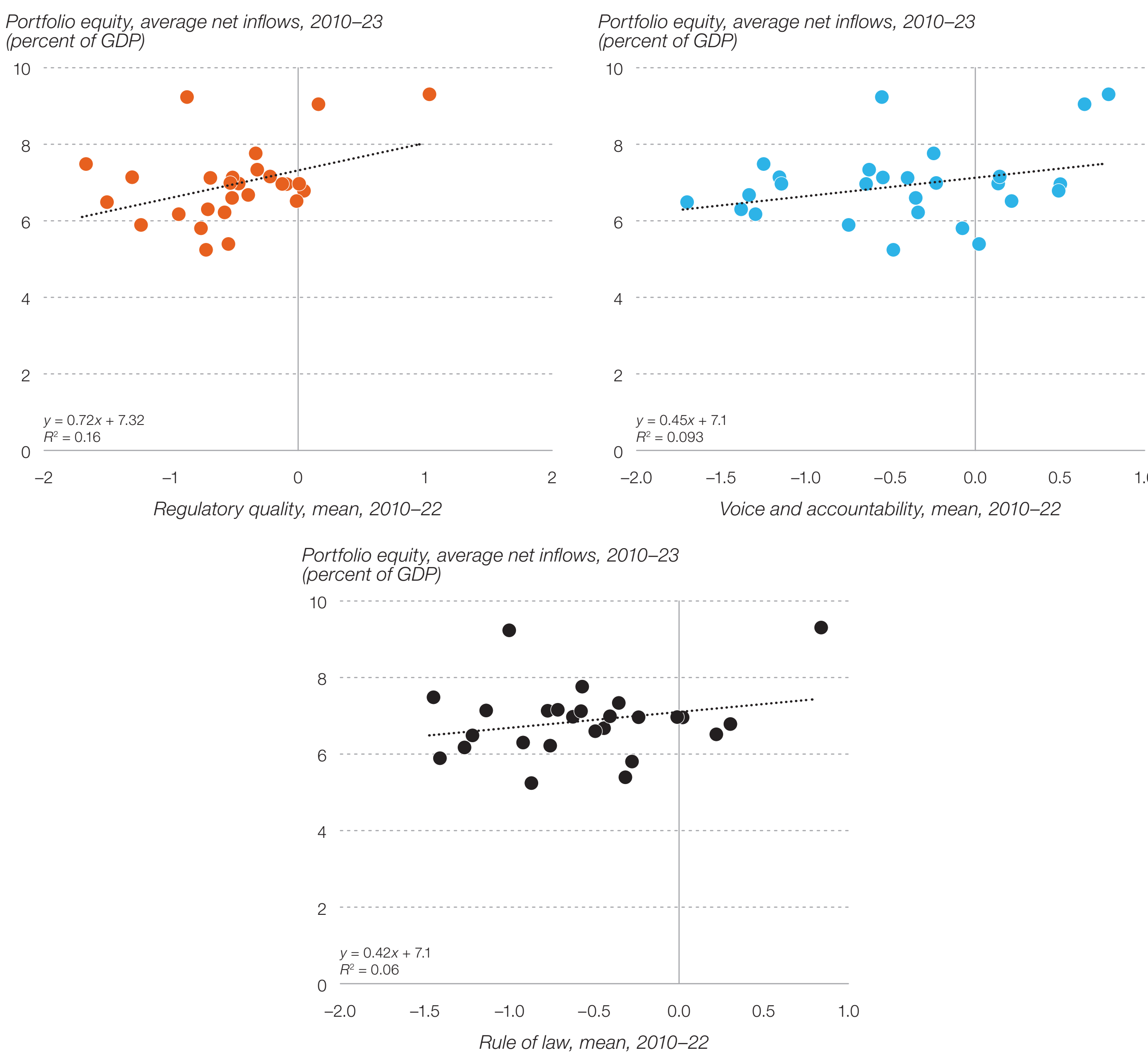
governance and the rule of law remain a concern for attracting FDI in Africa.

Portfolio investments are crucial for mobilizing business capital in Africa but are limited by weak governance and institutional frameworks and shallow market depth. They provide significant sources of funding for businesses, particularly those seeking growth and expansion. These investments, often in the form of stocks, bonds, or other financial instruments, allow firms to raise capital from a diverse range of investors, enhancing liquidity and financial flexibility needed for innovation, expansion, and infrastructure development. Yet, these investments are often limited by weak governance and institutional frameworks, as well as by shallow market depth which, collectively, create an environment of uncertainty and risk for potential investors. Further, inadequate regulatory frameworks, poor enforcement of property rights, and lack of transparency can deter domestic and foreign investors from participating in African capital markets, while political instability and corruption can lead to market volatility, making it difficult for companies to attract and retain portfolio investments.

The positive correlation between portfolio equity inflows and aspects of strong governance (figure 3.11) highlights that effective governance can attract equity investment.

Countries with streamlined regulations, a transparent environment, and a commitment to the rule of law are more likely to attract portfolio equity investors. In contrast, poor governance undermines investor confidence, often resulting in capital flight. Additionally, portfolio equity inflows often come with increased scrutiny from international investors, compelling governments to maintain transparency and enforce property rights. Strengthening governance and institutional frameworks is essential to unlock the full potential of portfolio investments,

FIGURE 3.11 Association between governance and equity investment



Source: AfDB calculations using World Governance Indicators.

ensuring a more stable, transparent, and competitive investment environment that can drive sustainable business growth in Africa. Ultimately, portfolio investments offer businesses the opportunity to tap into international capital markets, helping them scale up, create jobs, and become globally competitive and connected industries.

Corruption has a direct impact on business capital, holding back its potential to support economic development. Corruption in procurement processes, public–private partnerships (PPPs), and infrastructure projects leads to poorly managed projects, cost overruns, and misallocated resources. It increases the cost of producing and maintaining capital, and results in substandard infrastructure and construction, undermining trust in public institutions and reducing foreign and domestic investment in key sectors. Ultimately, it slows infrastructure development, reducing the availability of quality business capital for businesses and communities.

Reforms in public procurement systems are necessary to ensure transparency, competition, and efficiency. Strengthening regulatory quality also reduces the risk of state capture, in which agents pay for regulations to be tailored in their favor to avoid accountability when they violate market rules, are awarded tenders on public contracts, or evade taxes.[132] Private sectors in Africa tend to be highly noncompetitive, with a few large firms controlling large market segments.[133] Yet, developing an anti-corruption ecosystem comprising legislation, agencies, and strong audit and judicial institutions is often challenging.[134]

Access to finance for infrastructure and business capital development is limited in many African countries. Governments are facing tight budget constraints, and debt is rising. The domestic financial sector is not equipped to step in and provide long-term financing for large infrastructure projects and business start-ups, or to grow established businesses. Additionally, the cost of financing is often high due to risks associated with political instability, exchange rate volatility, and weak credit ratings. The lack of access to affordable and long-term financing limits the ability of governments and private developers to invest in critical infrastructure, creating bottlenecks in developing business capital and limiting economic growth opportunities. Recently, however, African countries are increasingly using PPPs to attract more private sector investment in infrastructure projects, such as roads, ports, and energy generation.

Many African governments focus on short-term needs or specific projects rather than on long-term and comprehensive infrastructure strategies, such that they rarely prioritize the key infrastructure sectors necessary for sustained economic growth. This lack of long-term vision leads to fragmented infrastructure development, where essential projects are neglected or not properly sequenced or coordinated. Inadequate road networks that impede access to markets and unreliable energy systems undermine business capital and stifle government efforts to promote industrial development. The same is true of projects with immediate political payoffs that may be prioritized over more impactful, long-term projects.

Comprehensive planning, prioritization of projects based on commercial viability and socioeconomic impact, and coordination among government agencies are essential for ensuring that infrastructure development is aligned with the need for business capital within the broader ambit of national development plans and objectives.

Another hurdle to developing business capital in Africa is a lack of skilled labor and expertise, with many African countries facing a shortage of architects, qualified engineers, and technicians to design and build complex infrastructure projects, leading to reliance on foreign contractors. Even with growing demand for infrastructure, mismatches are often seen between skills required and available in the labor market. Limited human capital leads to delays, inefficiencies, and lower-quality infrastructure, and hinders maintenance and management of existing infrastructure. As argued in chapter 2, greater investment in education, vocational training, and capacity-building programs is essential to develop a skilled workforce that can support and nurture the growth of business capital. Mobilizing Africa's business capital can help close the continent's huge infrastructure financing deficit, but PPPs require strong institutional and governance arrangements. While PPPs present an opportunity to hive off the fiscal burden of public investment in core infrastructure, poor governance, corruption, and lack of transparency

Greater investment in education, vocational training, and capacity-building programs is essential to develop a skilled workforce that can support and nurture the growth of business capital

in SOE operations' underwriting contracts relating to PPPs can undermine the effectiveness of this financing model. Without effective governance, transparent regulations, and robust legal frameworks, investors may be hesitant to commit to large infrastructure projects. To counter such anxieties, many African countries have established dedicated units to facilitate PPP projects, serving as intermediaries between the government and private investors, and ensuring that projects are well managed and meet the public interest. Still, only about 10 percent of infrastructure investments in Africa are made by the private sector.[135]

Effective regulatory and oversight institutions are crucial drivers of capital accumulation and development because they ensure transparency, accountability, and sustainability in economic activities. Figure 3.12 confirms the positive correlation between measures of governance quality and private investment, measured by gross fixed capital formation. The positive relationship can be attributed to the positive causation that runs from improved good governance indicators to increased FDI inflows, with a better governance environment creating conducive business conditions that spur private investment.

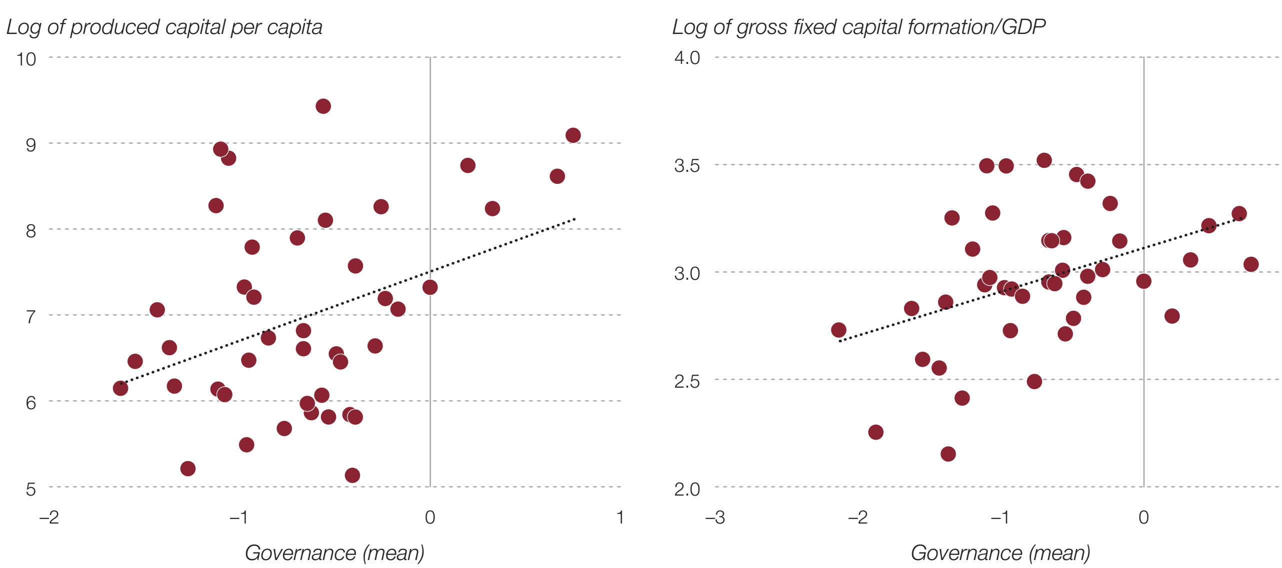
Human capital: The role of institutions, economic governance, and the rule of law

Institutions, governance, and the rule of law are well-established determinants of productivity and long-run growth.[136] Their interaction with human capital has also been shown to be critical,[137] highlighting the importance that investment in skills and education be matched by improvements in institutional quality, and in the governance structures that enable them. This is particularly relevant for African countries, which must harness as much as possible from their limited resources.

Better control of corruption strengthens productivity returns to both tertiary and primary education spending, measured through value added per worker (figure 3.13). This reveals 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. Institutional quality must not therefore be treated as a "background" factor—it is central to unlocking the full productivity potential of human capital investments.

Strengthened institutional governance is central to reinforcing the effect of human capital

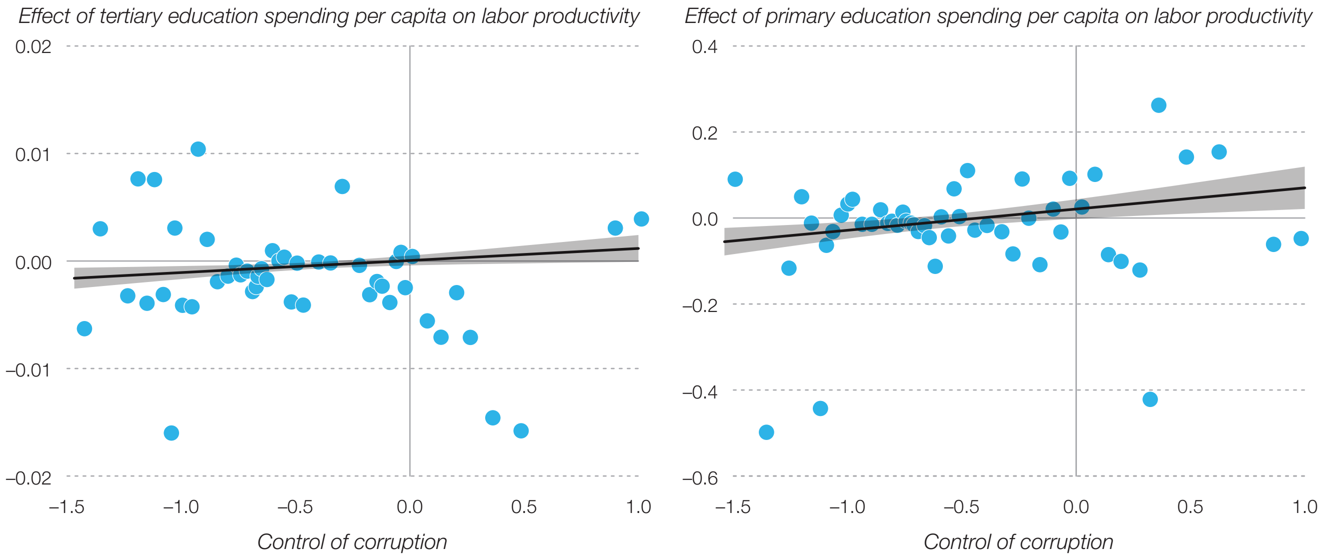
FIGURE 3.12 Relationship between governance and private investment



Note: Panel a shows that business capital is on average higher in countries with good governance, and panel b that higher governance quality corresponds to higher aggregate investment, public and private (denoted by gross fixed capital formation). The observed trends are consistent with the view that quality governance and institutions deliver a good investment climate, which encourages private sector involvement in capital investments.

Source: AfDB calculations using World Development Indicators database.

FIGURE 3.13 Association between corruption and education investments and labor productivity



Source: AfDB calculations using World Development Indicators.

development on social and economic outcomes. Box 3.5 highlights the interaction between effective governance and different indicators of human capital development.

Investment in vocational training has the potential to yield more favorable outcomes for Africa's human capital needs. African labor markets face structural disconnects—formal education systems fail to prepare youth for predominantly informal economies.[138] Vocational training thus emerges as a promising solution that addresses multiple challenges simultaneously. Unlike traditional approaches requiring substantial state capacity to formalize informal sectors, vocational education offers a more feasible alternative within existing governance constraints.[139] Its strength lies in its ability to create entrepreneurs rather than just job seekers.[140] This entrepreneurial focus is particularly valuable in contexts with limited formal job opportunities and weak state capacity to directly intervene in labor markets. By equipping youth with practical skills usable in formal and informal sectors, vocational training serves as the critical cog connecting human capital development to revenue mobilization enhancement, while accommodating governance limitations.

This approach generates multiple benefits: it reduces unemployment leakages, mitigates the brain drain by creating local opportunities, and potentially expands the tax base through increased economic activity. Moreover, vocational training can be tailored to address gender disparities by targeting female participation, thus addressing gender disparities and exclusion in the labor market.

Improving access among poor households to quality education is the best way of reducing income inequality, because human capital cannot be expropriated, and for African countries with ineffective governance institutions and a weak rule of law, this advantage could be an important factor for exiting from poverty. The motivation for policies to promote girls' education and provision of free universal schooling in many African countries is premised on this principle. The basic assumption is that such policies would lessen the burden on poor families for educating their children and thus help reduce education and income inequality.[141]

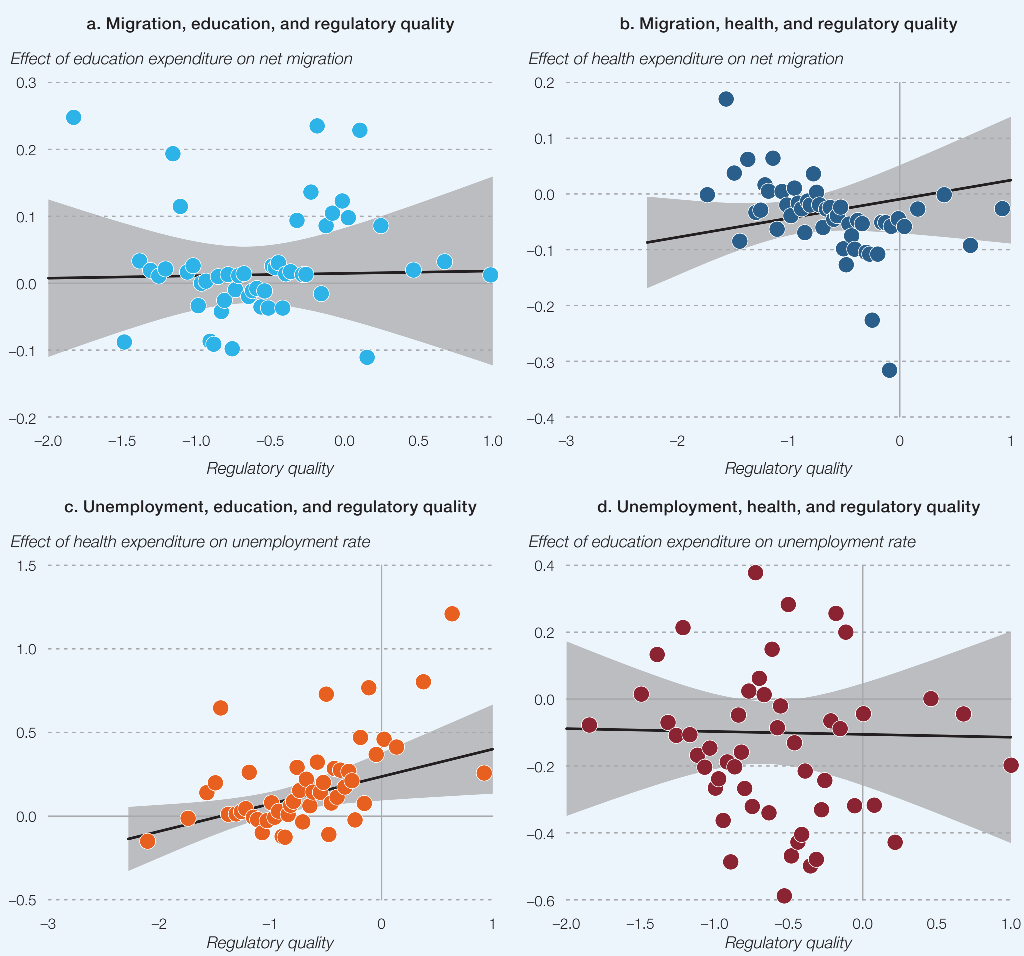
Governance challenges in harnessing human capital

Education mismatches, unemployment, the brain drain, and poor health outcomes are some of the channels through which leakages occur, and can all be linked to suboptimal governance and institutional quality, preventing Africa from using its human capital effectively. The brain drain—or human capital flight—severely impacts countries with low

BOX 3.5 Governance and human capital development

While qualitative arguments often support the notion that investment in human capital can foster economic development, the role of governance in mediating or amplifying these effects remains underexplored. Box figure 3.5.1 presents the conditional interplay between governance and the effect of investment in human capital—measured via education and health expenditure—on different economic indicators, captured using the "brain drain"—or human capital flight—and unemployment. The charts highlight the interactive role of governance in facilitating the relationship between investment in human capital economic outcomes. Regulatory quality shows a modest but positive facilitative role in leveraging health investments to mitigate the brain drain. Similarly, governance enhances the negative relationship between education expenditure and unemployment, indicating its importance in improving the effectiveness of human capital investment in economic development.

BOX FIGURE 3.5.1 Association between governance and human capital investment indicators



Source: AfDB calculations using World Development Indicators.

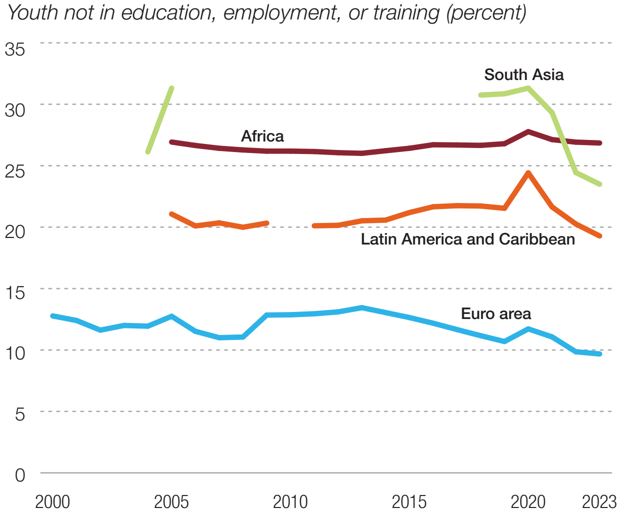
human capital and high emigration levels.[142] This outflow means that African countries are subsidizing developed nations' human capital needs.

Simultaneously, unemployment is a product of both immediate and long-term effects of a weak human capital base. The high proportion of young Africans categorized as not in education, employment, or training (NEET) wastes critical "skills accumulation years," with Africa having NEET rates above 26 percent since 2005 (figure 3.14). While investments in education and health may help address these leakages, their effectiveness depends on sound governance and vocational training (boxes 3.6 and 3.7).

Financial mismanagement and bureaucratic fragmentation in education and training programs have hindered their effectiveness and weakened their potential contribution to economic growth. Strong accountability frameworks foster trust and maximize the socioeconomic returns to education.[143] Rwanda's approach—tying school funding to outcomes—demonstrates how governance innovations can enhance quality and equity.[144] International evidence shows the value of merit-based recruitment, autonomy, and professional norms in public service. Finland, a global leader in education, combines strong peer accountability and limited top-down oversight.[145]

Governance inefficiencies across Africa undermine efforts to strengthen education as a cure for the continent's human capital malaise, but innovative governance reforms may help address these hurdles. While countries like Botswana, Ghana, Kenya, and South Africa have taken steps to enhance institutional autonomy, such as involving civil society on university boards, these reforms remain inconsistent and weakly enforced. French-speaking countries, in particular, trail in decentralization and meritocratic recruitment.[146] Broader state capacity limitations—fragmented accountability, underincentivized personnel, and the absence of professional norms—continue to weaken service delivery and resource use,[147] contributing to absenteeism, inefficiencies, and the brain drain. And despite increased education budgets, weak governance has prevented these investments from translating into outcomes. Corruption, informal payments, and misallocated resources distort access and equity.[148] The empirical relationship is clear: box 3.8 shows that stronger governance correlates with higher school enrolment.

FIGURE 3.14 Rates of youth unemployment across regions, 2000–23



Source: AfDB calculations using World Development Indicators.

Female enrolment is even more sensitive to governance quality. Yet, in Kenya for example, efforts such as performance-based tracking remain fragmented, and weak enforcement still undermines progress.[149] Without governance structures that enforce standards and promote professionalism, systems struggle to close inequality gaps.[150] Importantly, vocational training responds particularly well to governance improvements—suggesting a pathway where targeted reforms can enhance education outcomes and, indirectly, labor market alignment (box 3.9).

The flouting of regulations is, however, endemic across the continent and well-intentioned policies are often undermined by corrupt public officials. As shown elsewhere in this chapter, Africa generally scores poorly on key governance indicators. For example, among citizens who had contact with the public schooling system in 39 African countries, about 19 percent had to pay a bribe to access school services (figure 3.15).

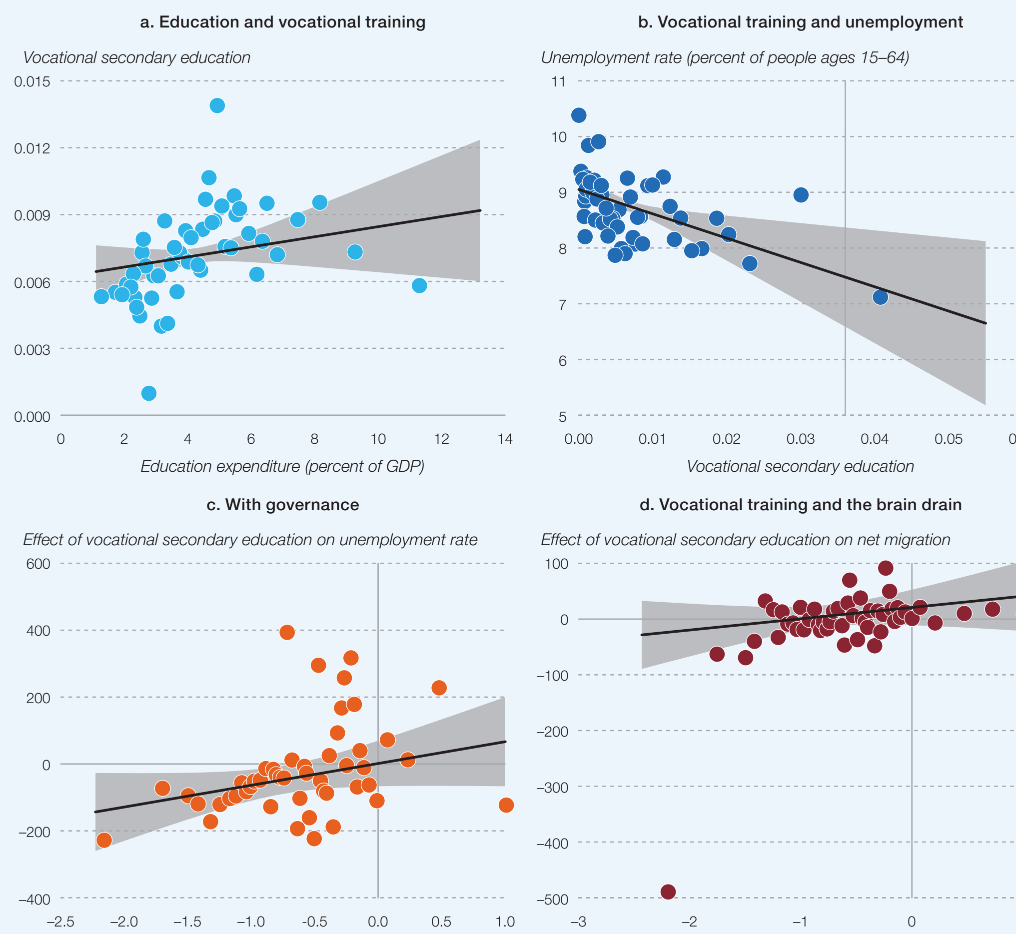
Despite institutional reforms with direct implications for human capital—including constitutional provisions for free education and public healthcare—governance failures and weaknesses in enforcing regulations distort the incentive

BOX 3.6 Can vocational training solve inefficient returns to human capital investment?

To assess the potential of vocational training, we examine the relationship between general investment in human capital and vocational training across African countries. Box figure 3.6.1a shows a weak association between general human capital investment and vocational training in Africa. However, a strong negative correlation is evident between the percentage of secondary students in vocational training and unemployment (box figure 3.6.1b), with a coefficient of –44—far stronger than those for primary, secondary, or tertiary enrolment (–0.11, –0.16, insignificant).

Governance also boosts the correlation between vocational training and unemployment reduction, particularly regulatory quality (box figure 3.6.1c), though its impact on the brain drain, while positive, is insignificant (box figure 3.6.1d). Examples from Ghana highlight the informal sector's success, with labor market improvements enabling a shift from agriculture to nonagriculture, reducing poverty.[1] Similarly, despite limited targeted investments, countries like Nigeria and South Africa have seen rising skills and education levels in the informal sector,[2] indicating a self-reinforcing dynamic in vocational training that strengthens workforce capabilities over time. These findings support vocational training's potential to reduce resource leakages and enhance economic outcomes.

BOX FIGURE 3.6.1 Vocational training and resource leakages



Source: AfDB calculations using World Development Indicators.

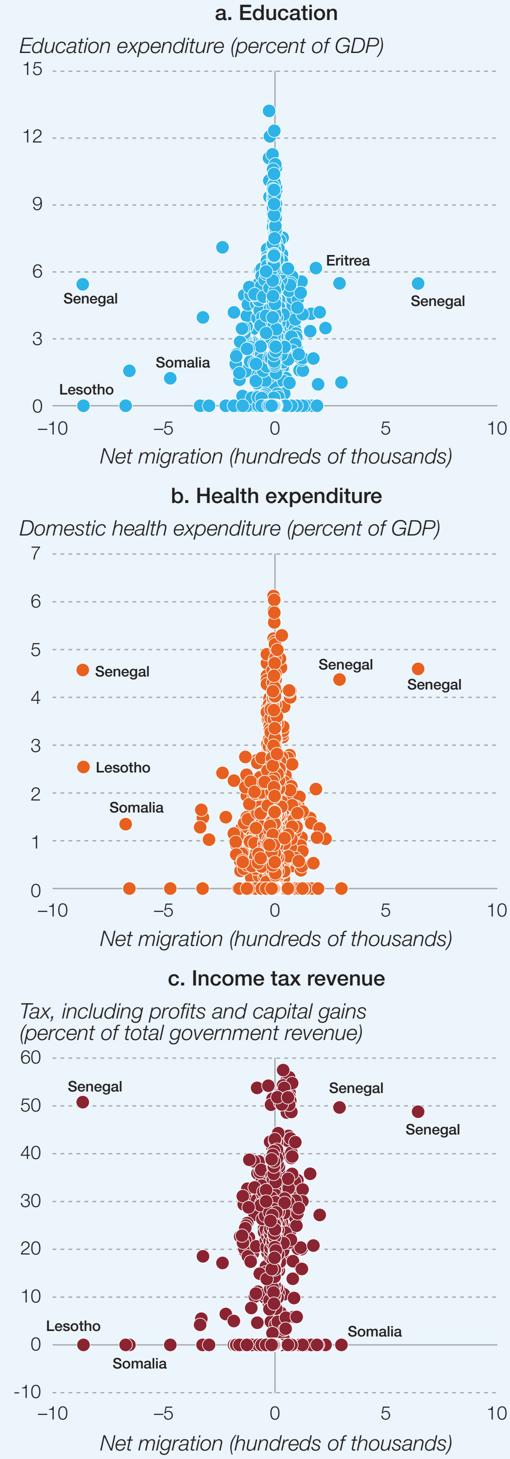
Notes: 1. World Bank 2009. 2. Walther and Filipiak 2007.

BOX 3.7 **Can human investment stymie brain drain from Africa?**

To gain insights into how the brain drain, proxied by net migration, correlates with investment in human capital, net migration is plotted against education expenditure as a share of GDP, health expenditure as a share of GDP, and income tax revenues. Box figure 3.7.1 suggests that countries investing a higher share of GDP in health or education experience lower migration rates, indicating improved human capital retention and reduced resource leakages through the brain drain. Yet, despite net migration numbers remaining relatively stable over time, Africa consistently leads globally on this metric, 2020 aside. These trends raise concerns about the broader implications of migration for human capital development, emphasizing the importance of increased investment in education and health to retain skills and mitigate the negative impacts of the brain drain.

The migration of skilled labor from African countries imposes significant costs in two ways: scarce education resources are effectively used to subsidize human capital development in wealthier nations; and investments in human capital fail to generate returns through tax revenue. This relationship is illustrated in box figure 3.7.1c, showing a negative correlation between net migration and taxes from income, profits, and capital gains in African countries. Higher migration, especially for skilled workers, undermines the ability of countries to optimize returns to human capital.

BOX FIGURE 3.7.1 **Net migration and education, health expenditure, and income tax revenue in Africa, 2000–23**

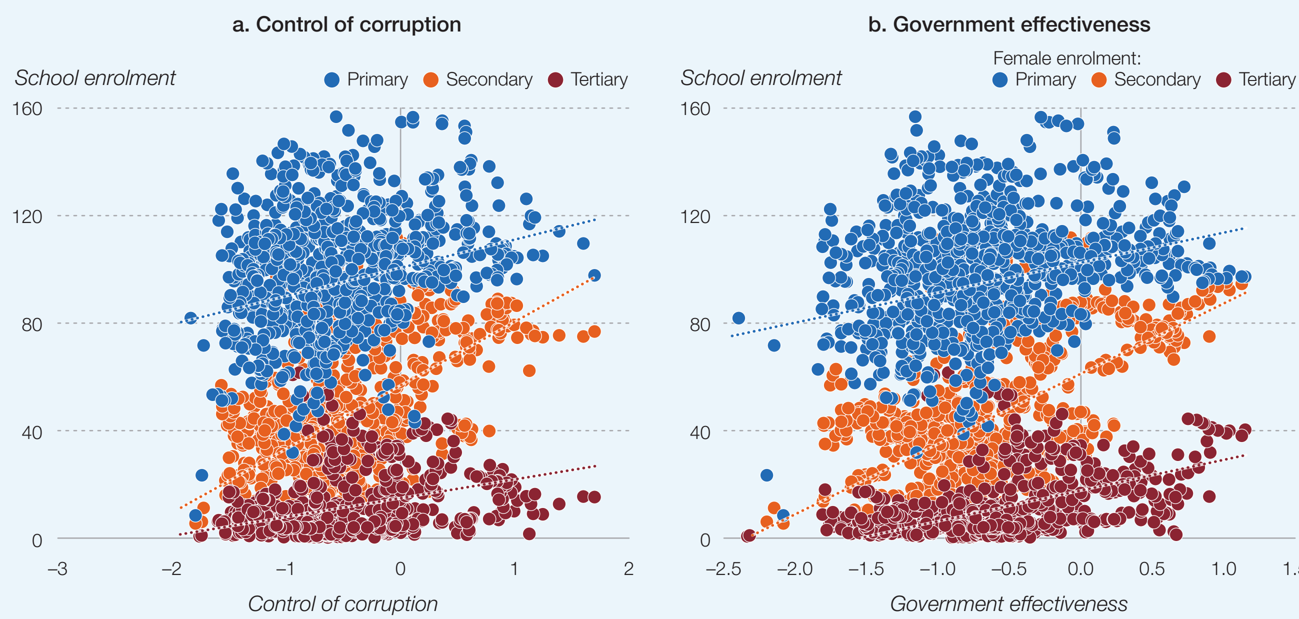


Source: AfDB calculations using World Development Indicators.

BOX 3.8 Correlation between governance and school enrolment in Africa

Which level of education is most influenced by governance? The relationship between governance—measured by control of corruption and government effectiveness—and school enrolment in African countries shows clear patterns. Secondary enrolment is most strongly linked to governance (box figure 3.8.1). Control of corruption has a modest positive association with secondary enrolment, suggesting that reducing corruption improves access to this level. Its influence on primary and tertiary enrolment is more limited. Government effectiveness, however, correlates more with secondary and tertiary enrolment, highlighting its role in expanding access to higher education. This pattern indicates that good governance is closely tied to human capital development. Effective governance thus plays a greater role in improving education access—especially at the secondary and tertiary levels—across African countries.

BOX FIGURE 3.8.1 Relationship between school enrolment and governance across African countries, 2000–23



Source: AfDB calculations using World Development Indicators.

structure, hindering these laws' effectiveness. In developing countries, including in Africa, law enforcement often disfavors the poor, who tend to have little or no bargaining power. For instance, corruption skews the playing field against the poor and instead benefits the rich. This may provide a partial explanation for the observed low education outcomes and the poor quality of healthcare, further perpetuating inequality between rich and poor households. As an example, laws that prohibit child labor in mining are frequently sidestepped in many African countries, resulting in widespread child exploitation, often driven by the need to fund school fees.[151]

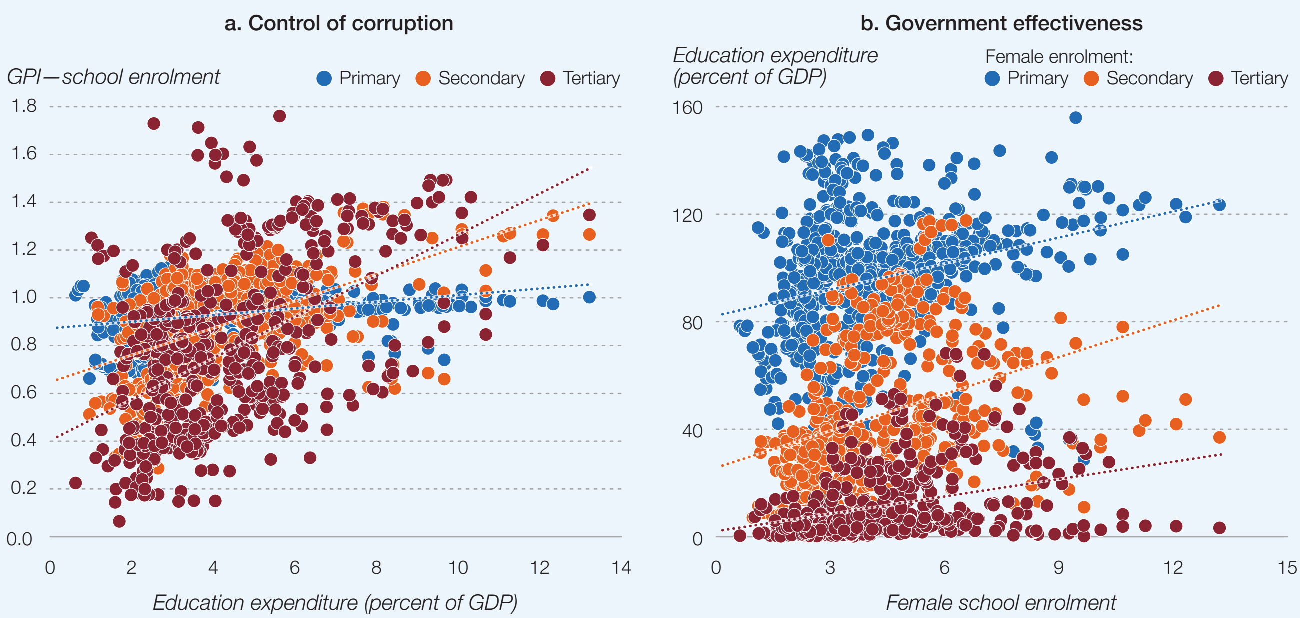
Because education and healthcare governance in Africa suffer from weak regulatory oversight, inadequate monitoring mechanisms, and poor resource allocation for political and resource-related reasons, inefficiencies hamper qualitative delivery. This suggests that governance failures to implement good policies or enforce laws may be the primary impediment to human capital accumulation and its effective deployment for Africa's development.

While grand corruption grabs media headlines, increasing attention is paid to the prevalence and cost of Africa's "quiet corruption."[152] Quiet corruption, often not involving monetary exchange,

BOX 3.9 Female secondary education as a key channel to stronger human capital development

To understand how governance influences the gendered human capital effects of education expenditure, box figure 3.9.1 examines female enrolment across primary, secondary, and tertiary levels in relation to governance indicators—control of corruption and government effectiveness. Using data for 2000–23, the results indicate that improvements in governance are associated with higher female enrolment at all education levels, with stronger correlations at secondary level. Notably, the governance influence varies across education levels, suggesting that policies targeting governance reforms may have differentiated impacts on gendered education outcomes. This is more so with government effectiveness than with control of corruption.

BOX FIGURE 3.9.1 Enrolment at different levels of schooling and governance



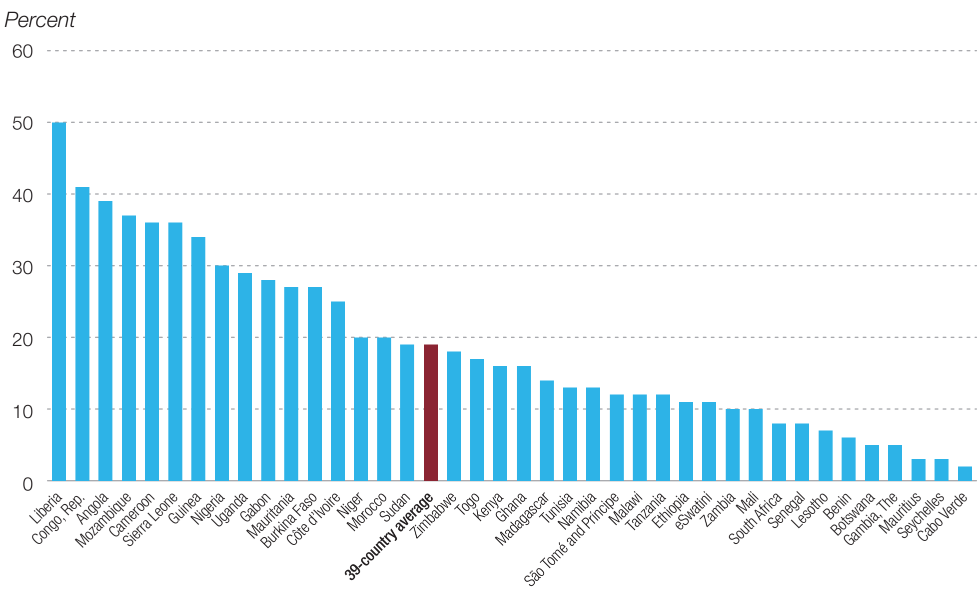
Source: AfDB calculations using World Development Indicators.

happens when public officials fail to deliver services or inputs that have been paid for by the government, because of weak regulatory or governance oversight. It includes absentee teachers in public schools, doctors' moonlighting in private clinics rather than seeing patients in public healthcare facilities, the pilfering of drugs from public health facilities and sold in private markets, and stolen subsidized fertilizers sold at market prices.

Teacher absenteeism, for instance, is in a range of 15–45 percent in Eastern and Southern Africa,[153] with long-term consequences for delivery of quality education. Children denied such education suffer from learning poverty, in a range of 40–99 percent across African countries, with the average estimated at 87 percent. Teacher absenteeism is a hindrance to human capital development, with children suffering from low cognitive skills and poor health in adulthood.

Similarly, absentee doctors and stolen drugs contribute to the non-detection of iron deficiency,[154] which may affect an individual's productivity in adulthood[155] or, at worst, cause preventable deaths. Drug theft in public health facilities remains a major problem across the continent, with health workers and members of district health management teams often involved in pilferage and diversion of scarce resources from the intended public health facilities.[156] Similarly, corruption in the healthcare sector has severely hampered medical supply

FIGURE 3.15 Percentage of respondents paying a bribe to access public school services



Source: Afrobarometer 2024.

The weak rule of law undermines property and contractual rights in Africa, with resource-rich countries carrying the largest burden

chains and obstructed service delivery, with important implications for overall welfare. It has occurred despite anti-corruption legislation but, without appropriate governance architecture in place, enforcement and implementation remain limited.[157]

CROSS-CUTTING INSTITUTIONAL, GOVERNANCE, AND RULE OF LAW CHALLENGES TO HARNESSING CAPITAL FOR DEVELOPMENT

Rule of law deficiencies and the investment climate

The rule of law underpinned in a country's legal framework or international treaties is critical to mitigating risks and uncertainties that can scare off investment in a country, and forms the basis of good governance.

Countries that uphold the rule of law help build investor confidence and perceptions that contracts will be respected and enforced, and that disputes will be resolved impartially with a short turnaround period. By contrast, when legal institutions are weak or politicized and the rule of law is not upheld, investor confidence is lower, leading to high capital flight and economic transactions shifting to informal and offshore spaces.

Africa, like other developing regions, faces notable challenges in achieving the objectives of the rule of law. Estimates from the World Justice Project[158] indicates that many African countries rank poorly on nearly all dimensions of the rule of law. Africa's best performers, out of 142 countries globally, are Rwanda (40), Namibia (44), Mauritius (46), and Botswana (51).[159]

Empirical evidence shows that the weak rule of law undermines property and contractual rights in Africa, with resource-rich countries carrying the largest burden.[160] Some of these resource-rich countries, such as Sudan and Democratic Republic of Congo, are ranked low on the Corruption Perceptions Index due to the weak rule of law and poor contract enforcement.

In contrast, countries with an effective rule of law and solid contract enforcement have achieved positive results in improving investor confidence and mitigating disputes. For instance, Rwanda's land tenure reform, which resulted in more than 11 million registered land parcels covering about 90 percent of the country's land, greatly reduced land disputes and encouraged investment in agriculture and real estate.[161] Ghana also made progress, with its Land Administration Project, which streamlined land registration processes and reduced conflicts over land ownership; by 2019, the project had facilitated the registration of more than 1.2 million land parcels and reduced the average time for land title registration from 360 to 34 days.[162]

Efficient contract enforcement is crucial for improving capital asset growth to achieve inclusive and sustainable development. Yet, Africa's experience in contract enforcement has not been solid enough to yield the desired outcomes.

To uphold the rule of law, a country requires a multisector approach and collaboration among institutions such as the judiciary, law enforcement agencies, the national parliament, and anti-corruption agencies. In countries that have improved contract enforcement policies, FDI increases by 12.6 percent.[163] Yet, because of competing desires in society, power imbalances come into play where different branches of government—the executive, judiciary, and legislature—compete to consolidate control of resources, causing significant challenges to the rule of law. The executive branch in Africa, as in other developing regions, has been criticized for consolidating power while marginalizing the other branches of government, which are fundamental to overseeing the executive's operations and arbitrating disputes.[164]

Marginalizing judicial systems has elevated inefficiencies, which are becoming obstacles to contract enforcement. Empirical evidence paints a grim picture, with countries such as Angola and Chad taking more than 1,000 days to resolve a commercial dispute.[165] Such delays act as a deterrent to credit provision and execution of complex business deals. While improving infrastructure—physical facilities, technology, and modern management practices to manage case backlogs, to help judicial systems uphold the rule of law carries substantial benefits for enhancing economic development, a mix of effective institutions and governance may offer optimal outcomes. Endemic corruption and political influence continue to hamper justice delivery, in a situation compounded by enforcement agencies facing constrained financial resources and thus being unable to resolve disputes on time, leading to public distrust of the legal system.

To remedy challenges facing judicial systems, countries such as Mauritius and Côte d'Ivoire have introduced special commercial courts to speed up dispute resolution and reduce firms' transaction costs. In Mauritius, their introduction reduced the average time to resolve a dispute from 573 days in 2015 to 252 days in 2020.[166] Nigeria has also taken steps to address this issue by establishing the Investment and Securities Tribunal, which specializes in resolving capital market disputes, enhancing investor confidence. The tribunal has resolved more than 90 percent of cases within 12 months of filing, greatly improving the efficiency of dispute resolution.[167] Kenya has made great strides in legally recognizing digital contracts, where the Evidence Act allows digital records as admissible evidence. South Africa's Electronic Communications and Transactions Act provides comprehensive legal backing for digital contracts, while Ghana's Electronic Transactions Act of 2008 and Nigeria's Evidence Act of 2011 allow electronic records to be accepted as evidence.

Reforms to offer better pay and training for judges, clear judicial appointment processes, and disciplinary actions can help minimize cases of corruption

Governance challenges stemming from corruption persist, though several countries have made efforts to reform the judiciary. In Tanzania and Kenya, for example, constitutional and institutional reforms, including judicial vetting and legal sector programs, have been undertaken to improve their legal systems' integrity.[168] In Tanzania, the reforms led to increased public trust in the legal system, with the rule of law index climbing from 0.45 in 2015 to 0.51 in 2020. As an incentive to improve judicial performance, reforms to offer better pay and training for judges, clear judicial appointment processes, and disciplinary actions for corruption—as adopted in several jurisdictions—can help minimize cases of corruption and bribery.

Uncertain legal and frequent regulatory changes hamper capital asset growth as investors shift to jurisdictions with predictable policies and regulations. Comprehensive regulations and supervision, alongside a strong data and disclosure framework, are therefore essential for creating the conditions necessary for attracting portfolio investments.[169] While Africa boasts capital asset abundance and investment opportunities in areas such as infrastructure development, including roads and energy, the current poor regulatory framework and prevailing policy uncertainties continue to hold back the continent. Investors are fearful of arbitrary changes to laws or regulations, as they increase transaction costs. Many African entrepreneurs have cited policy instability as a major obstacle to their firm's performance. Conversely, a 1 percentage point increase in transparency ranking translates into a 40 percent increase in FDI.[170]

The World Bank's Business Ready report for 2024 shows that the cost of regulating foreign firms and the cost of transactions in capital markets are high in Africa compared with other regions.[171] On a score of 0–100 on the business regulatory indicator, Rwanda emerged top in Africa with 70.4, followed by Togo at 69.0 and Morocco at 68.9, while Lesotho (54.9), Sierra Leone (54.0), and Gambia (53.4) were the worst performers. Rwanda also ranked top in Africa on the public services pillar and similarly on facilitating the operational efficiency of firms, where it is ranked third globally. Rwanda's performance relative to other African countries in business regulatory and public services is due to political stability that offers predictable policy—a key ingredient for instilling investor confidence.

Weak domestic investment policies limit financial market diversification, translating into Africa's low integration into the global economy

Strengthening the rule of law means institutionalizing processes for law making, including consultation, impact analysis, and observing existing contracts, so that changes are predictable and fair. Countries that have adhered to international investment treaties or set up independent regulatory agencies, in particular for utilities and telecoms, tend to inspire greater confidence. African countries could attract new investments in clean energy and access to electricity by establishing independent energy regulators.

A ranking of countries on the Electricity Regulatory Index[172] shows that 63 percent of energy regulators in Africa lack regulatory independence due to political interference, which affects decision making. Yet in South Africa, independent regulatory bodies, such as the National Energy Regulator of South Africa, have attracted substantial foreign investment by providing a stable and predictable regulatory environment: between 2010 and 2020, the country attracted more than $20 billion in FDI in energy.[173] Kenya has also attracted extensive foreign capital to energy, spurred by efforts of the Energy and Petroleum Regulatory Authority, the country's independent energy statutory body. For example, in 2023, a fund managed by BlackRock-Climate Finance Partnership bought 31.3 percent of the shares in Lake Turkana wind farm.

Weak domestic investment policies, including high protectionism and bias in portfolio allocation by local investors, have limited financial market diversification, translating into the continent's low integration into the global economy, which is a constraint to enhancing FDI in Africa,[174] while home bias in portfolio allocation hampers the diversification of financial markets.[175] To allow greater private sector participation, countries such as Ghana, Kenya, Nigeria, Tanzania, Uganda, and Zambia have expanded scope for foreign investment by opening up sectors previously closed to foreign investment by either reducing or abolishing requirements for government equity participation in joint ventures.[176]

To overcome weak and undefined coordination mechanisms within governments, which include multiple investment promotion agencies with overlapping mandates across ministries, sectors, and regions, countries including Ghana, Kenya, Malawi, Namibia, and South Africa have set up one-stop investment centers with the aim of expediting approval procedures. To attract FDI, Mauritius, for example, offers incentives that include zero tax on dividends and import duty exemptions for subsidiaries located in the country, and has removed foreign exchange controls. Mozambique has opened its economy to global competition, encouraging private investment in most sectors without discriminating between foreign and domestic investors. Rwanda has implemented a favorable business reform agenda to attract foreign investment.

Bureaucratic structures and push factors contribute to the weak rule of law in Africa, exacerbating disparities. Tax authorities, customs services, and financial regulators often suffer from capacity limitations and political interference. In several African countries, frequent turnover of staff, political appointments, and interference in high-level tax investigations weaken institutions' autonomy.[177] Fiscal institutions need legal safeguards and insulation from undue influence to function effectively.[178]

The Ghana Revenue Authority provides a positive example. Following institutional reforms that included autonomous governance, merit-based recruitment, and performance targets, the authority increased domestic tax revenue collection by 22 percent between 2015 and 2017.[179] Investing in digital tax systems can also yield higher tax revenues. In Kenya, for instance, an investment of $10,000 on transfer pricing adjustments led to additional tax revenue of $2.9 million. To ensure that tax systems are more reliable, development partners could assist in designing tax systems appropriate to African countries' peculiarities. Significant improvements in regulatory quality and control of corruption can catalyze efficiency gains in revenue mobilization (box 3.10).

Africa's regulatory frameworks are central to capital mobilization but are often plagued by complexity, inefficiency, and political interference. Overly burdensome regulations, opaque approval processes, and frequent policy shifts elevate compliance costs, though some countries have shown improvements. Take, for instance, Rwanda's digital systems, which have streamlined business registration and reduced the process to under four hours. Quality market regulation fosters competition, promotes private investment opportunities, and reduces the room for fraud, abuse, and rent extraction. In contrast, weaknesses in regulation and supervision, especially of the financial sector, can lead to financial instability, with significant negative macroeconomic outcomes.

The persistent rule of law failures, ranging from poor judicial protections to opaque bureaucratic structures, have made many African public sectors unattractive to skilled professionals, particularly sectors offering essential public services like healthcare and education. This institutional uncertainty has contributed to large-scale migration of skilled professionals to countries with stronger rule of law protections (figure 3.16). For example, in 2018–21, more than 3,000 Ghanaian health professionals migrated to the United Kingdom alone, while 9,000 Nigerian doctors left for that country as well as the United States and Canada in 2016–18.[180] More than 50 percent of Egypt's trained doctors work abroad.

Poor rule of law is one of the factors in migration,[181] but it also worsens gender disparities, as women professionals are particularly affected because gaps in enforcement and regulatory protections often translate into workplace discrimination and stalled advancement.[182] These push factors are compounded by wage disparities and erratic pay with nurses in countries such as Ghana earning just $150–$300 a month, and the pay is often delayed, in contrast to destination countries that offer vastly better pay and working conditions.

Regulatory frameworks and state-owned enterprises

In many African countries, SOEs are vital in building infrastructure and providing public goods and services, and act as major players in the extractives industry. SOEs operating in countries with poor governance tend to be less efficient, operate at a loss, and fail to provide critical public goods and services, in part because of conflicting objectives, mismanagement, and corruption. All this can damage investor confidence, deter foreign investment, and lead to unsustainable debt, undermining growth.

African countries also face serious governance problems in encouraging greater private sector participation in infrastructure investment. PPPs bring large gains for SOEs, in both competitive and noncompetitive sectors, in efficiency, transparency, accountability, and integrity. Yet, Africa still has one of the lowest average scores across many dimensions of SOE preparation and management and of enabling laws and regulations that broaden PPPs to improve efficient capital asset mobilization.[183]

International evidence suggests that strong political leadership is required to implement laws and regulations that improve SOE corporate governance to boost productive public and private investment. The experiences of Colombia, Brazil, and Angola (box 3.11) illustrate that, while actions to improve corporate governance can be challenging, they are still critical, targeting a range of vulnerabilities in SOE oversight and involving many stakeholders.

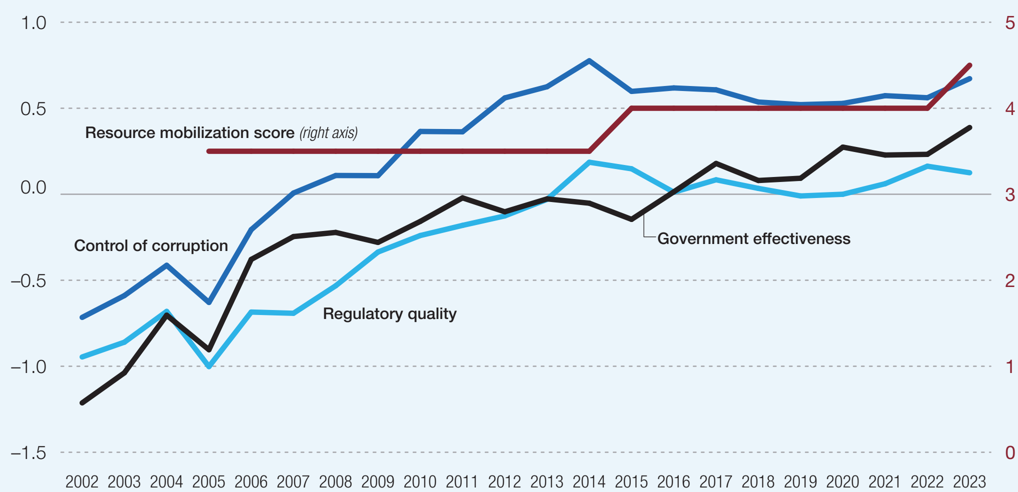
Several countries have taken steps to enhance SOE performance through privatization and reform, but persistent regulatory uncertainties and ineffective financial regulations still weigh on their performance. Reforming SOEs through privatizing them and making them accommodative to PPPs improves their performance, relieving pressure on a country's constrained resources to bail them out. Kenya's leading telecommunications company, which was initially a state-owned enterprise

Quality market regulation fosters competition, promotes private investment opportunities, and reduces the room for fraud, abuse, and rent extraction

BOX 3.10 Rwanda: Enhancing government processes for effective resource mobilization

Rwanda stands out among African nations for its aggressive governance reforms aimed at enhancing domestic resource mobilization. From 2002 to 2023, it recorded the continent's most substantial gains in regulatory quality and control of corruption (box figure 3.10.1). This progress was achieved through a multipronged strategy combining institutional strengthening, anti-corruption enforcement, e-governance innovation, and public sector performance management.

BOX FIGURE 3.10.1 Rwanda's change in governance, 2002–23



A cornerstone of Rwanda's reforms was the establishment of the Office of the Ombudsman, which embeds a zero-tolerance approach to corruption in government operations. Governance reforms were further amplified by Rwanda's investment in e-government systems, which streamlined bureaucratic procedures, reduced rent-seeking opportunities, and improved service delivery.[1] These digital innovations were critical in reinforcing transparency and institutional efficiency.

Judicial reform was another pillar. The integration of customary courts into the formal system and penalization of procedural delays drastically reduced case backlogs—from more than 55,000 in 2003 to fewer than 5,000 in 2016—while annual cleared cases increased from just 69 to more than 600 in the same period.[2] This judicial transformation reflected and reinforced broader governance improvements.

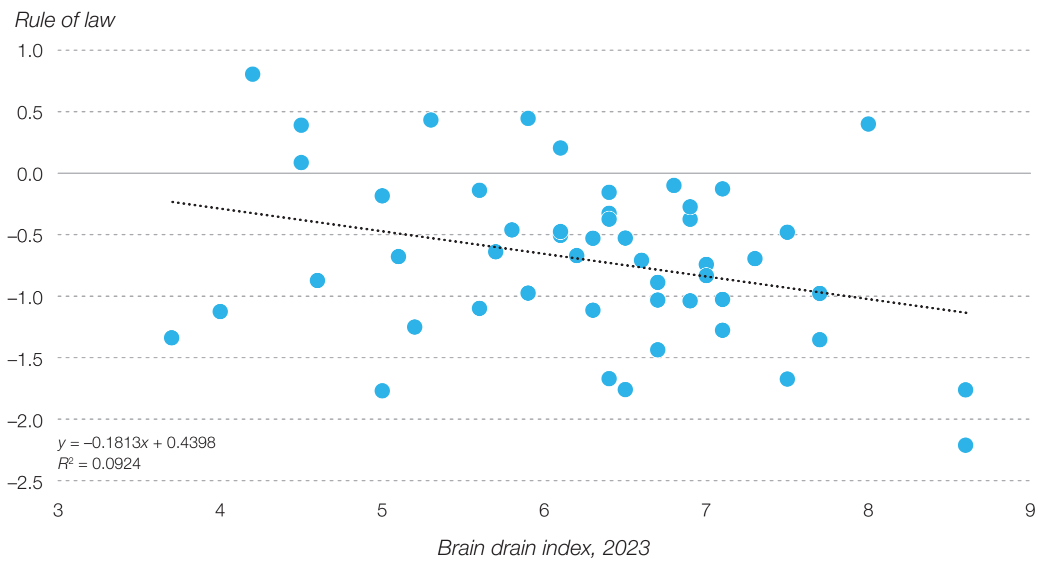
Rwanda's reforms illustrate how the alignment of anti-corruption institutions, digital governance, and performance-based accountability can generate systemic gains for resource mobilization.

Notes

1. Twizeyimana 2018; Adams 2020.
2. Rugege 2020.

Source: World Development Indicators 2025; Twizeyimana 2018; Adams 2020; Rugege 2020.

FIGURE 3.16 **Relationship between the brain drain and the rule of law, 2023**



Source: AfDB calculations using data from World Population Review.

before being partially floated on the Nairobi Stock Exchange in 2008, raised $833 million. This move demonstrates how transparency and competition can transform public enterprises into financially successful and regionally competitive entities.[184] The example demonstrates that reforms must be managed transparently to avoid replacing public monopolies with elite-dominated private entities.

Despite the challenges that still affect SOEs, recent reforms to revamp them may bear fruit in the future. Still, African governments must step up their efforts by entrenching transparency and accountability. The use of digital platforms, one-stop investment centers, and harmonized policies can lower compliance costs and attract investment. As seen in Mauritius and Rwanda, aligning regulation with business facilitation boosts both domestic entrepreneurship and foreign capital inflows.

FOSTERING PARTNERSHIPS TO STRENGTHEN GOVERNANCE FOR SUSTAINABLE CAPITAL MOBILIZATION IN AFRICA

While governance and institutional reforms remain key to strengthening governance and scaling up capital mobilization, a collaborative approach by Africa and its development partners can complement domestic actions to bolster outcomes. Transnational challenges such as IFFs, tax evasion and avoidance by MNCs, and corruption networks often transcend borders and therefore require cross-border and regional solutions. African countries can learn from each other's successes and pool their resources to strengthen institutions. By working with development partners, African nations can strengthen their ability to detect, prevent, and recover IFFs, ensuring that the continent's resources are used for its sustainable development. This section explores how domestic, regional, and continental initiatives can strengthen governance, institutions, and the rule of law in support of capital mobilization, highlighting examples and opportunities for collective action.

Country-level initiatives to tackle the devastating impacts of illicit financial flows

Double taxation agreements offer MNCs a powerful way to avoid paying corporate taxes, to the detriment of African countries. In response, and to address gaps, Rwanda and South Africa renegotiated their double taxation treaties with Mauritius in 2013. Zambia also renegotiated its double taxation treaties with Ireland and the Netherlands. More recently, the Zambian government terminated its

Transparency and competition can transform public enterprises into financially successful and regionally competitive entities

BOX 3.11 **Actions to improve SOE corporate governance: Evidence from Colombia, Brazil, and Angola**

Colombia: Opening up markets to increase competition, reduce monopoly power, and create incentives for fiscal discipline

The Constitution of 1991 introduced a new model of economic development that included the state-owned enterprise (SOE) sector, opening public utilities to private investment and allowing free entry to foster competition. In addition, a citizen-centric approach was adopted to increase SOE efficiency and enhance accountability. Citizens were provided with digital tools to facilitate access to information, improve experience, and increase transparency.

Brazil: Strengthening SOE legal and regulatory frameworks and practices

In the aftermath of the corruption scandal involving state-owned Petrobras—the Brazilian Petroleum Corporation—that was exposed in 2014, the government introduced reforms in key governance principles to improve SOE integrity and transparency. These introduced a code of conduct and ethics for management and staff, set requirements for board and management appointments, strengthened internal controls, and increased transparency in contracting and procurement.

Colombia and Brazil: Establishing effective SOE internal controls, compliance, and risk management functions

These two countries established proactive policies and structures to manage risks, including confidential reporting and follow-up on reported incidents by respective authorities, to counter pressures or undue influence, and to recruit qualified staff, with access to resources and top management structures.

Angola: Countering corruption in high-risk activities and operations

To address systemic corruption in SOEs, public procurement reforms included lowering the threshold for contracts subject to public tender, creating a national procurement portal, and identifying a list of companies certified to undertake construction work for the government. Public procurement laws were updated to address ethical behavior in planning and executing public contracts, including requirements for securing impartiality; avoiding conflicts of interest, fraud, and corruption; and ensuring compliance and confidentiality.

Colombia, Brazil, and Angola: Promoting transparency and full financial disclosure, including SOE debt

Reforms in all three countries highlight the importance of international best practice. Colombia's citizen-centric approach to transparency is key to "demand-driven" governance oversight. The legislative mandate of Brazilian SOEs to publish annual and interim corporate governance and internal reports aims to hold state firms accountable and penalize noncompliance. Similarly, in Angola, the mandatory publication of audited and oversight reports on the SOE portfolio improved compliance: at end-2019, audited annual reports of the 15 largest SOEs were posted for public scrutiny.

Colombia: Digitalizing financial and service delivery information to improve accuracy of public information

A commercial SOE that provides infrastructure services created "Puntos faciles" (self-service spaces) where customers and users can use new technologies, including a mobile app, to facilitate interaction with the company, increase transparency, and reduce corruption. Several private institutions helped promote effective and transparent programs with informed and participatory citizens. Citizens' engagement through initiatives such as community-based approaches, surveillance committees established by civil society, and creation of a professional union to shield the SOE from political interference in its corporate decisions, has been key to holding SOEs accountable for performance breaches and to providing feedback to management on service delivery.

Source: World Bank 2020.

double taxation treaties with Mauritius, effective January 2021. Earlier in May 2020, Senegal made the same decision after recording a loss of more than $257 million in tax revenue over 17 years when the treaty with Mauritius was in force.

Some African countries have strengthened their legal, regulatory, and institutional frameworks by amending their domestic tax laws to include anti-avoidance and anti-treaty-abuse provisions. Other countries have gone a step further by creating transfer pricing and international tax units in their tax administrations. Countries that have adopted these measures include Egypt, Kenya, South Africa, and Uganda. More recently, Tanzania, in light of past revenue losses and issues faced by its mining sector, took the radical step of thoroughly overhauling its sectoral legislation.

Even so, more efforts are required to mitigate IFFs in Africa, including passing legislation that requires public accessibility to all extractives sector agreements, including fiscal terms and payment flows, via centralized digital repositories, similar to Liberia's Open Contracting Portal, thus making contracting information accessible to the public and create a forum to provide oversight for procurement processes.

The United Nations Convention Against Corruption calls for participation of civil society and nongovernment organizations in accountability processes, and underlines the importance of citizens' access to information. Government efforts to stem IFFs at national level have been complemented by the actions of civil society and other committed groups of individuals—"coalitions of the willing." Civil society organizations are important for holding governments to account and for serving as a link between citizens and decision makers. African civil society can help drive policy reforms, produce evidence, provide technical expertise and capacity building, and participate in investigations and enforcement in foreign bribery cases. In 2019, for example, the Tax Justice Network Africa challenged the double taxation treaties between Kenya and Mauritius in the High Court of Kenya.

Conditions conducive to successful civil society participation in combating IFFs include open civic space, press freedom for investigative journalists, sustainable funding, and open data backed by legislation such as enactment of access to information, the ability to collaborate with policymakers, and the collaboration of transnational and national networks working on anti-corruption. Of course, the credibility of civil society itself matters, if civil society and its organizations are to serve as genuine watchdogs against corruption and government impunity. A civil society perceived to be serving the interests of external forces may not enjoy government support and could face resentment, even opposition, in providing checks and balances.

Bilateral and multilateral initiatives to combat illicit financial flows, tax evasion and avoidance, money laundering, and other forms of financial malfeasance

Addressing transnational IFFs—with funds ending up in another country, frequently outside Africa but sometimes in the continent's financial havens —requires bilateral and multilateral initiatives. IFFs drain foreign exchange reserves, affect asset prices including the exchange rate, distort competition, and undermine the capacity of countries to maintain economic and financial stability. Curbing IFFs could reduce the continent's financing gap for structural transformation by 18 percent.[185]

Over the last two decades, several key bilateral and multilateral efforts have been undertaken to tackle the challenge, with African nations increasingly working together to combat IFFs. One significant step was the establishment of the Base Erosion and Profit Shifting framework for international collaboration to end tax avoidance initiated by the Organisation for Economic Co-operation and Development (OECD) and implemented in 2023. The framework provides for taxation of the digital economy, elimination of harmful tax practices, mandatory disclosures, and the prevention of treaty abuse and transfer pricing. Despite more than 140 countries' involvement, African countries face major hurdles in fully benefiting from these global standards because of administrative, capacity, and economic constraints. Redesigning this multilateral initiative by addressing structural and institutional bottlenecks, including these constraints, will be essential for African countries to achieve their common goal of combating IFFs.

Work of the High-Level Panel on Illicit Financial Flows, established in 2012 by the African Union and the United Nations Economic Commission for Africa, was a bold African initiative. Curbing IFFs and promoting sustainable development in Africa will require an Africa-centered approach to global tax cooperation that strengthens international rules on IFFs, preserves financial resources, and empowers African policymakers with strategic actions tailored to the continent's specific challenges. Against this background, the high-level panel, chaired by Thabo Mbeki, former president of South Africa, urged African nations to build and strengthen institutional capacities to curb these outflows.

All African countries now belong to one or two Financial Action Task Force–Style Regional Bodies, which specialize in anti-money laundering and combating the financing of terrorism and proliferation

Additionally, the United Nations has advocated for a more inclusive approach to global tax governance that addresses the unique challenges of developing countries, including Africa's. The establishment of the African Union Convention on Preventing and Combating Corruption–African Union Advisory Board on Corruption can go a long way in preventing and combating IFFs. However, this body has been ratified by only 48 countries out of the continent's 54 nations.

The Common African Position on Asset Recovery (CAPAR) as a policy instrument for the recovery, repatriation, and management of recovered assets provides measures that will enhance the recovery of assets and contribute to combating IFFs in Africa. The establishment of the Africa Asset Recovery Practitioners Forum (AARP) is critical for the capacity building and knowledge sharing that facilitate equipping African countries with the requisite skills to implement CAPAR recommendations and contribute to combating illicit financial flows in Africa.

Anti-money laundering efforts and countering the financing of terrorism have also seen increased regional cooperation. Criminal and corrupt funds often move across borders, demanding coordinated action. All African countries now belong to one or two Financial Action Task Force (FATF)–Style Regional Bodies, which are specialized bodies on anti-money laundering and combating the financing of terrorism and proliferation (AML/CFT/PF). In Africa, these bodies include the Inter-Governmental Action Group against Money Laundering in West Africa and the Eastern and Southern Africa Anti-Money Laundering Group, the Action Group against Money Laundering in Central Africa, and the Middle East and North Africa FATF. In collaboration with the World Bank and International Monetary Fund, these bodies undertake regular mutual evaluations and reviews of member countries to assess their level of compliance with FATF AML/CFT International Standards. Additionally, the regional bodies undertake knowledge work to determine risks, trends, and the methods used by criminals to move illicit proceeds. According to FATF standards, all financial intelligence units (FIUs) are encouraged to be members of the Egmont Group of FIUs, ensuring access to the Egmont Secure Web, which allows information and intelligence among FIUs to be shared worldwide.

To support this information and intelligence sharing initiative, the Bank, with the support of Open Ownership, partnered with the United Kingdom's Foreign, Commonwealth and Development Office to launch the Africa Beneficial Ownership Transparency Network in 2023. The network aims to bring international partners together with African governments to support regional priorities in driving reforms to promote transparency of ownership and enhanced capacity to tackle IFFs relating to misuse of legal persons and legal arrangements. More collaborations with Interpol to combat money laundering and recover stolen assets are in place, demonstrating how continental institutions can directly support law enforcement.[186] Establishing shared databases of politically exposed persons or flagged fraudulent companies could further prevent such actors from simply relocating their activities across borders.

For better outcomes, the various actors need to tighten their collaboration, which will help close loopholes in international corporate tax laws that MNCs exploit through profit shifting and transfer pricing. These practices lead to significant revenue losses via IFFs, with some estimates suggesting that up to $40 billion is lost annually through trade misinvoicing alone.[187] In addition, the increasing digitalization of economies, while good for efficiency, could also pose major challenges for tax collection in Africa. Given the varying levels of digital infrastructure and capacity across African countries, a tailored approach to digital tax reform is essential. By implementing targeted digital measures and promoting multilateral cooperation, they can protect their economic interests while increasing tax revenues from digital services.

Participation in global discussions in forums such as the G20 is also crucial to ensure that Africa's specific needs are considered. South Africa's membership of the G20[188] and the African Union's addition as a full member of the group in 2024 will strengthen representation of African interests on global platforms where key decisions affecting the continent and its population of 1.3 billion are made.

African countries are vulnerable to the effects of transfer pricing but do not have the capacity to monitor the problem. The African Union should consider collaborating with other pan-African institutions[189] to design and implement capacity-building programs. These initiatives could focus on training judges, parliamentarians, and auditors, raising the baseline of institutional competence continentally. For instance, the African Legal Support Facility, which has trained more than 1,000 legal professionals in 45 African countries since its inception in 2008, has helped raise the bar on governance skills by equipping these professionals to successfully negotiate complex commercial transactions and investment agreements [190]

Tax cooperation has also been a cornerstone of the fight against IFFs. The African Tax Administration Forum has been pivotal in fostering collaboration among tax authorities across the continent. Through the forum, countries share best practices, conduct joint audits of MNCs, and build capacity in areas like transfer pricing. A notable example is the 2019 collaboration between Kenya, Rwanda, and Uganda, which uncovered millions in unpaid taxes by a multinational telecoms company.[191] Such joint efforts have enabled African nations to uncover corporate tax evasion and recover voluminous revenues. Further, African countries have participated in global discussions on fair tax rules, particularly in the digital economy.

Members of the international financial community, such as the Bank, should aim at providing international support for tax policy and administration reform by improving the quality of tax systems, including increasing tax revenues but also minimizing economic distortions and reducing inequalities; by strengthening the operational capacity of tax administrations; and by promoting the social acceptability and legitimacy of tax systems, while improving public accountability.

The Bank and other international financial institutions have provided technical assistance to build human and institutional capacity to support member countries in broadening their tax base. This technical assistance should also focus on tax policy reforms that simplify tax codes, reduce compliance costs, and map potential taxpayers in the informal sector. It could also help strengthen capacity of fiscal agencies in assessing tax liabilities of large MNCs with complex accounting processes that hide generated resources through profit shifting and transfer pricing. This boost will help curb IFFs, tax evasion, tax avoidance, and profit shifting, practices that, as seen, cost African countries billions of dollars in lost revenue.

Bilateral and multilateral cooperation for human capital governance

A partnered approach to human capital development offers transformative potential for the continent, particularly when supported by regional collaboration, harmonized governance standards, and institutional commitment. Lessons from Latin America and the Association of Southeast Asian Nations show how regional integration in higher education enhances mobility, institutional alignment, and capacity building.[192] Africa is making similar strides through initiatives like the Inter-University Council for East Africa, the Southern African Regional Universities Association, and the Conseil Africain et Malgache pour l'Enseignement Supérieur.[193]

The Pan-African University (PAU), established in 2013 with campuses in Algeria, Cameroon, Kenya, and Nigeria—and a fifth planned in South Africa—represents an ambitious model for harmonized higher education.[194] In particular, the PAU could become a main vehicle to strengthen Africa's research capacity to address pandemics, such as Ebola and Covid-19, and mitigate the effects of such health crises on the continent's socioeconomic progress. While it has focused on high-quality postgraduate education, applied research, and fostering entrepreneurship and employability, its mandate must evolve to respond

Capacity-building programs. could focus on training judges, parliamentarians, and auditors, raising the baseline of institutional competence continent-wide more directly to labor market demands and pressing human capital gaps.

To address these gaps, the PAU should integrate a vocational and technical training stream. With high youth unemployment and widespread skills mismatches, vocational education offers strong and immediate returns. Leveraging the PAU's regional networks for job-ready training in sectors like the green economy, including in emerging sectors of critical minerals, digital services, and artisanal industries, would directly support domestic resource mobilization goals. This shift would help the PAU fulfill its founding mandate—supporting Africa's development—by complementing high-level research with practical, inclusive training. It would also enhance its relevance and reach by addressing both long-term innovation needs and short-term skills deficits that hinder productivity and inclusive growth.

While Africa boasts of an abundance of natural, financial, business, and human capital, institutional effectiveness and governance to enhance the potential of these assets requires policymakers' attention

CONCLUSION AND POLICY RECOMMENDATIONS

This chapter has presented evidence of the nexus between institutions, governance, the rule of law, and capital assets. While the continent boasts of an abundance of capital assets, including fiscal resources, as well as natural, financial, business, and human capital, the issue of institutional effectiveness and governance to enhance the potential of these assets requires policymakers' attention. Such attention will require strategic and targeted policy deployment to achieve the planned outcomes by ensuring that institutions are effective and have the muscle—resources, skills, and authority—to independently respond to emerging public needs for enhanced transparency and accountability of governance structures. Improving governance by reducing perceptions of corruption will bolster Africa's ability to mobilize capital assets so as to improve its public investment and meet its socioeconomic needs. For Africa to amplify the potential of its capital assets, upholding the rule of law should be central to the continent's policy implementation at country and regional levels. The following recommendations are proposed.

Boosting fiscal resource mobilization

- *Ease the tax burden and increase incentives for businesses to improve fiscal resource mobilization.* High and multiple taxes, with more than one jurisdiction—federal, state, or municipal—imposing a tax on the same declared income, financial transaction, or asset, slow business formation, reduce their chances of survival, and delay the growth of those that do survive by weakening their size and strength. High tax rates on small and medium enterprises restrict their growth and encourage tax evasion.
- *Undertake deep fiscal reforms to ensure harmonized, streamlined, and simplified tax systems to reduce the burden on businesses generally, especially small and medium firms.* Evidence shows that simplifying the tax administration, including reducing the number of payments and the time to comply with tax requirements by 10 percent, can yield a near symmetrical decline in tax-related corruption.
- *Issue each business with a unique tax identification number to reduce multiple taxes and strengthen the tracking of tax payments.* The reform should also include setting 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 date of establishment.

  Lessons can be drawn from the Ghana Revenue Authority's collaboration with the National Identification Authority to establish an identity information database so as to map revenue collections, an initiative that led to a threefold increase in total tax registrations in the 2021/22 financial period. Following a similar approach, the Uganda Revenue Authority (URA) integrated its registration system with that of the National Identification and Registration Authority. This allowed the URA to implement online registration to link national identity numbers and tax identification numbers. Through this initiative, more than 350,000 taxpayers, mainly operating in the informal sector, were registered by the URA in 2022.[195] In Rwanda, the implementation of digital tax systems through e-filing resulted in a 20 percent increase in revenue collection.
- *Provide strategic investments to modernize tax administration systems.* Governments

need to provide these investments because effective and transparent tax administrations are essential to the long-term fiscal integrity and sovereignty of countries. In a world of rapidly changing economic forms and business development, there is need for tax systems to remain relevant, well adapted to changing business models and advances in the digital economy while operating smarter systems that enable better management of large data, cross-border transactions, complex financial records, and informed decision making in combating evolving trade-based money laundering and IFFs. African nations need to scale up strategic investments focused on leveraging digital tools such as e-filing platforms, mobile payment integration, and artificial intelligence-driven automated fraud detection.

Notable lessons of capacitating revenue collection agencies can be drawn from South Africa where SARS was granted an allocation of 3 billion rand—$150 million—over three years beginning in 2023 to modernize tax operations through digital upgrades, automation, and improvements in taxpayer services and compliance efforts. This investment contributed to tax compliance among South Africa's 32 million registered taxpayers. In the 2024/25 financial year, the voluntary compliance index increased by about 0.4 percentage points to 75.5 percent.[196] Leveraging artificial intelligence, data analytics, and machine learning to enhance tax compliance, SARS generated 301 billion rand—$15 billion—in compliance revenues, a 15.8 percent year-on-year increase. In the 2025/26–27/28 medium-term period, SARS will receive an additional 7.5 billion rand—$385 million—to recruit skilled resources and enhance its capacity in creating a comprehensive compliance ecosystem that enhances its ability to detect noncompliance, enforce tax laws, and reduce tax evasion.[197] Through these measures, SARS aims to bolster its capacity to optimize revenue collection and close the tax gap arising from the estimated 800 billion rand—$41 billion—in uncollected revenues due to unpaid debts, overdue returns, and fiscal leakages.

- *Strengthen governance and institutional frameworks for efficient use of fiscal resources.* Policy reforms to build human and institutional capacity will amplify the effectiveness, transparency, and accountability of the budget-making process to improve collection of fiscal resources.

  Public Expenditure and Financial Accountability Performance Assessment reports in Africa continue to paint a grim picture and highlight weaknesses in public financial management indicators. Effective institutions, including public account select committees of parliaments and audit agencies, provide oversight to help address some of these challenges, prioritizing government investments, reducing waste, and ensuring that public spending aligns with national development goals. There is therefore a need to build capacity of oversight institutions such as parliaments and anti-corruption authorities to enhance their surveillance and reporting of resource allocations. Additionally, there is a need to deepen and strengthen the use of IFMIS to capture resource activities in SOEs, and other implementing government agencies. Such entities can lead to improved accountability and a lower incidence of corruption.
- *Adopt synergistic measures.* The institutional and rule of law frameworks require such measures, including tightening interest limitation rules, enforcing effective transfer pricing regulations, and renegotiating overly generous tax exemptions and stabilization clauses that erode the tax base.[198] African states also need to improve contract negotiation and fiscal regime design. Moreover, enhanced transparency mechanisms—such as mandatory disclosure of beneficial ownership, publication of contracts, and participation in initiatives like the EITI—can reduce discretion and improve public scrutiny.
- *Establish specialized units in tax administrations to combat BEPS.* They should be capacitated with skilled personnel and mandated to investigate and manage complex tax avoidance schemes, including transfer pricing, the abuse of tax treaties, and BEPS practices. Such specialized units should be empowered to provide independent monitoring and verification of production volumes and exports, particularly by

In a world of rapidly changing economic forms and business development, there is a need for tax systems to adapt to changing business models and advances in the digital economy

MNCs operating in Africa's resource sectors. Ultimately, plugging fiscal leakages demands not only technical reforms but also political will to resist vested interests and reclaim Africa's lost revenues for development.

The essence of such specialized units and the critical need for enhanced capacity are highlighted by the case of the Zambian Revenue Authority (ZRA) in a dispute with Mopani Copper Mines Plc (MCM). The dispute related to the pricing of copper sold by MCM to its shareholder company Glencore International AG, located in Switzerland. Long-term technical capacity support from the African Tax Administration Forum, OECD, and World Bank, had improved Zambia's legislative framework for transfer pricing and allowed the ZRA to build up the audit skills of its officials. Leveraging its enhanced capacity the ZRA built its case, contending that MCM had underpriced copper sold to Glencore International, thus reducing its taxable income and hence its tax liability. The ZRA argued that the prices of copper sold to Glencore International were significantly lower than those of similar sales to third parties. In December 2016, the Zambian Tax Appeals Tribunal upheld the tax assessments raised by the ZRA, in a ruling confirmed by the Supreme Court in May 2020.[199]

Building on the current momentum of regional integration and policy sharing under the African Union framework, regional economic communities should tailor regulations to unique regional characteristics

- *Leverage the work of specialized tax and fiscal administration units to strengthen regional and international cooperation in the fight against tax evasion and BEPS.* Governments should establish mechanisms to allow national tax authorities on the continent, and other international jurisdictions, to collect and exchange tax and financial information, particularly on profits earned, taxes paid, and scope of operations in each jurisdiction.

  Lessons can be drawn from the International Conference on the Great Lakes Region in 2010, an initiative implemented to track mineral flows from mine site to export in order to prevent illegal transfers between countries. This resulted in a regional database to store all mineral data, allowing for production, trade, and export statistics to be reconciled.
- *Adopt a coordinated and common approach to enhance regulations on transfer pricing documentation to ensure that countries can conduct thorough compliance checks with transfer pricing rules.* African countries must strengthen their participation in multilateral tax agreements by participating in global initiatives to combat tax evasion. Comprehensive cooperation through multilateral frameworks will enable the continent to play a meaningful role in global tax discussions and reforms, and to ensure a fair distribution of taxing rights that will safeguard tax sovereignty.
- *Endeavor to establish uniform corporate tax rates and transfer pricing regulations to prevent profit shifting between countries.* Building on the current momentum of regional integration and policy sharing under the African Union framework, regional economic communities should tailor regulations to unique regional characteristics so as to ensure optimal tax revenue collection in line with international standards.[200] The African Tax Administration Forum would deliver model laws together with training while the OECD Base Erosion and Profit Shifting framework would provide global standards compliance. National treasuries would enforce the rules domestically. By presenting a united front, African nations can protect their tax base without worrying that individual member states will lose investment.
- *Ensure coordination between nations in tackling corruption at continental level.* The African Union should prevail upon the 11 countries[201] that have not ratified the convention on prevention and combating corruption to do so, as ratification provides a shared road map on the implementation of governance and anticorruption policies, and provides for a common strategy implemented through procurement practices and digitalization of processes to fight corruption by facilitating access to information.
- *Invest in electronic platforms, biometric technologies, and other emerging technologies, such as block chain, for contract negotiations and procurement systems to manage public finances and payment systems at country level.* Kenya's e-citizen platform and IFMIS (used at both the national and county levels of government) is a perfect example. In addition,

countries should build long-term, strong, and independent audit systems, anti-corruption commissions, and well-funded judiciaries, which will hold to account corruption culprits.

- *Work with development partners and institutions, such as the African Tax Administration Forum and the Bank, in building technical capacity to design tax systems that are appropriate to conditions specific to Africa.* African governments need to do this because African countries have been recipients of ODA since independence, and without a paradigm shift with the current policy changes by major donor countries, many African countries will struggle to meet their budgetary obligations. Current global policy changes are weighing heavily on the continent given that tax revenue—a major resource envelope—faces hurdles due to gaps in tax administration and collection.
- *Mobilize alternative resources for sustainable funding, such as commodity taxation.* Investing in digital tax systems, too, can yield higher tax revenues.

Enhancing natural capital asset mobilization

- *Establish legal requirements for disclosing all mining, oil, and gas contracts through public disclosure of payments and licensing agreements.* Governments would, in this way, aim to enhance transparency and accountability, and instill prudent use of public resources. The information would be accessible through centralized online registries that operate like Liberia's Open Contracting Portal. The EITI standards would operate as mandatory requirements while independent audits would ensure compliance. National ministries that oversee mining and energy along with anti-corruption agencies would serve as lead actors. The monitoring would be done through collaboration with global transparency initiatives like the EITI. Such contracts on transparency have led to positive outcomes in a country like Guinea where authorities managed to renegotiate $1.3 billion worth of mining deals.
- *Adopt a common framework for using open auction systems instead of closed-door negotiations to maximize financial returns from natural resources.* The bidding process would 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. The Mozambique example can serve as a blueprint for auctioning natural capital contracts: the country's competitive auction system for liquefied natural gas licenses introduced in 2014 generated more than 30 percent additional government revenue, while reducing political influence and boosting financial gains. Other African countries could follow Mozambique's approach to reduce the corruption that emerges through political influence leading to substantial losses of funds and continued patronage between investors and political elites. The African Minerals Development Centre would provide technical guidance to national extractives sector regulators charged with responsibility for implementing this system.
- *Enforce domestic value retention through resource-based industrialization targets.* Authorities in Africa's resource-intensive economies should mandate and incentivize local value addition in extractive industries through legally enforceable beneficiation requirements and targeted industrial policies. This moves 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 and petroleum agreements requiring local beneficiation, including refining bauxite to alumina and copper smelting; establishing mineral processing zones or industrial parks near resource sites; offering tax breaks, access to infrastructure, or credit guarantees to firms investing in processing plants; and developing local content certification systems and databases of domestic suppliers.
- *Establish domestic resource use requirements in contracts.* Negotiate and enforce domestic market obligations (DMOs) that require extractive firms to allocate a portion of their output (such as gas or crude oil) to domestic power generation or refining, thus reducing import dependency and supporting

African governments need to work with development partners and institutions to design tax systems that are appropriate to conditions specific to Africa industrialization. To achieve this, African countries need to integrate DMOs into production-sharing contracts or mining development agreements; develop PPPs to build and operate refineries or gas-to-power plants; facilitate access to infrastructure, including pipelines, grids, and storage; and monitor DMO compliance and pricing.

- *Develop regional mineral value chains through cross-border industrial hubs and agreements.* There is growing recognition of the importance of value chains for industrialization and regional integration. To support efforts to expand production possibilities and enhance cross-border use of natural and human resources, African countries need to facilitate regional industrialization by forming cross-border value chains for critical minerals, such as lithium, cobalt, and rare-earth elements, using harmonized policies, joint infrastructure, and market integration through the African Continental Free Trade Area (AfCFTA). This move will require collaboration by countries to negotiate bilateral or multilateral agreements on shared processing infrastructure, such as the Democratic Republic of Congo–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, with the backing of national and regional development finance institutions, pool development finance for industrial zones, research and development centers, and logistics hubs.

African countries need to improve the regulatory environment via market infrastructure development and reforms focusing on strengthening investor protection

Improving financial capital asset use

- *Improve the capital markets regulatory environment to meet the ambitions for mobilizing long-term savings through local capital markets.* If African countries are to ensure an effective role for capital markets in offering alternative investments to support Africa-wide efforts to further develop and diversify their economies, they will need to improve the regulatory environment via market infrastructure development and reforms focusing on strengthening investor protection, including measures such as robust disclosure requirements and implementing clear, consistent, and enforceable regulations that promote transparency, in order to foster market ecosystems. Establishing robust and efficient capital markets will require African governments, the private sector, and development partners to scale up investments in capital market infrastructure, including payment systems, securities settlement systems, central counterparties, central securities depositories, and trade repositories. African governments and financial market regulatory authorities should encourage investments in technologies that lower traditional barriers to entry and facilitate broader investor participation in capital markets.

  One example is investment in asset tokenization—the digital representation of assets—whether financial (bonds, equities), tangible (real estate, commodities), or intangible (digital art, intellectual property), on a blockchain platform (or distributed ledger technology). The digitization of assets provides opportunities for capital markets to leverage smart contracts to streamline processes, reduce the need for intermediaries, and enhance security, all of which contributes to increased access for local and global investors.[202] Countries across the continent can leverage the Bank's recently launched \$10 million fund to support the development of blockchain and tokenization projects and expand domestic measures to benefit from an African tokenization market that is expected to reach \$100 billion in 2025.[203]
- *Harmonize regulatory and administrative frameworks, reduce barriers to cross-border investment, and foster greater cooperation among national financial institutions to yield more robust capital markets.* Despite having some of the world's best-performing stocks and bonds,[204] Africa's capital markets are largely inaccessible to investors outside the jurisdictions where they are domiciled. Many of Africa's exchanges are fragmented, using disparate technologies, and operating under outdated regulations and frameworks. The siloed nature of these markets and limited data on risk profiles of assets have made investing complex and costly, and limited access to capital and high-growth financial assets. To overcome these challenges, private sector-established

brokerages and investment finance institutions, partnering with multilateral organizations such as the African Securities Exchanges Association and the Bank, should facilitate transnational platforms for the seamless movement of investments across exchanges and licensed investment firms, with regulatory safeguards to provide investors with incentives to trade in markets beyond their domicile jurisdictions in Africa.

- *Commit to implementing common settlement systems, encompassing technological infrastructure, rules, and processes.* In doing so, African countries will enable the exchange of financial assets or securities between different parties and allow for multiple types of infrastructure spanning payments and securities settlement systems to digital currency architectures. The Pan-African Payment and Settlement System (PAPSS) platform—the cross-border financial market infrastructure enabling payment transactions across Africa—should be fully adopted into African countries' capital and trading frameworks. In a continent with more than 40 currencies, the full rollout of PAPSS will enable Africa to reduce reliance on third currencies, significantly boost intra-Africa trade, and facilitate investments in native currencies, thus allowing for an easier pathway to broaden investor participation across multiple exchanges on the continent.
- *Embrace PPPs with international institutions such as the one between the Kenyan government and GE Healthcare.* Governments should also leverage regional and continental development financial institutions,[205] which can provide capital and technical expertise. According to the World Trade Organization, trade between African states is only 16 percent of the continent's total trade. This figure is significantly lower than interregional trade in other regions such as Europe (68 percent), North America (40 percent), and Southeast Asia (30 percent). To realize accelerated economic growth, African governments should promote regional integration and trade by taking advantage of the current AfCFTA framework to deepen intra-African trade. This requires initiatives on improved transport networks, customs procedures, and trade-related institutions.

  Lessons can be drawn from three recent African success stories. First, the Busia One-Stop Border Post Project between Uganda and Kenya, launched in 2010. The project has cut the average time it takes to cross from Busia (Uganda) to Busia (Kenya) by 80 percent. The customs processing time in Busia, Kenya, is down by 98 percent, while that of Busia, Uganda has fallen by 69 percent. Second, the Chirundu Border Post in Zimbabwe, launched in 2005 and that has enabled faster movement of people, vehicles, and goods between Zimbabwe and Zambia. And third, the East Africa Trade and Transport Facilitation Project, launched in 2006 that has reduced transit time from Mombasa to Kampala from 15 to 5 days.
- *Improve the investment climate for diaspora bonds, given their potential to support infrastructure in Africa, through five approaches.* Governments should first strengthen governance of bonds, including reporting in detail how the proceeds are used. Transparency and accountability are paramount when engaging with the diaspora community. These include financial reports, milestones achieved, challenges faced, and future plans. Clarity on regulations governing issuance of diaspora bonds and effective communication with migrant networks is critical. This is important for reducing information asymmetries that could exacerbate investor risk. Second, governments should target specific projects that produce economic value to support bond repayment. This requires governments to provide clear and accurate information about the bonds' purpose, the projects they will fund, how the funds will be allocated among different projects, the expected outcomes, and the potential risks involved.

  Third, due to general mistrust of governments in honoring repayment obligations, governments should clearly demonstrate the link between the bonds and a credible country development strategy that advances sustainable economic growth. Building trust among potential investors is important for the success of bond issuance. African governments should therefore accelerate efforts at good

Transparency and accountability are paramount when engaging with the diaspora community governance, particularly by building trust in public institutions.

Fourth, governments should work to enhance bonds' credit rating in line with the standards of international development agencies and financial institutions. Finally, for any bond to be successful, it must conform with the governance and transparency standards of the Securities and Exchange Commissions of both the issuing country and the host country where the bonds are sold or traded. The Bank could play a pivotal role by creating a platform to engage migrants by establishing mechanisms for guaranteeing diaspora bonds.

Governance intervention at the initial phase of business capital is crucial because small businesses encounter many difficulties in finding start-up financing

Strengthening business capital mobilization

- *Invest in quality institutions, which are crucial 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 frameworks through adequate laws, regulations, and enforcement strategies. For example, in the information and communications technology (ICT) sector, these laws and regulations must cover data protection, trade, and cybercrime, because regulatory and contract enforcement institutions are among the most important sources of comparative advantage in ICT services exports. Strong and democratized digital infrastructure can spur efficient growth across multiple business capital sectors in Africa, such as manufacturing, education, healthcare, retail, and financial services, in two principal ways. First, it can improve sector productivity by enhancing access to information and improving process efficiency. Second, it can boost consumption by providing consumers with greater access to products and services supplied by businesses, promoting development of entirely new ranges of consumption goods and services.
- *Improve access to business financing.* Although Africa has the lowest risk of default on infrastructure among global regions, the cost of capital remains high, constraining access to financing in all sectors. Overcoming this hurdle will first require reducing information asymmetries by promoting local credit assessment agencies. Studies have shown that the presence of credit reference bureaus, credit registries, or collateral registries and similar borrower information-collecting setups help improve financial intermediation and reduce the propensity of default.[206] The institutionalization of credit reporting helps ameliorate problems with information asymmetries.
- *Actively support Africa's start-ups.* Small businesses encounter many difficulties in finding start-up financing. They are considered very risky and often record a high failure rate due to slow sales and insufficient liquidity, even if their assets are more than their liabilities. Survival then depends on the company's ability to raise funds to meet expenses. Governance intervention at the initial phase of business capital is crucial because it is difficult to find capital to invest in companies in this period. If the risk is very high, equity investors hesitate to place their funds in a business, regardless of the potential for growth. Governments should therefore plan tax incentives for angel investors and share the investment risk through public funds for business capital and consider creating specific private-fund and fund-of-funds instruments to build the venture capital industry.
- *Strengthen anti-corruption agencies with the prosecutorial mandate to mitigate emerging corruption.* The current policy uncertainty and unfavorable business climate is fueled by weak governance, which gives room to firms to circumvent the rule of law. Policy reforms focusing on strengthening institutions to respond with timely regulatory frameworks, consistent with improving the private investment climate, would improve governance and make agencies responsive to the rule of law.
- *Develop policy frameworks that encourage collaboration with international partners to jointly mute any emerging internal conflicts to mitigate the current perception of Africa as a high-risk investment destination for foreign investors, while creating incentives for domestic investments.* Opportunities also exist in infrastructure investment such as transport, energy, and ICT, and African countries should partner with

the private sector through enhanced access to blended financing instruments, cofinancing between private investors and development finance institutions, and PPPs.[207] Effective PPPs can help achieve the twin objectives of efficiency gains and mobilization of private capital.

Ensuring human capital development

- *Develop strategic and targeted approaches, such as targeted investment in human capital, with a focus on vocational training and governance.* Success here will retain and build human capacity and enhance continental outcomes. The challenges in Africa's labor markets and broader economic barriers highlight the critical role of governance in facilitating and leveraging human capital for development. Investment in skills development is crucial to unlocking the continent's growth potential, particularly in bridging the mismatches between labor market needs and education outputs. Vocational training—particularly at secondary and post-secondary levels—offers a low-opportunity-cost pathway to boost productivity, especially among youth. Institutional reforms should support rigorous needs assessments of the demand for workers, and the number of years of schooling needed to acquire the skills to meet labor market needs.
- *Allocate a portion of the recommended 20 percent education expenditure (see chapter 2's recommendations) to vocational and technical training, prioritizing infrastructure, qualified trainers, and curricula linked to market demand.* Governments should target at least 5 percent of the proposed 20 percent education outlay at vocational pathways. Evidence suggests that the returns to vocational training are comparable to general education at earlier levels, with much lower opportunity costs.[208] However, to amplify these returns, investments must be complemented by governance reforms, such as the adoption of open procurement systems and digitalized monitoring of attendance and instructional hours in schools and vocational centers. Such digitalization can also help in healthcare service provision. Botswana's healthcare sector, for example, demonstrates how strategic reforms, underpinned by institutional strengthening, can yield lasting improvements.
- *Decentralize human capital development through e-government.* Given the significant regional differences in education needs and human capital gaps across African countries, decentralized approaches are vital for effective delivery. Decentralizing human capital governance—particularly education—enables context-specific reforms that align more closely with local needs, especially in countries with spatial inequalities and regional development imbalances.[209] Progress in education and health governance, such as improved inclusivity and access, has been observed in countries that implemented decentralized frameworks with strengthened institutional support.[210] Yet, corruption and weak enforcement often undermine these efforts, highlighting the need for robust governance structures to support decentralization. Evidence also suggests that education interventions can vary dramatically in impact—by up to a factor of 10—even among countries with similar income levels, underscoring the importance of tailoring reforms to local implementation contexts rather than applying uniform solutions.[211]
- *Embed digital transparency and accountability tools—such as community-based reporting systems—within decentralized education governance, so as to make decentralization effective and measurable.* Governments can use e-government platforms to empower community stakeholders to report malpractices, such as bribery for school admission, monitor teacher absenteeism, and improve service delivery tracking. Such feedback loops strengthen institutional responsiveness and promote human capital development by ensuring that education systems serve communities equitably and efficiently.
- *Implement universal health coverage through strong governance so as to improve health sector performance.* The transfer of power in healthcare governance from central government to local authorities—de facto decentralization—can strengthen subnational government involvement in policy development

Governments should target at least 5 percent of the proposed 20 percent education outlay at vocational and technical training, prioritizing infrastructure, qualified trainers, and curricula linked to market demand

and enhance interaction between policy formulators and implementers. This transfer has the capacity to minimize the political interference emanating from the center, which has compromised the delivery of quality healthcare at community level in many African c ountries. Empirical evidence based on data from Ethiopia demonstrates that decentralization improves performance in the health sector as well as education outcomes. Regional decentralization in health shows incremental effects, with increases in the provision of antenatal care to pregnant women, and in education it raises enrollment rates in schools with institutional quality rather than actual expenditure at local level the main channel of improvement, arising from greater efficiency in public management or better-informed decisions on the supply and demand sides, driven by improved accountability of officials to citizens.[212]

- *Leverage embedded skills in the diaspora for human capital development.* The emigration of highly skilled individuals from Africa is often viewed as a leakage in human capital development—condemned for draining talent despite its contribution through remittances. However, there are broader and more strategic avenues that African countries can pursue to harness the benefits of the diaspora. Contrary to common assumptions, remittances sent back to the continent are not dominated by high-skilled migrants; in fact, lower-skilled migrants often contribute more in absolute terms.[213] This underscores the importance of looking beyond remittance flows and focusing on structured, skills-based migration partnerships.

  A promising example is Morocco's cooperation with the European Union and Germany, which centers on the strategic, sector-specific migration of skilled workers.[214] Such agreements highlight the potential for countries to benefit from migration without suffering a brain drain. One critical lesson for other African nations is the importance of establishing dedicated parastatal agencies to manage and monitor skilled migration. These institutions can facilitate skills transfer, foster diaspora networks, support reintegration of returnees, and ensure that migration contributes meaningfully to local human capital development.[215]

NOTES

1. See Kenya National Ethics and Anti-corruption Policy and South Africa National Anti-Corruption Strategy (2020–2030).
2. UNCTAD 2024.
3. UNCTAD 2025.
4. IMF 2018.
5. OECD 2017.
6. UNU-WIDER 2025.
7. IBFD 2023.
8. Tax Justice Network 2024.
9. Ndikumana and Boyce 2025.
10. HEDA Resource Centre 2020; Global Witness 2013.
11. Republic of South Africa 2021a.
12. Atuobi 2007; Martin and Solomon 2016, Ndikumana and Boyce 2025, Changalima 2023; Dikmen and Çiçek 2023; Ozor and Nyambane 2020; IMF 2011a; Griffore et al. 2023.
13. OECD, AUC, and ATAF 2023.
14. Jahnke and Weisser 2019.
15. Boly et al. 2020.
16. This refers to taxes imposed by more than one jurisdiction—federal, state, and municipal—on the same declared income, financial transaction or asset.
17. Okunogbe and Santoro 2023.
18. GRA 2023.
19. https://www.ataftax.org/impact-story-boosting-zambias-mining-revenue-through-tax-audits-transfer-pricing-legislation-and-license-valuation.
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21. Central African Republic, Cabo Verde, Djibouti, Eritrea, Mauritius, Mozambique, Namibia, Rwanda, Senegal, South Sudan, and Zimbabwe.
22. World Bank 2017.
23. Johnston 2022.
24. https://www.iied.org/formalising-artisanal-cobalt-mining-drc-much-work-remains.
25. See Adam and Simpasa (2009), for the case of Zambia.
26. https://www.afdb.org/sites/default/files/2022/12/14/afdb_acmcs_concise_final_report_23_july_2022_isc.pdf.
27. https://www.econstor.eu/bitstream/10419/249082/1/wp21-074.pdf.
28. See Milej and Ogada (2024) for Kenya and Simwatachela (2024) for the case of Zambia. These cases are not unique to the two countries.
29. 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.
30. https://itweb.africa/content/5yONPvEr4zK7XWrb.
31. https://cointelegraph.com/magazine/tokenization-projects-transforming-farmers-lives-africa/.
32. Afreximbank 2024.
33. Marcellus et al. 2021.
34. 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.”
35. 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.
36. https://ichikowitzfoundation.com/storage/ays/ays2022.pdf.
37. Canen and Wantchekon 2022.
38. 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/.
39. Pagano and Jappelli 1993; Galindo and Miller 2001; Kallberg and Udell 2003; Triki and Gajigo 2014.
40. IMF and World Bank 2021.
41. Afreximbank 2025.
42. Bai et al. 2024.
43. Fadiran and Akanbi 2016; Acemoglu et al. 2001; Hall and Jones 1999.
44. Beine et al. 2008.
45. Cerna and Chou 2023; Lewis and Pettersson 2009.
46. Lewis and Pettersson 2009.
47. Khemani 2019; Finan, Olken, and Pande 2015.
48. Filmer et al. 2021; Finan, Olken, and Pande 2015.
49. 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 skills development.
50. Naidoo 2004.
51. Saint 2009.
52. Hertzog 2017.

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57. See for instance, Stokey (1998) and Sarr and Swanson (2017).
58. Schoeberlein 2022.
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60. Jeppesen 2021.
61. Fjeldstad 2009.
62. Ohemeng and Mohiuddin 2022.
63. Tax Justice Network 2024.
64. IMF 2025.
65. Fjeldstad 2009.
66. Fjeldstad 2009.
67. Fjeldstad and Moore 2008.
68. World Bank 2021.
69. Olujobi et al. 2024.
70. Open Society Foundation 2016; Bazie, Thiombiano, and Maiga 2024.
71. World Bank 2020.
72. IMF 2018.
73. Frankema and Bolt 2006.
74. OECD 2018.
75. OECD, AUC, and ATAF 2023.
76. UNCTAD 2023.
77. See for instance, UNCTAD (2020) and Ndikumana and Boyce (2025).
78. See for instance, Manyerere and Mpambije (2022); Sam Quarm et al. (2020); Khan and Ajayi (2000); Bond and Malikane (2019).
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83. UN 2024.
84. Parliament of Kenya 2024.
85. Republic of South Africa 2021a.
86. Atuobi 2007; Martin and Solomon 2016; Canen and Wantchekon 2022.
87. Ndikumana and Boyce 2025.
88. Changalima 2023; Dikmen and Çiçek 2023; Ozor and Nyambane 2020.
89. Griffore et al. 2023.
90. Ozor and Nyambane 2021; Changamila 2023; Dikmen and Cicek 2023.
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96. Novta and Pugacheva 2021.
97. https://www.sipri.org/sites/default/files/2025-04/2504_fs_milex_2024.pdf.
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COUNTRY NOTES

CENTRAL AFRICA

Cameroon

Recent macroeconomic, financial, and social developments

Real GDP growth rebounded to 3.6% in 2024, compared with 3.2% in 2023. On the supply side, this recovery is mainly driven by the non-oil sector (4.1%), particularly construction, the processing of agricultural products (cocoa and coffee), and cotton production. On the demand side, household consumption and exports were significant factors. Although inflation fell from 7.4% in 2023 to 4.5% in 2024 in line with BEAC's continued restrictive monetary policy, it exceeds the regional threshold of 3%, due to soaring transport prices (15% increase in fuel pump prices) and food products prices. The budget deficit improved from 0.6% of GDP in 2023 to 0.0% in 2024, in relation to the increase in tax revenues coupled with the decrease in subsidies and transfers. Despite the increase in public debt to 45.6% of GDP in 2024, compared with 43.2% in 2023, it remains sustainable, but with a high risk of debt distress. The current account deficit improved to 3.2% of GDP in 2024, compared with 4.1% in 2023, driven by an increase in exports mainly supported by record cocoa world prices, combined with a drop in imports. The quality of the banking system's portfolio has deteriorated slightly, with the ratio of gross non-performing loans rising from 13.4% in 2023 to 14.3% in November 2024.

Despite a drop in the poverty rate (37.7% in 2022, compared with 38.6% in 2021), unemployment remains high (8.7% in 2021, compared with 5.7% in 2010), as does inequality (GINI index of 0.42). The HDI ranks Cameroon 155th out of 193 countries in 2023, with medium human development.

Outlook and risks

Global economic uncertainty should lead to a decline in initial projections, but the recovery in economic activity should continue year-on-year, with growth of 3.7% in 2025 and 4.1% in 2026, supported by iron and gas production and public investment (+16.1% in 2025), including major investment projects in transport and energy infrastructure. The inflation rate is expected to fall to 3.9% in 2025 and to 3.6% in 2026, as prices of agricultural products and crude oil decline. The budget deficit is expected to deteriorate to 0.6% of GDP in 2025, due to lower oil revenues, but should improve to 0.3% of GDP in 2026 from efforts to control current expenditure. The current account deficit should improve to 2.7% of GDP in 2025, but deteriorate slightly to 2.9% in 2026, depending on the implementation rate of the import-substitution plan.

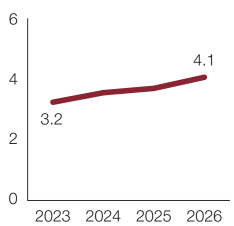
This outlook is subject to risks linked to the security crisis in the northwest, southwest and far north regions, the suspension of US aid and US customs tariffs, presidential elections in 2025 and legislative elections in 2026, and falling foreign exchange reserves. Reconstruction of insecure areas, continuity in health services, raw materials processing, and free and transparent elections could mitigate the risks.

Making capital work better for development

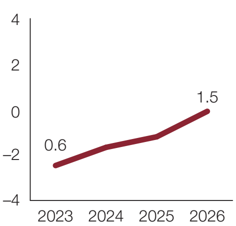
Cameroon's total wealth was estimated at $552.8 billion in 2020, consisting mainly of human capital (54.3%) and natural capital (39.1%). Human resources are constrained by youth unemployment (63% of the population), partly due to poor vocational training. Budget resources are also constrained (persistent pressure on liquidity). Financial resources have improved, with the financial development index increasing from 0.08 in 2010 to 0.1 in 2021, but the size of the sector remains small. Business resources included 430,268 companies in 2023, of which 90.1% were VSEs.

Institutional measures have improved the capacity to mobilize resources: specifically, the Public-Private Partnership Act, electronic invoicing, cleaning up the salary database, and optimizing tax on money transfers. However, Cameroon needs to accelerate structural reforms to stimulate capital mobilization, including revision of the anti-money laundering regime (customs losses of CFAF 114.4 billion in 2023, due to corruption); national initiatives to attract private capital (revision of the 2013 law to streamline investment incentives, preparation of the mini-grid code to mobilize private resources in the energy sector); and reform of public enterprises (restructuring ENEO in the electricity sector, and SONARA in oil refining). The national drive to process local commodities and construction of regional infrastructure to connect Cameroon to other countries in the region must continue.

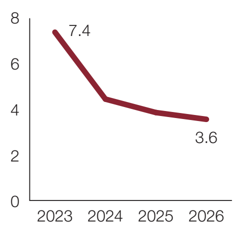
Real GDP growth (%)



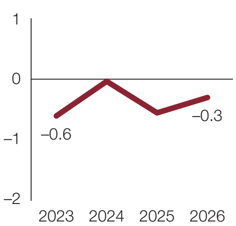
Real GDP per capita growth (%)



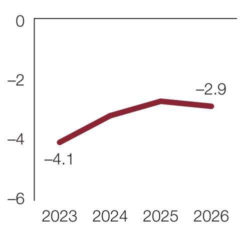
CPI inflation (%)



Budget balance (% of GDP)



Current account (% of GDP)



Source: Data are as of May 2025 and are from domestic authorities; figures for 2024 are estimates and figures for 2025 and 2026 are projections by the African Economic Outlook team.

Central African Republic

Recent macroeconomic, financial, and social developments

The real GDP growth rate of the Central African Republic (CAR) is estimated to be 0.9% in 2024, compared with 0,7% in 2023. Although modest, the improvement can be attributed to the consolidation of peace in the country. On the supply side, growth is driven by improvements in forestry production, food crops, and electricity supply. On the demand side, growth benefited from buoyant public and private final consumption, while net exports contracted due to a 50% drop in gold production, compared with 2023. The inflation rate improved to 1.5% in 2024, compared with 3.1% in 2023, due to recovery in agricultural production and stabilization in the supply of petroleum products. The budget deficit (including grants) rose to 3.6% of GDP in 2024, compared with 3.4% in 2023, driven by a larger primary deficit, estimated to be 9.6% in 2024, compared with 9.3% in 2023. Public debt, estimated to be 58% of GDP in 2024, compared with 48% in 2023, remains sustainable, in spite of the high risk of distress. The current account deficit improved to 8% in 2024, compared with 9.7% in 2023, due to a reduced trade deficit (11.4% in 2024, compared with 13% in 2023).

In 2024, per capita income was estimated to be \$530, while the monetary poverty rate was estimated to be 68%, with high incidence in rural areas (75%). In 2024, the CAR ranked 188 out of 193 on the HDI. The underemployment rate among young people was 45% (UNDP, 2024), and the Gini index in 2024 was 43%, as in 2022, indicating moderate inequality in the country's wealth distribution.

Outlook and risks

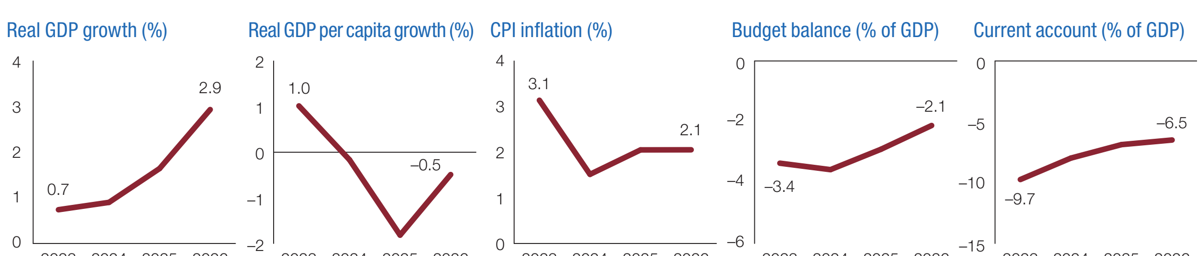
The economic outlook is looking brighter for the CAR, with real GDP growth projected to be 1.6% in 2025 and 2.9% in 2026. Growth should benefit from dynamism in logging, mining, and manufacturing. Inflation is expected to remain below 3%; at 2.1% in 2025 and 2026, due to tighter monetary policy, improved food production, and a more regular supply of petroleum products. The budget balance is expected to improve to –2.9% of GDP in 2025 and to –2.1% in 2026, in line with implementation of tax administration reforms and anti-corruption measures. The current account deficit should improve to 6.9% of GDP in 2025 and to 6.5% in 2026, benefiting from recovery in gold production and upward momentum in gold prices. Risks that could compromise this outlook include reversal of security gains; delays in the implementation of structural projects; climate shocks; and a fall in diamond prices, reflecting the impact of synthetic diamonds. In addition, there are the presidential and local elections scheduled for 2025.

Making capital work better for development

The country's total wealth was estimated to be \$28 billion in 2020 (CWON, 2024). Its overall capital, or total wealth, is dominated by natural capital (72%) and produced capital (15%). The value of human capital improved 12% between 2015 and 2020, due to post-crisis investments in social sectors. However, the country's overall per capita wealth fell 7% to \$5262 in 2020, compared with \$5656 in 2015.

Increasing total wealth will require accelerated investment in both physical and human capital. Increasing mobilization of domestic and external resources is key to achieving this. Therefore, the country has invested in digitization, and in tax expenditure and nontax revenue reform. This should enable investment to improve in coming years.

Exploitation of natural capital, using structural industrialization focused on developing value chains and local content, would help mobilize financial resources, and attract domestic and foreign private investment. The development of financial capital could use products such as green bonds, venture capital, guarantees, and lines of credit to transform the CAR's mining sector.



Source: Data are as of May 2025 and are from domestic authorities; figures for 2024 are estimates and figures for 2025 and 2026 are projections by the African Economic Outlook team.

Chad

Recent macroeconomic, financial, and social developments

Chad's real GDP grew 1.5% in 2024, compared with 4.0% in 2023. The decline in growth was mainly due to a drop in agricultural production resulting from the 2024 floods and a slight reduction in oil production. As a result of higher food prices and a 40% rise in fuel prices, inflation rose sharply to 5.8% in 2024, compared with 4.1% in 2023, adversely affecting private consumption. The public finance situation deteriorated slightly in 2024. The budget deficit increased to 2.1% of GDP, compared with 1.8% in 2023, due to an increase of the current expenditures (pressure on defense and security and huge numbers of refugees from Sudan). Performance was also slightly weaker in terms of oil taxation. In the external sector, the current account deficit slightly narrowed to 9.7% of GDP in 2024, compared with 10.3% of GDP in 2023, despite lower oil revenues.

The incidence of poverty is 42.3%. Extreme poverty increased with the COVID-19 pandemic, rising to 34.9% in 2021 and 35.4% in 2023, compared with 31.2% in 2018. The social situation is deteriorating, mainly due to population displacement, flooding, and, since mid-April 2023, the crisis in Sudan.

Outlook and risks

The 2025–26 outlook for Chad is subject to significant risk factors. Growth is expected to resume in 2025 (1.6% of real GDP), supported by recovery in the agricultural sector. Increased agricultural production could help reduce inflationary pressures over the next two years (inflation could fall to 4.0% in 2025 and to 3.7% in 2026). Implementation of the National Development Plan (PND) should enable a recovery in public investment, which is extremely low (0.5% of GDP in 2024), and support real GDP growth to 3.8% in 2026. However, oil production could decline, following weak recovery in necessary foreign investment, due to aging oil fields (Chad has bought Exxon Mobil's assets). As a result, the external current account could remain in deficit (–9.4% in 2025 and –8.9% in 2026).

The outlook for 2025–26 is subject to several risks, including the 13% tariff imposed by US authorities on Chad's exports. The others are: (i) a possible intensification of regional conflicts (crises in Sudan and Libya, and the Boko Haram movement), with negative effects on macroeconomic performance; (ii) sharp fluctuations in oil prices; and (iii) increase in climate shocks (floods and droughts).

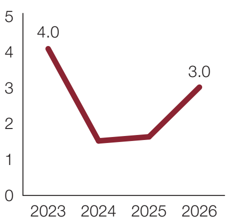
Making the country's capital work better for its development

Chad's capital wealth was estimated to be $120 billion in 2020 (CWON2024), a 90% increase compared with 1995. Its human and natural capitals are the most significant, accounting for 46.7% and 46.5% respectively. With a HCI of 0.30 (the African average is 0.43), a child born today will be 70% less productive as an adult than a child who has received a quality education and benefited from appropriate health services (World Bank, 2021). The private sector is embryonic, mostly informal and largely dominated by microbusinesses (SMEs and SMIs). Above all, it is constrained by poor access to financing and a volatile business environment.

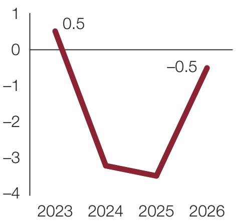
Improving capital efficiency for Chad's development requires a multidimensional approach combining private sector development, improving government efficiency, and attracting international private capital. Chad should focus on improving human capital and technological development to achieve more intensive, stronger, sustainable growth; by improving the quality of teaching, developing technical and scientific education, and promoting research and innovation. The country's natural resources have considerable potential.

It is important for Chad to: (i) build on recent progress to improve indicators related to the business climate and develop a genuine strategy to attract foreign capital; (ii) initiate specific measures to improve overall governance (corruption control, regulation, and efficient public expenditure) to improve investment in human capital. The PND offers synergies in this direction.

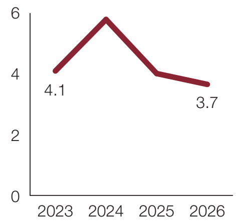
Real GDP growth (%)



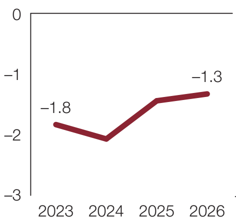
Real GDP per capita growth (%)



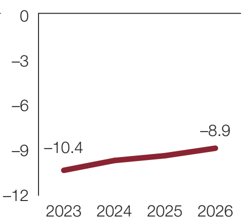
CPI inflation (%)



Budget balance (% of GDP)



Current account (% of GDP)



Source: Data are as of May 2025 and are from domestic authorities; figures for 2024 are estimates and figures for 2025 and 2026 are projections by the African Economic Outlook team.

Democratic Republic of Congo

Recent macroeconomic, financial, and social developments

In the Democratic Republic of the Congo (DRC), real GDP grew 6.2% in 2024, compared with 8.6% in 2023. This was driven by growth in the extractive sector (11.6% in 2024, compared with 19.8% in 2023), which accounts for 39% of GDP, 95% of exports, and 42% of revenues. Other growth drivers were transport and telecommunications (6.8%), and buildings and public works (4.4%). On the demand side, growth was driven by investment (21.3%) and mineral exports (7.7%). GDP per capita growth fell to 2.9% in 2024, compared with 5.3% in 2023. Monetary tightening, including maintaining the key interest rate of 25% raised in August 2023 (up from 8.25% in early 2023), combined with stabilization of commodity prices, helped stabilize CDF depreciation against the US dollar (6% in 2024, compared with 24% in 2023) and lower inflation to 17.9% in 2024, compared with 19.9% in 2023. The budget deficit rose to 2.2% of GDP in 2024, compared with 1.7% of GDP in 2023, in line with security and investment expenditure, specifically for the 145-region Local Development Program (agriculture, education, health, and infrastructure). The debt ratio represents 16.1% of GDP, indicating a moderate risk of overindebtedness. The current account deficit has improved (–3.9% of GDP in 2024, compared with –6.2% of GDP in 2023), in line with improved terms of trade helping to consolidate international reserves (3 months of imports in 2024, compared with 2.7 months in 2023).

The poverty rate was 56.2% in 2020. Growth is non-inclusive, with low human development, and DRC was ranked 180 out of 193 countries with an HDI of 0.481 in 2024. Underemployment is high (73%), and inequality persists, with a Gini index of 51% in 2020.

Outlook and risks

Real GDP growth is set to slow to 4.8% in 2025, then rebound to 5.3% in 2026, driven by extractive industries and services on the supply side, and by investment on the demand side. Inflation is set to fall considerably to 8,6% in 2025 and to 7.1% in 2026, benefiting from BCC's restrictive policy and the tightening of international monetary policy. Despite reforms to rationalize expenditure in line with the IMF program approved in 2025, the security situation will lead to additional expenditure, with the budget deficit expected to reach 3% of GDP in 2025 and 2.7% of GDP in 2026. This prudent management will nonetheless benefit the debt ratio, expected to reach 18% of GDP in 2025–6. Intensification of the conflict in the east of the country, and a fall in mineral prices, are risk factors for growth in the DRC in 2025 and 2026. An end to security tensions will be decisive for implementation of the National Development Plan (PNSD) 2024–28; the new IMF program (around $2.77 billion); and mobilization of private financing and donor support.

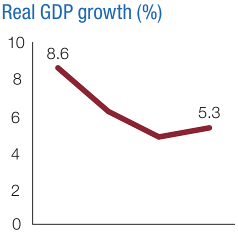
Making capital work better for development

The DRC's wealth, estimated to be $858 billion in 2020 (CWON 2024), consists mainly of natural capital (56%), and human capital (36%). Although total wealth increased, per capita wealth decreased to $9,246 in 2020, compared with $9,540 in 2015, due mainly to a decline in per capita natural capital. The HCI of 0.37 is below the Sub-Saharan Africa country average (0.40).

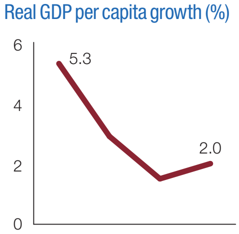
The DRC's natural capital could generate significant revenues. The country is home to most of the Congo Basin's forests, whose climate service value (including carbon sequestration) is estimated to be more than $30 billion, net of deforestation. Transforming this potential into mobilized resources would help meet annual financing needs to 2030, estimated to be $16.7 billion. To make the most of its total capital wealth, the DRC should seek to value the ecosystem services of its natural capital (carbon credits, ecotourism) and make the necessary investment to include them in calculation of its GDP.

More intensive public finance, sector, and structural reforms will be decisive in mobilizing and optimizing use of capital wealth to successfully implement DRC's PNSD 2024–28. The country should accelerate implementation of policy measures supported by the IMF program and that of other partners, focusing on broadening the tax base, enhancing the value of natural capital and local content, and developing human capital, with digitization as an essential ingredient.

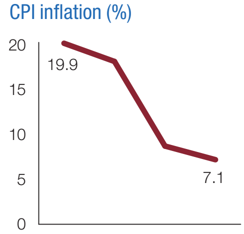
Real GDP growth (%)



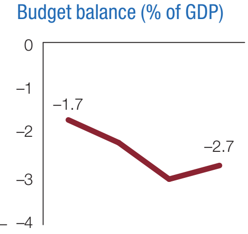
Real GDP per capita growth (%)



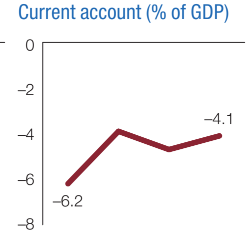
CPI inflation (%)



Budget balance (% of GDP)



Current account (% of GDP)



Source: Data are as of May 2025 and are from domestic authorities; figures for 2024 are estimates and figures for 2025 and 2026 are projections by the African Economic Outlook team.

Republic of Congo

Recent macroeconomic, financial, and social developments

The Republic of Congo's economic recovery is showing gradual, although modest, consolidation, with growth estimated to be 2.8% in 2024, an increase from 2% in 2023. The recovery is driven by the primary and secondary sectors (6.1% and 5.9%, respectively), despite facing technical disruptions in the oil industry and flooding in 2024. On the demand side, the accumulation of arrears has led to a slowdown in public consumption. Inflationary pressures eased slightly to 3.1% in 2024, compared with 4.3% in 2023, due to the Central Bank's restrictive monetary policy, which maintained its key interest rate at 5% throughout this period. Despite a nearly 30% drop in oil revenues relative to 2022, the fiscal balance showed a surplus of 4% of GDP in 2024, as a result of efforts to rationalize public expenditure, focusing on fuel subsidies. However, the country remains in debt distress with public debt decreasing yet remaining high at 94% of GDP in 2024, down from 99% in 2023. Lower hydrocarbon exports reduced the current account surplus to 2.4% of GDP in 2024, against 6.2% in 2023. The substantial issuance of treasury securities has considerably increased bank's exposure, with public debt representing 26% of their total assets in 2023, and alongside a high level of non-performing loans (NPLS) at 15%, despite a downward trend.

Due to a variety of shocks, the poverty rate rose to 46.8% in 2023, compared with 33.5% in 2015, with a GINI index of 48.9% indicating high inequality. In addition, the HDI has been falling since 2015, ranking Congo 149th out of 193 countries in 2022.

Outlook and risks

The economic outlook is favorable, with growth projected at 3.5% in 2025 and 3.4% in 2026, driven by investment in new oil and gas fields, the implementation of the protected agricultural zone (ZAP) strategy aimed at boosting agricultural production, and the initiation of new mining projects. Furthermore, the expected easing of liquidity pressures in 2025 is likely to facilitate the reduction of public arrears and stimulate demand. Inflation is projected to decline around 3% by 2026, resulting from an ongoing restrictive monetary policy. The fiscal balance surplus is projected to be 2.8% of GDP in 2025 and 2.4% of GDP in 2026, due to rationalized expenditure enabling a significant 10 percentage point reduction in public debt by 2026 (84% of GDP). The expected decline in exports, due to a decrease in oil prices in the first quarter of 2025 following US tariff measures, will contribute to lowering the current account surplus to approximately 1.5% of GDP in 2025–26.

However, these prospects face risks, including geopolitical tensions, oil-related vulnerabilities linked to new US tariffs, and the impacts of climate change. The momentum from short-term reforms and diversification efforts through agricultural processing, ecotourism, and renewable energy sectors is expected to help mitigate these risks.

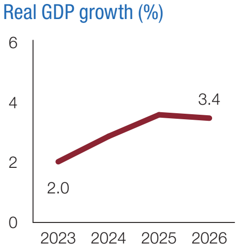
Making capital work better for development

Republic of Congo's total wealth was estimated at $224 billion in 2020 (CWON 2024), consisting mainly of human capital (39%) and natural capital (38%). However, between 2015 and 2020, wealth per capita fell by 7%, from $42,141 to $39,252, mainly due to a decline in per capita natural capital. The underdeveloped private sector mainly consists of Very Small Enterprises (92.6%) and is hampered by inadequate access to a financial sector that is small and highly concentrated.

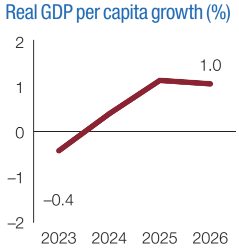
Given the reduced fiscal space due to debt destress, active participation in the carbon market, and the equitable valuation of carbon sequestration would enable to access additional capital to finance its development agenda. To effectively manage this substantial potential of its natural capital (both renewable and non-renewable), the Government should increase public investment aimed to transform this asset into human and physical capital to diversify the economy and better adapt to the effects of climate change.

Considering the country's debt distress, it also remains essential to ensure macroeconomic stability by strengthening debt sustainability through rationalizing energy subsidies and broadening the tax base. The Government could also fast track reforms to enhance governance, improve the business environment, and accelerate the valuation of natural capital by integrating it into national accounts.

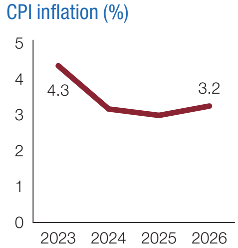
Real GDP growth (%)



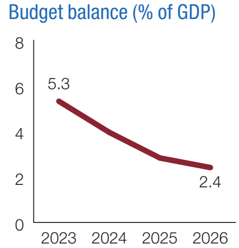
Real GDP per capita growth (%)



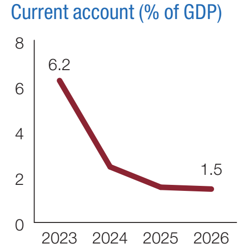
CPI inflation (%)



Budget balance (% of GDP)



Current account (% of GDP)



Source: Data are as of May 2025 and are from domestic authorities; figures for 2024 are estimates and figures for 2025 and 2026 are projections by the African Economic Outlook team.

Equatorial Guinea

Recent macroeconomic, financial, and social developments

Equatorial Guinea's economy recorded real GDP growth of 1.7% in 2024, following a contraction of 5.1% in 2023, due to increased hydrocarbon production (46.1% of GDP, more than 90% of exports). On the demand side, activity was driven by recovery in exports, specifically oil, estimated to rise 6.9%, following a sharp drop of 28.9% in 2023; and buoyant private investment (up 13.3%). Inflation eased slightly to 1.8% in 2024, compared with 2.5% in 2023, driven primarily by higher fuel prices. However, BEAC kept its key interest rate stable at 5% in 2024. The increase in tax revenues from hydrocarbon exploitation and fiscal consolidation efforts have led to an improvement in the budget balance, which rose from 2.4% in 2023 to 2.7% of GDP in 2024. Public debt is provisionally estimated to be 33% of GDP in 2024, remaining sustainable but vulnerable to a downward trend in hydrocarbon production and fluctuations in oil prices. On the external front, after a slight surplus of 0.1% in 2023, the current account showed a deficit of 1.1% of GDP in 2024, due to weak hydrocarbon exports and rising imports of goods and services. The financial sector remains under pressure, with many banks still undercapitalized. Nevertheless, NPLs as a percentage of total loans fell to 31% at end-December 2023, compared with 55% in 2022.

According to the second household survey published in 2024, the poverty rate fell to 50.7% in 2023, compared with 76.8% in 2006. The Gini index is an estimated 38%. Equatorial Guinea was classified as a medium human development country (HDI of 0.650) in 2022, with inequalities explained by high unemployment (13.3% in 2023)

Outlook and risks

Economic activity is expected to deteriorate in 2025, with negative growth of 4.0%, due to a projected decline in production and demand for crude oil and hydrocarbon prices. In 2026, it is expected to pick up slightly, with a growth rate of 0.2%, dependent on oil production and planned investments in the fisheries sector. However, Equatorial Guinea intends to revitalize its oil sector with a new licensing round in 2025 to increase hydrocarbon exploration and production. Inflation is expected to be 2.4% in 2025 and 2.6% in 2026, below the CEMAC threshold of 3%. The budget balance will be in deficit, at 1.2% of GDP in 2025 and 1.6% of GDP in 2026, due to declining budget revenue associated with lower oil activity. The current account deficit should widen further to 3.7% of GDP in 2025 and 4.1% of GDP in 2026, due to the expected decline in hydrocarbon export revenues. These projections are subject to risks of a more rapid depletion in oil reserves and a significant drop in investment in the hydrocarbon sector.

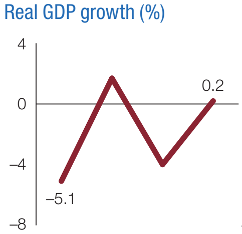
Making capital work better for development

Equatorial Guinea's diversified capital base consists primarily of produced capital ($54,287 million) and natural capital ($51,908 million). With the decline in oil reserves, per capita natural capital has fallen 40.2% since 2011 (including non-renewable resources, which have fallen 46.5%). The unfavorable business environment has not encouraged an inflow of financial and commercial capital into non-oil sectors. In addition, the tax system's poor performance limits fiscal room for maneuver. The productivity of human capital is low, due mainly to the population's lack of technical and professional skills.

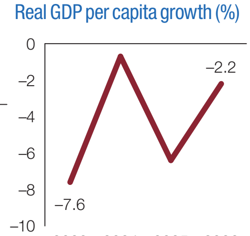
Equatorial Guinea's ability to mobilize diversified capital remains poor. Improvements in the regulatory framework and fiscal governance are needed to stimulate investment and budget efficiency. The country has undertaken reforms to improve public finances as part of a non-financial program with the IMF, including reduction of fuel subsidies, combined with a price increase; suspension of all non-oil tax exemptions; and creation of a one-stop shop for business registration.

The Government is also committed to improving governance, transparency, and the rule of law to create a favorable environment for private investment and capital mobilization. However, the country needs to strengthen management of natural resources, improve its ability to mobilize non-oil revenues to reduce dependence on hydrocarbons, and rationalize public expenditure. Additional margins could be invested in health and education to promote human capital and sustainable development.

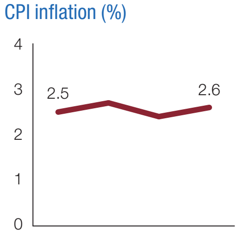
Real GDP growth (%)



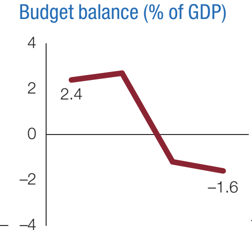
Real GDP per capita growth (%)



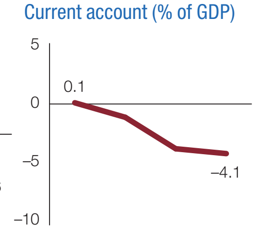
CPI inflation (%)



Budget balance (% of GDP)



Current account (% of GDP)



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Gabon

Recent macroeconomic, financial, and social developments

Economic growth rose to 3.1% in 2024, compared with 2.4% in 2023, due to dynamism in subsistence agriculture (up 3.3%), construction (up 47.8%), and services (up 3.2%). On the demand side, recovery is driven by stronger public and private investment (up 21.4% and 7.4%, respectively). Inflation fell to 1.2% in 2024, compared with 3.6% in 2023. This is due to the restrictive monetary policy of BEAC, which has maintained its key interest rate at 5%, and to strengthening measures to support purchasing power. The budget deficit widened to 3% of GDP in 2024, compared with a surplus of 1.8% in 2023, as a result of an expansionary fiscal policy and the high debt burden (3% of GDP). The risk of overindebtedness is high, with a debt/GDP ratio of 73,4% in 2024, and the recurrent buildup of payment arrears. As risk exposure was high, Gabon's banks reduced their credit to the state by 37.25% in 2024, at a time when a 100% increase in the weighting applicable to credit risk coverage had been imposed on their credit to the state of Gabon for noncompliance with convergence criteria. The current account surplus fell to 5.7% in 2024, compared with 6.8% of GDP in 2023, in line with contraction in the trade surplus (exports down 1.4%) and the high deficit in the balance of services and income.

Gabon's HDI is high (0.733 in 2023, 108th out of 193 countries), but poverty and unemployment remain high (34.6% and 20.1%, respectively, in 2024) due to the low impact of growth on employment. Unemployment particularly affects young people (36.0%) and women (28.7%).

Outlook and risks

Gabon's economy is set to slow, with growth rates projected to be 2.3% in 2025, and 2.1% in 2026, due to the decline in oil production (–2.1% in 2025 and –4.7% in 2026) from aging oil fields. Non-oil GDP, on the other hand, should increase, due to dynamism in agriculture (timber and palm oil), mining (manganese), construction, and domestic demand. Anti-inflationary measures will keep inflation down to 1.7% in 2025 and to 2.3% in 2026. The budget deficit will widen as a result of higher public expenditure and lower oil revenues. The current account surplus will shrink to 2% in 2025 and to 1.3% in 2026.

This outlook could be jeopardized by: a fall in demand and prices for the main export products, linked to tensions in international trade; logistical disruption due to the deficit and to deteriorating infrastructure; and the deterioration in the fiscal situation. The adoption of fiscal consolidation measures, and improved allocation of resources to productive investment should help mitigate these risks.

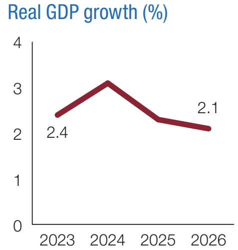
Making capital work better for development

Gabon's total capital wealth was estimated at $104.5 billion in 2020 (CWON 2024), 35% more than in 1995. It consists essentially of natural capital (44.1%) and human capital (32.9%). Gabon's financial and entrepreneurial capital is underdeveloped, with only one company listed on BVMAC (BGFI Holding is in the process of being listed), and a predominance of microenterprises (95.7%) and informal businesses (62.9%). Given Gabon's potential, its capital is underexploited (88% of forest cover, low processing capacity, poor export diversification, 800 km of coastline).

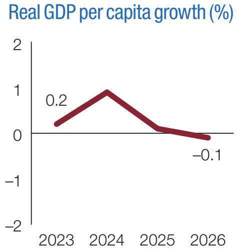
Total natural resource rents represent 18.5% of GDP, of which 84% from oil and 14% from forestry. In 2024, the oil sector accounted for 46% of tax revenue and the non-oil tax burden was 17.6% of non-oil GDP. The significant cost of operating expenses (110.1% of tax revenue in 2024) reduces the effectiveness of these resources in terms of development.

To leverage its capital, Gabon should (i) enhance and diversify its natural capital through development of value chains and exploitation of other assets (carbon credits, ecotourism); (ii) improve the business environment by investing in transport, energy and logistics infrastructure, human capital, financial development, and SEZs; (iii) improve governance (specifically, by fighting corruption and through business formalization); and (iv) develop the statistical system to integrate natural capital into GDP.

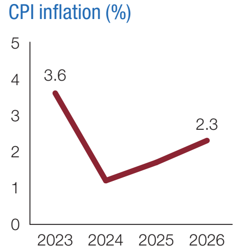
Real GDP growth (%)



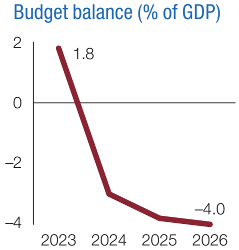
Real GDP per capita growth (%)



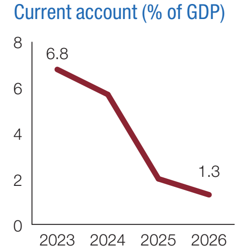
CPI inflation (%)



Budget balance (% of GDP)



Current account (% of GDP)



Source: Data are as of May 2025 and are from domestic authorities; figures for 2024 are estimates and figures for 2025 and 2026 are projections by the African Economic Outlook team.

EAST AFRICA

Burundi

Recent macroeconomic, financial, and social developments

Burundi's economic performance improved slightly in 2024, despite persistent fuel shortages, a weak currency, and frequent power cuts. Real GDP growth in 2024 is estimated to be 3.9%, compared with 3.3% in 2023. On the supply side, growth was driven by agricultural exports and services; on the demand side, by public investment and consumption. Despite a restrictive monetary policy, but fueled by the monetary financing of the budget deficit and a high exchange rate premium on the parallel market (160%), inflation ended at 20.2% in 2024, compared with 27.1% in 2023. Following a rise in GDP, the budget deficit improved to 4.8% of GDP, compared with 5.8% of GDP. The debt/GDP ratio stood at 50.4% of GDP in 2024, compared with 53.8% in 2023, according to the Bank of the Republic of Burundi. According to the IMF, public debt remains viable but presents a high risk of debt distress. The current account deficit improved to 8.5% of GDP in 2024, compared with 14% of GDP in 2023, driven by a fall in the value of imports, due to low foreign exchange reserves (1.6 months of imports at end-2024) and by improvement in the balance of primary and secondary income. Between December 2023 and December 2024, the performance of the financial sector was marked by an increase in the NPL ratio, following a rise in GDP from 34.9% to 38.6% and a fall in the overall solvency ratio from 20.3% to 18.6%.

Poverty remains a concern, with 65.1% of the population living on less than $2.15 a day (PPP 2017) in 2024. The social situation may have deteriorated further, following recent inflationary pressures. The unemployment rate is only 2.8%, but underemployment remains high (53.4%).

Outlook and risks

The economic outlook for 2025 and 2026 is fragile, with real GDP growth rates projected at 3.7% and 3.9%, respectively. This performance is driven by export-oriented agriculture, mining, power generation and construction, and public spending. Inflation is expected to be 39.1% in 2025 and 30.9% in 2026, due to escalating trade tensions and the monetization of the budget deficit. The deficit is expected to rise to 5.1% of GDP in 2025, before improving to 4.4% of GDP in 2026, following greater revenue digitization. The current account deficit should deteriorate to 8.7% in 2025, and 8.3% of GDP in 2026, due to fewer transfers and a deteriorating trade balance.

However, this outlook could be jeopardized by higher inflation, falling prices for the country's main raw materials, debt repayment difficulties, climate hazards, and the regional security situation. The upside would be due to higher mining exports. Continued reforms to modernize monetary and exchange rate policy, to increase internal revenues, and to diversify the economy are essential to contain adverse risks.

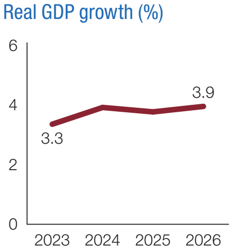
Making capital work better for development

Burundi has diversified resources. Over 1995–2018, its per capita renewable natural capital fell 66.3%, due to unsustainable exploitation, whereas per capita nonrenewable natural capital increased 10.3%, dominated by mineral resources. The country's human capital is based on a young population faced with the challenges of training, underemployment, and poverty. Its domestic financial market and commercial resources are poorly developed. Finally, the fiscal space is narrow, with an estimated tax burden of 12% in 2024.

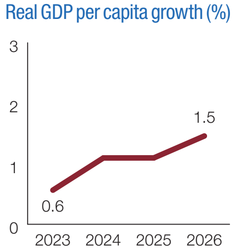
Despite the existence of an attractive investment code, the Government's ability to mobilize and effectively use capital for development needs to be strengthened. Challenges remain, notably in terms of making adequate use of natural resources; strengthening contract enforcement; allocating appropriate resources to infrastructure (transport and energy) and to social sectors (health, education, and technical and vocational education especially); and developing public-private partnerships.

Institutional and governance reforms are needed in Burundi to improve the mobilization and use of different types of capital: strengthening the independence of the judiciary and the fight against corruption to create a framework conducive to private investment; improving internal revenue collection through digitization; and controlling current expenditure to create fiscal space for more investment in infrastructure and human capital.

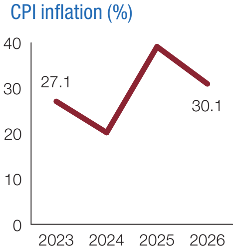
Real GDP growth (%)



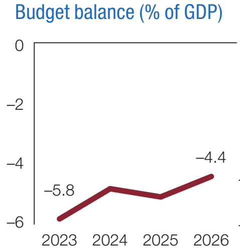
Real GDP per capita growth (%)



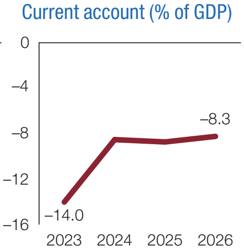
CPI inflation (%)



Budget balance (% of GDP)



Current account (% of GDP)



Source: Data are as of May 2025 and are from domestic authorities; figures for 2024 are estimates and figures for 2025 and 2026 are projections by the African Economic Outlook team.

Comoros

Recent macroeconomic, financial, and social developments

Economic recovery continued in 2024, with real GDP growth of 3.5%, compared with 3.1% in 2023. However, growth was weaker than expected, mainly because of climate change and the cholera pandemic. On the supply side, growth benefited from the resilience of the agricultural, trade, and construction sectors. On the demand side, growth was driven by consumption and investment. The annual inflation rate in 2024 was still high (5.1%), although down compared with 2023 (9%), due to rising food prices. The budget deficit deteriorated in 2024 to 3.2% of GDP, due to lower tax revenues, mainly from income tax, against a backdrop of rising current public expenditure. However, the primary balance, fell to –1.2% of GDP in 2024, compared with –2% of GDP in 2023, due to delays in the execution of certain capital expenditures. With new payment arrears accumulating, the public debt/GDP ratio increased to 35.8% in 2024, compared with 34.8% in 2023. However, the level of public debt remains sustainable, despite a high risk of overindebtedness. The current account deficit also deteriorated to 3.5% of GDP in 2024, compared with 2% of GDP in 2023, mainly due to a decline in the country's main exports. However, Comoros's foreign exchange reserves have remained at a comfortable level (approximately 7 months of imports). The financial sector is embryonic and not very inclusive.

The current poverty rate is estimated at 38.4%, unemployment at 6.5%, although underemployment remains significant. The country ranks 152 out of 193 on the HDI. Income inequality is extremely high (GINI index below 45%) and infant mortality is approximately 43 deaths per 1,000 births.

Outlook and risks

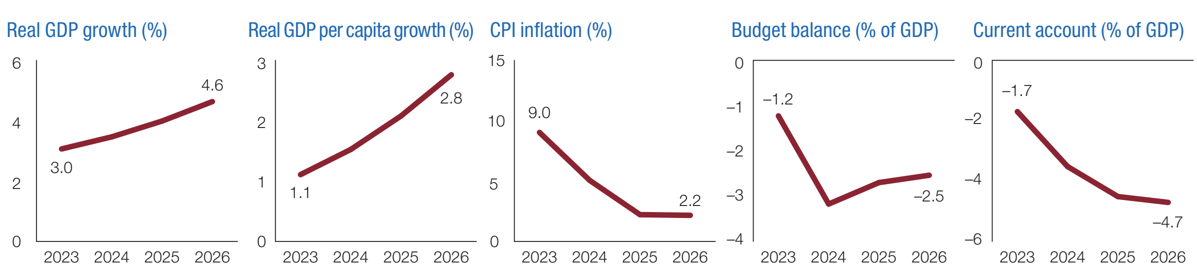
Economic growth is anticipated to accelerate in 2025 and 2026, reaching 4.2% and 4.6%, respectively. This favorable economic outlook should benefit from continued growth in the primary sector (agriculture and fishing), consolidation in construction, trade, and tourism, and strong investment and consumption. Tightening of monetary policy by the Central Bank of Comoros should reinforce the downward trend in inflation in 2025 and 2026 (2.2%). Implementation of public finance reforms in 2025 and 2026 should reduce the budget deficit to 2.7% of GDP and 2.5% of GDP, respectively, driven by improved public revenue mobilization and controlled public spending. However, the favorable economic outlook for 2025 and 2026 is exposed to a number of risks, including deterioration in the political and social climate following the January 2025 legislative elections, deterioration in the international economic situation, and the negative effects of climate change. To guard against these risks, Comoros should consolidate implementation of economic and financial reforms, and reform of the country's governance, while speeding up execution of development projects financed by its main technical and financial partners.

Making capital work better for development

Comoros has a variety of assets (capital), whose contribution to economic growth has so far remained poor. Natural capital, consisting of renewable natural resources (farmland, forests, fisheries), is declining on a per capita basis. Human capital remains deficient due to weak education and health systems, accentuated by the demographic challenge of a population with 60% aged under 25. Fiscal space remains insignificant, while the financial sector, consisting solely of financial institutions, is embryonic.

Capital mobilization and allocation in Comoros are severely hampered by the weak institutional and human capacities of the state. Thus, due to weak tax and customs administrations, the Comoros currently mobilizes only approximately 16% of GDP, compared with 31% of GDP for similar island countries. Improving efficiency in public expenditure also remains a major challenge, as demonstrated by the diagnosis of the country's new Public Financial Management Reform Strategy (SRGFP 2024–34).

Strengthening the country's institutional and governance frameworks is essential for improving capital mobilization and allocation in Comoros. This is the first of the five catalysts identified in the Comoros Emerging Plan 2030 (PCE 2030)1 for achieving its objectives. As recommended in the PCE, these include improving public administration, strengthening the justice system and the fight against corruption, improving the business climate to encourage private investment, and consolidating public finance management.



Source: Data are as of May 2025 and are from domestic authorities; figures for 2024 are estimates and figures for 2025 and 2026 are projections by the African Economic Outlook team.

1 PCE 2023 was adopted in 2019.

Djibouti

Recent macroeconomic, financial, and social developments

Djibouti's economy recorded strong growth of 6.6% in 2024 (albeit down from 7.4% in 2023) despite continuing tensions in the Red Sea. On the supply side, this performance was driven by port activities, specifically container traffic (up 48%) and transshipment operations, energy production, and the telecommunications sector. On the demand side, growth was driven mainly by net exports and domestic consumption. Due to higher food and beverage prices, inflation rose to 2.1% in 2024, compared with 1.5% in 2023. After a deficit of 3.5% of GDP in 2023, the public finance situation improved markedly in 2024, with a slight budget deficit (–0.3% of GDP, commitment basis) due to greater tax and nontax revenues. However, public external debt is considered unsustainable, with an estimated debt/GDP ratio of 64% in 2024, compared with 69.4% in 2023. The current account surplus rose to 22.2% of GDP in 2024, compared with 18.1% of GDP in 2023, due to the improved balance of goods and services. In 2024, official foreign exchange reserves were estimated to be approximately 5 months of imports. The financial sector remains solid overall, with a high solvency ratio (17.5%) and the NPL share in the banking system maintained at 4.1% of total loans.

In 2024, the population poverty rate was estimated at 35.5%, compared with 36.9% in 2023. The Gini index was 41.6% in 2017. Unemployment remains high (26.1% in 2017). The situation is particularly serious for young people (73%).

Outlook and risks

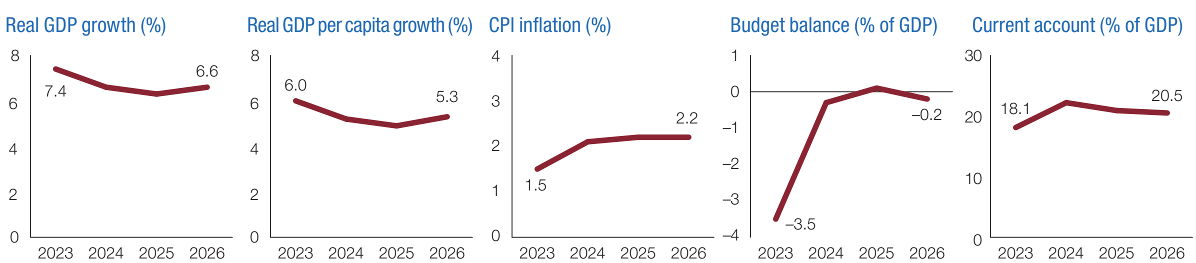
The economic outlook remains positive overall, with growth forecast at 6.3% in 2025 and 6.6% in 2026, supported by continued transshipment operations and a recovery in construction. With ongoing supply chain disruptions and uncertainties related to international conditions, inflation is expected to increase to 2.2% in 2025 and 2026. Tight management of public finances should result in a small budget surplus of 0.1% of GDP in 2025, followed by a budget deficit of 0.2% in 2026. The current account surplus should remain stable at around 21% of GDP in 2025–26, due to robust merchandise re-exports. However, several risks could overshadow this favorable outlook, including a slowdown in port traffic, difficulties in repaying external debt, a partial detour of Ethiopian transit, and the effects of climate change. Diversification of growth drivers and public finance reform could help reduce these risks. Factors likely to encourage higher growth include prospects for strong expansion in Ethiopia and improved shipping in the Red Sea.

Making capital work better for development

Djibouti has relatively limited national resources. Nonetheless, natural capital, dominated by renewable natural resources, grew 119% in value, and 44% per capita between 1995 and 2018. Human capital is severely hampered by lack of technical and professional skills, particularly among young people. Room for budgetary maneuver is particularly narrow in Djibouti. In terms of financial resources, the country remains dependent on international financing flows and FDI. Commercial resources remain concentrated in the transport and logistics sectors, due to lack of economic diversification.

Djibouti faces major difficulties in mobilizing and exploiting its domestic resources effectively. Strengthening the rule of law and regulations could leverage capital mobilization. Despite improvements in the business climate, contract enforcement and investor protection remain major challenges. Support for formalization, along with improved corporate governance, would unlock the country's capital potential.

Djibouti should initiate institutional and governance reforms to improve capital mobilization and fiscal efficiency: reforming public subsidy policy, developing public-private partnerships, and strengthening the state's governance institutions. Better management of national resources would create the necessary fiscal space for priority investments in key sectors, such as education, health, and infrastructure.



Source: Data are as of May 2025 and are from domestic authorities; figures for 2024 are estimates and figures for 2025 and 2026 are projections by the African Economic Outlook team.

Eritrea

Recent macroeconomic, financial, and social developments

The macroeconomic and financial environment improved between 2023 and 2024. Real GDP expanded slightly from 2.8% in 2023 to an estimated 2.9% in 2024, driven by industry (notably mining) and services on the supply side, and by household and public consumption on the demand side. Monetary policy was contractionary. Inflation subsided from 8.1% in 2023 to 1.1% in 2024, supported by improved supplies and stability in global supply chains. The exchange rate is fixed at 15 Nakfa to the US dollar. The fiscal deficit narrowed slightly to 3.4% of GDP in 2024 from –3.5 in 2023 due to fiscal consolidation, with the tax-to-GDP ratio remaining stable at about 17%. The public debt-to-GDP ratio was estimated at 164% for 2024, with domestic debt accounting for 68%, implying some foreign currency risk. (Eritrea's last debt sustainability analysis was undertaken in 2019 and is not publicly available.) The current account surplus decreased from 14.1% in 2023 to an estimated 12.4% of GDP in 2024 with a decrease in the merchandise trade balance due to fluctuations of prices of metals in the world market. The financial sector comprises a state-owned commercial bank and two non-bank institutions.

The poverty rate was 50% in 2020, while the slight growth in real GDP growth per capita in 2023 may have further reduced poverty. The unemployment rate in Eritrea was 5.12% in 2023. The Human Development Index is 0.493, below the African average, but this could be mitigated by government inclusive growth and technical training policies.

Outlook and risks

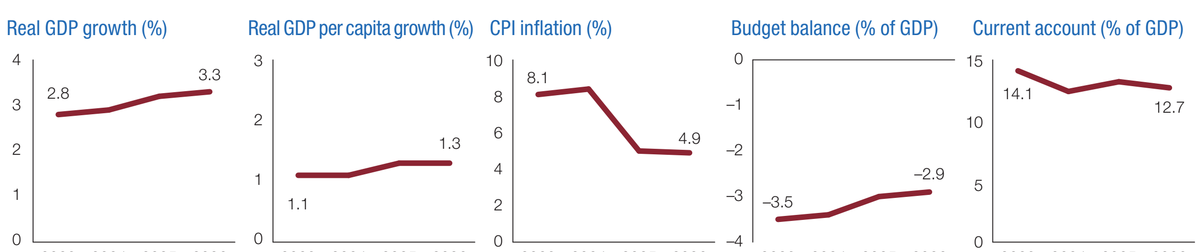
Real GDP growth is expected to increase slightly to 3.2% in 2025 and 3.3% in 2026, led by mining and services on the supply side—and by private consumption and investment on the demand side. Inflation is projected to drop to 1.3% in 2025 and 20206, consistent with improved food supplies due to good harvests. The fiscal balance is expected to keep narrowing from –3.4% in 2024 to –3.0% in 2025 and –2.9% in 2026, supported by fiscal consolidation. The current account surplus is projected to increase to 13.2% in 2025, with a slight drop to 12.7% in 2026, reflecting improvement in global demand and prices for commodities. The key downside risks include prolongation of sanctions on the country, delays in production at the Colluli potash mine (due to challenges in mobilizing financing), fluctuations in international prices for metals, and insecurity in the Horn of Africa region. Improved domestic resource mobilization measures could mitigate financing risks.

Making capital work better for development

The mining sector accounts for 60% of merchandize exports. Major challenges include low local content value addition, fluctuating global prices for minerals, lack of robust legal framework, and low taxes. There is also rich marine biodiversity, with around 1,000 known species of fish. Human capital remains highly underdeveloped. The small private sector and financial sector face a poor business environment.

Eritrea, with support from its development partners, is reviewing the mining sector frameworks and standards to ensure that mining contributes to environmental conservation and social development. Injecting more investment in marine resources in a sustainable way would catalyze the country's development process. The government is also identifying policy priorities for modernizing the financial sector to provide inclusive financial services and spur private sector growth.

The government is expediting public finance management diagnostics capacity, tightening budgetary and treasury management controls, establishing and rolling out the Integrated Financial Management Information System, improving internal auditing, and strengthening institutional and human capacities. Efforts are also ongoing to improve the business and investment climate through policy and institutional reforms to attract private investment.



Source: Data are as of May 2025 and are from domestic authorities; figures for 2024 are estimates and figures for 2025 and 2026 are projections by the African Economic Outlook team. Data on the budget balance correspond to Eritrea's fiscal year, which runs from July 1 to June 30.

Ethiopia

Recent macroeconomic, financial, and social developments

Ethiopia's macroeconomic and financial development remains robust and stable. The economy grew by 7.3% in 2023/24, up from 6.6% in 2022/23, driven by industry (9.2%) and agriculture (7.0%) on the supply side and private consumption and investments on the demand side. Inflation remained high at 26.6% in 2023/24 due to high food (28.1%) and nonfood prices (24.3%) and to supply-side constraints, fueled by disruptions due to the Russia-Ukraine war and the northern Ethiopia conflict. In 2023/24, monetary policy was mostly restrictive, capping credit growth at 15% (later 18%) to contain inflation. The fiscal deficit narrowed to 2.0% of GDP in 2023/24, from 2.6% previously, courtesy of the Pretoria Peace Agreement with the TPLF and the fiscal consolidation that reduced defense expenditure by 14.1% in 2023/24. The current account deficit persisted at 2.9% of GDP in 2023/24, as the trade balance deteriorated by 2.7%. Ethiopia is at high risk of debt distress and defaulted on a Eurobond coupon payment of $33 million in December 2023. The financial sector, dominated by the banking industry, remains cautiously stable with the ratio of nonperforming loans at 3.9%, excess reserves to deposits standing at only 0.8%, and credit growth remained subdued at 12.9% due to a credit cap of 18%.

Social conditions remain difficult in Ethiopia with a national poverty headcount rate of 27% in 2024, Gini Index at 45.5, unemployment at 8% (27.2% youth unemployment), and HDI at 0.5 (ranked 176/193 in 2022), while the maternal mortality ratio was 267. Ethiopia has a social protection program, but financing remains a challenge.

Outlook and risks

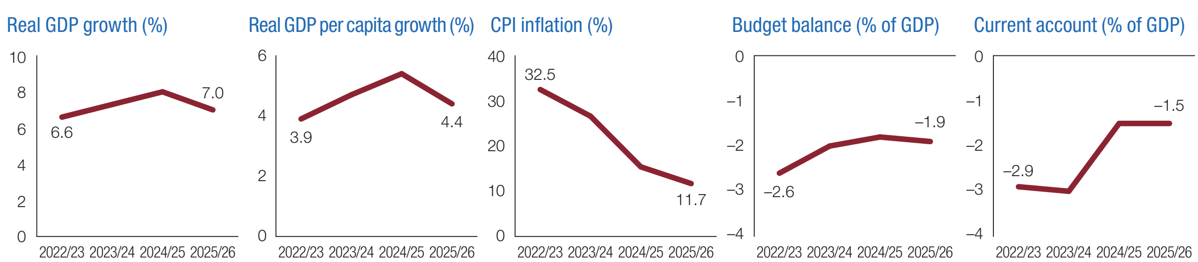
Growth is expected to be robust at 7.0% in 2025/26 owing to ongoing reforms, expected external debt treatment, resumption of external financing, and greater domestic stability. The restrictive monetary policy stance is also expected to tame inflationary pressure to about 11.7% in 2025/26. On the fiscal front, the deficit is expected to remain stable at 1.9% of GDP in 2025/26, owing to ongoing fiscal consolidation efforts. The current account deficit is expected to marginally improve to –1.5% in 2025/26 owing to the reforms the country is in and a shift towards an export favorable exchange rate regime. Downside risks relate to debt vulnerabilities, commodity price volatility, climate vulnerabilities, and conflicts. Risk mitigation measures include implementing ongoing reforms, speeding up external public debt negotiations, and ongoing peace initiatives in addition to implementing prudent monetary and fiscal policies.

Making capital work better for development

Ethiopia has sizable natural and human capital and is Africa's fourth wealthiest nation in renewable resources, which grew respectively by 101%, 579%, and 100% between 1995 and 2018. But it has not benefited from these resources due to inadequate institutions and infrastructure, low technology adoption, poor governance, and weak capacity.

Ethiopia's ranking in government effectiveness and rule of law indicators has never passed the 40th percentile, impeding the quality of public services, effective use of resources, and technological innovation. Ethiopia is still halfway in tax-to-GDP ratio (6.8%) from the required (15%) to finance the Sustainable Development Goals. High proportions of subsistence and informal sectors (difficult to tax), low tax compliance, and high tax expenditure constrain tax mobilization. Shallow financial services heighten the challenges.

Implementing the Medium-term Revenue Strategy, deepening the domestic financial sector by developing the capital market, blending ODA, and using public-private partnerships can enhance domestic resource mobilization. Ethiopia should also explore the potential for green bonds, carbon credits, debt swaps, and the development of social impact bonds and new advance-market commitments to bridge the financing gaps. The country can also leverage its fintech ecosystem to mobilize savings and extend credit more productively and broadly.



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Kenya

Recent macroeconomic, financial, and social developments

Kenya's economic performance in 2024 was mixed. Real GDP growth slowed to 4.6% from 5.6% in 2023, following reduced mining, construction, and investment. However, the economy showed resilience, bolstered by strong services, especially fintech and mobile money, and improved agricultural output. Inflation averaged 4.5% in 2024, within the central bank's 2.5–7.5% target, aided by increased food supply and a 16% appreciation of the Kenya shilling. Supporting economic activity, the central bank lowered its policy rate to 10.00% in April 2025 from 10.75% in February 2025, and by 175 basis points between June and December 2024. Fiscal consolidation efforts narrowed the fiscal deficit to 5.4% of GDP, from 5.6%, while public debt declined to 66% of GDP from 71% in 2023 with the appreciation. The current account deficit declined to 3.7% of GDP from 4.0%, and foreign exchange reserves improved to cover 4.6 months of imports, up from 3.6 months in 2023. The banking sector remained strong with a capital adequacy ratio of 19.1%, above the 14.5% minimum. However nonperforming loans rose to 16.4% from 14.5% in 2023, with interest rate hikes.

Poverty rose to 39.8% in 2022 from 38.6% (2021), alongside high unemployment (16%) and inequality (38.9%; 2021). The Bottom-Up Economic Transformation Agenda targets inclusive growth by focusing on women, youth, and social protection.

Outlook and risks

Kenya's macroeconomic outlook for 2025 is positive, with real GDP growth projected at 5.0% supported by stronger agriculture and key services. The fiscal deficit is expected to narrow to 5.0% of GDP while the public debt-to-GDP ratio is projected to decline toward the debt anchor of 55% as the government adheres to its fiscal consolidation path. With lower global oil prices, inflation and the current account deficit are forecast to decline to 3.9% and 3.0% respectively. The upside risks to the growth outlook are good weather for agriculture and improved macroeconomic conditions such as lower lending rates and oil prices. Downside risks include geopolitical and trade tariff tensions, fiscal policy slippage, high business costs, and food price pressures linked to rainfed agriculture and climate variability. Effective implementation of the Bottom-Up Economic Transformation Agenda, focused on inclusive growth and resilience-building, could mitigate these domestic downside risks and support growth.

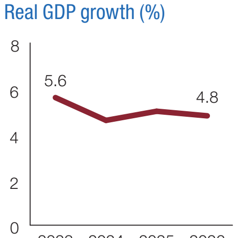
Making capital work better for development

Kenya is rich in natural resources like agriculture, minerals, and forests, but it faces climate change and land conflicts. Opportunities exist in conservation and land reforms. Human capital faces youth unemployment and health constraints but offers potential through skill-based education. Financial and business capital are strong but need better mobilization and inclusion.

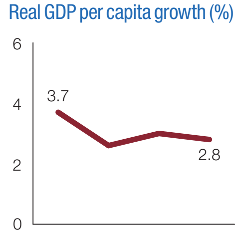
Kenya's state capacity, important for capital mobilization, may be undermined by corruption, weak contract enforcement, and changing tax policies. Strengthening the rule of law and judicial effectiveness is key to boosting investment and public spending efficiency. While reforms have improved tax and business processes, challenges persist. Unlocking Kenya's capital potential may require transparent institutions, consistent regulations, and strategic budget allocations toward productive sectors like education, health, and infrastructure to drive sustainable growth and equitable development.

Institutional and governance reforms to improve capital mobilization and public spending efficiency may include strengthening judicial independence, enforcing contracts, increasing transparency for investor confidence, and expanding public-private partnerships. They may also include curbing illicit financial flows, resource theft, and corruption through stricter anti-money laundering frameworks and regional cooperation. Reforms to stabilize tax policies, enhance property rights, and removing harmful tax waivers will create fiscal space, while targeted investments in education, health, and innovation will unlock sustainable development potential.

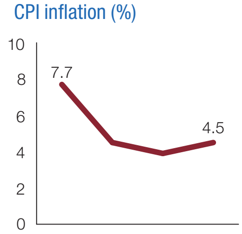
Real GDP growth (%)



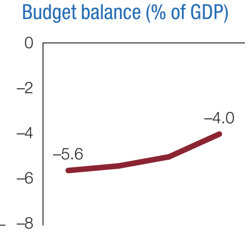
Real GDP per capita growth (%)



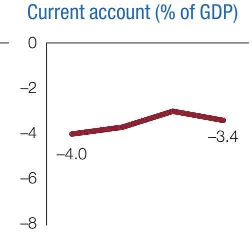
CPI inflation (%)



Budget balance (% of GDP)



Current account (% of GDP)



Source: Data are as of May 2025 and are from domestic authorities; figures for 2024 are estimates and figures for 2025 and 2026 are projections by the African Economic Outlook team. Data on the budget balance correspond to Kenya's fiscal year, which runs from July 1 to June 30.

Rwanda

Recent macroeconomic, financial, and social developments

Real GDP growth increased from 8.3% 2023 to 8.9% in 2024, driven by growth in manufacturing and services on the supply side and public sector investments on the demand side. Monetary policy remained accommodative in 2024 due to lower inflation, which dropped from a peak of 14% (2023) to 4.7% (2024), on account of increased food supplies. The Rwanda franc deteriorated by 37% against the US dollar between January 2023 and January 2025 due to reduced forex inflows, while international reserves averaged 3.7 months of imports cover since 2023. The current account deficit averaged 12.9% in 2023 and 2024, primarily due to higher import costs. The overall fiscal deficit narrowed to an average of 6.3% of GDP in 2023 and 2024 due to fiscal consolidation. The debt-to-GDP ratio rose from $9.3 billion (73.5% of GDP) in 2023 to $10.26 billion (77.5% of GDP) in 2024, driven by increased external and domestic borrowing for infrastructure investment. The financial sector was resilient, with non-performing loans for the 2023/2024 fiscal year standing at 5% while private sector credit growth averaged 22.5% over the last three years.

The poverty rate declined from 60% (2000) to 48.4% (2024), while income inequality remains high with the Gini coefficient at 0.46. The 2024 Human Development Index was 0.548, ranking Rwanda 25 (Africa) and 161 (globally). The unemployment rate fell to 17.2% (2023) from 24.3% (2022) but remains significant for youth at 20.8% (2023).

Outlook and risks

The average real GDP growth is projected at 7.8% (2025) and 7.5% (2026), driven by agriculture and services on the supply side and public sector construction on the demand side.

Headline inflation is expected to ease to 4.6% (2025) and 4.9% (2026), reflecting stabilized supply chains and sustained monetary policy tightening.

The fiscal deficit is projected to decline to 5.6% of GDP (2025) and 3.8% (2026), supported by public expenditure rationalization and enhanced tax revenue mobilization. The current account deficit is expected at 12.3% of GDP in 2025 and 11.9% in 2026 due to continued global uncertainties affecting import prices.

Downside risks to the outlook include climate shocks hitting agricultural output, tight global financial conditions given the changing global ODA situation, and geopolitical instability in the Great Lakes region, particularly tensions with Burundi and Democratic Republic of Congo.

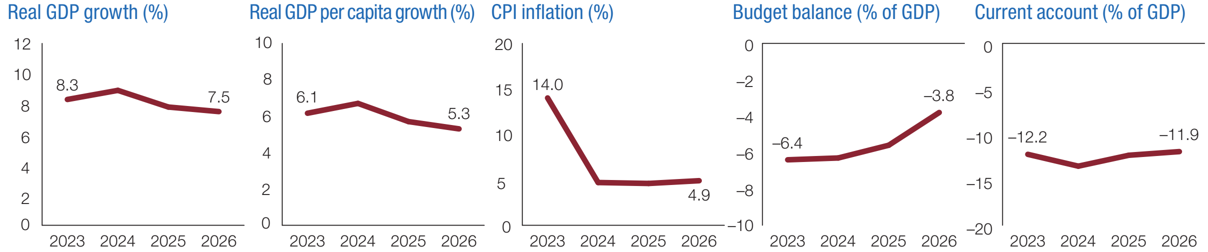
Mitigation measures include fiscal tightening and budget reprioritization over the medium term.

Making capital work better for development

In 2024, natural capital was valued at $56.1 billion, with renewables at 98% and non-renewables at only 2%. Of the labor force of 8.4 million, 4.6 million were employed. Tax revenue was 14.8% of GDP, financial assets were 68.5% of GDP, and microenterprises made up 93% of all business capital.

Rwanda's judicial independence, secure land tenure, and efficient commercial dispute resolution mechanisms form a robust institutional foundation for investment. The 2013 land law secured tenure rights and unlocked land as a productive asset. The Integrated Electronic Case Management System has reduced case resolution times to under 250 days, increasing investor confidence. The 2021 Investment Code provides clear investor protection and formalizes incentives in priority sectors, reinforcing Rwanda as a rules-based investment destination.

Harnessing diverse forms of capital depends on deepening institutional quality, improving governance, and respect for the rule of law. To strengthen financial capital, reviewing tax exemption policies and enhancing transparency through beneficial ownership disclosures will support domestic resource mobilization. Aligning skills development with market needs and improving job-matching mechanisms remain priorities. Reinforcing local content implementation and advancing artisanal mining formalization are key. Strengthening contract enforcement and broadening access to finance will enhance investment and productivity.



Source: Data are as of May 2025 and are from domestic authorities; figures for 2024 are estimates and figures for 2025 and 2026 are projections by the African Economic Outlook team. Data on the budget balance correspond to Rwanda's fiscal year, which runs from July 1 to June 30.

Seychelles

Recent macroeconomic, financial, and social developments

Real GDP growth moderated to 2.3% (2023) and 2.9% (2024), following a strong post-pandemic rebound of 12.7% (2022). On the supply side, tourism and fisheries remain the main drivers—while on the demand side, private consumption remained resilient supported by a 12.1% expansion in private sector credit by end-2024. Inflation rose from –1.0% (2023) to 0.3% (2024), driven by higher utility and fuel prices. The monetary stance remained accommodative with the policy rate at 1.75%. A small fiscal surplus of 0.2% was achieved in 2024, compared with –1.2% in 2023, due to expenditure savings. The debt-to-GDP ratio increased from 58.6% (2023) to 61.5% (2024) due to government guarantees for infrastructure projects. The current account deficit widened to 7.8% of GDP (2024) while the rupee depreciated by 4% against the US dollar. The financial sector remained stable, with commercial banks well capitalized and nonperforming loans declining from 8.1% (end-2023) to 5.5% (end-2024).

Seychelles maintains strong social indicators, ranking first in Africa on the 2023 Human Development Index. Poverty remains low at 0.5%, with 3.2% unemployment but youth unemployment at 12.2%. The high youth unemployment reflects structural challenges. The government ensures universal health coverage, free secondary education, and policies for equity and inclusive growth.

Outlook and risks

Real GDP growth is projected at 3.5% in 2025 and 3.7% in 2026, driven by modest growth in tourism and expansion in ICT aligned with the national digitalization strategy and increased construction activities from investment projects.

The monetary stance is to remain accommodative with inflation projected at 2.0% in 2025 and 2.6% in 2026 due to underlying price pressures such as increased utility tariffs, disruptions in shipping routes, and the depreciation of the rupee.

The overall fiscal deficit is projected to be at 1.7% in 2025 and 0.6% in 2026. The current account is expected to widen to 9.0 in 2025 due to higher import cost and probable decline in tourism revenues amid global uncertainties.

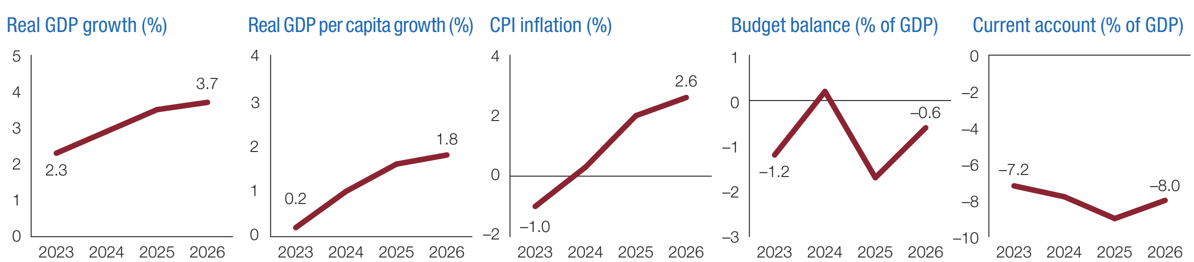
Given Seychelles' high vulnerability to external shocks and climate change, the outlook remains subjects to significant downside risks including a predicted slowdown in global growth and rising uncertainties from trade tensions that could affect fish trade with Europe and the United States. Geopolitical tensions in the Middle East and Eastern Europe may also disrupt tourist flows, with mitigation being mainly through diversification of tourism source markets to Asia and Africa, particularly to South Africa.

Making capital work better for development

Seychelles' wealth is built on diverse capital assets. Marine resources drive tourism and fisheries, the mainstay of the economy, but face climate and overexploitation risks. Human capital is strong, yet youth unemployment and skill mismatches persist. Despite strong revenue mobilization, fiscal constraints remain, while financial markets need diversification. Business resources include modern infrastructure, but high operational costs hinder competitiveness.

State capacity is important for capital optimization. business regulations, judicial efficiency, and anti-corruption measures, including the Anti-Corruption Commission. Public financial management reforms have strengthened the investment climate and fiscal management. However, capital investment in infrastructure remains limited, while bureaucratic inefficiencies and high costs persist. Strengthening the rule of law, accelerating regulatory reforms, and expanding infrastructure financing under the Seychelles National Development Strategy are key to optimizing capital utilization and sustaining growth.

Seychelles can enhance institutional quality and governance by strengthening public-private partnerships, curbing illicit financial flows, and enforcing anti-corruption, tax, and financial transparency laws. Digitalizing governance through AI-driven tax compliance and blockchain-based registries can improve efficiency and accountability. Optimizing public spending including e-procurement and tax base expansion can create fiscal space. Strategic capital mobilization in infrastructure, research and development, and fintech innovation can unlock investment, optimize assets, and drive economic transformation.



Source: Data are as of May 2025 and are from domestic authorities; figures for 2024 are estimates and figures for 2025 and 2026 are projections by the African Economic Outlook team.

Somalia

Recent macroeconomic, financial, and social developments

Although economic recovery picked up to 4.2% in 2023, real GDP growth slipped to 4.0% in 2024, due to a drought that adversely affected livestock. This growth continues to be supported by the improved performance in the agriculture sector, which continued its recovery from the prolonged drought of 2021–23. On the demand side, growth was driven by strong public investments and robust private sector construction, anchored on robust remittance inflows. Headline inflation eased to 5.6% in 2024 from 6.1% in 2023 due to the eased global commodity prices and domestic food prices. Somalia has gradually progressed toward macroeconomic stability following implementation of various reforms including those for establishing a monetary/currency exchange policy and the issuance of new Somalia shillings. The amendment to the 2016 Anti-Money Laundering and Counter-Terrorism Financing laws approved in March 2024 aligns Somalia with global standards and reintegrating with international correspondence banking.

Fiscal performance deteriorated from a surplus of 0.1% of GDP in 2023 to a deficit of 0.3% in 2024, due to increased spending pressures on security, social services, and public infrastructure. However, the current account deficit narrowed to 8.7% of GDP in 2024, from 11.1% in 2023, as economic recovery translates to rising exports.

The financial sector remained sound and profitable with commercial bank assets increasing by 32% to $1,907 million in 2024. The ratio of nonperforming loans was below the threshold of 5%, at 3.4% of gross loans in 2024.

Social conditions remain difficult with the rate of poverty increasing to 67% in 2024, from 54% in 2022. Similarly, youth unemployment remains high at 34% against the national unemployment rate of 20% in 2023. Somalia ranked the lowest in human capital development, with an HDI score of 0.38 in 2022. The government is improving social conditions through cash transfers for displaced people.

Outlook and risks

The economy is expected to grow at 3.9% in 2025 and 4.0% in 2026, driven by agriculture, favorable rains, strong household consumption, and increased investments from both the private and public sectors. Inflation is projected to fall from 4.1% in 2025 to 3.6% in 2026. On the fiscal front, the deficit is expected to widen to 0.4% of GDP in 2026 due to a gradual decline in ODA inflows, especially USAID funding cuts. But the current account deficit is projected to narrow to 8.3% of GDP in 2026 from 8.7% in 2024 supported by continued growth in remittances, and lower imports explained by the potential supply chain disruptions from the effects of the US trade wars. Significant headwinds—including insecurity, intra-state tensions, and climate change impacts such as droughts, reduction in ODA, regional geopolitics from the Horn of Africa, and fiscal vulnerabilities. Somalia's medium term borrowing projections may pose debt sustainability challenges. As a tailwind, Somalia has a promising nascent petroleum sector and has signed production sharing agreements with three companies to commence seismic surveys and exploration in 2025.

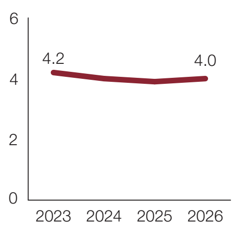
Making capital work better for development

Somalia is endowed with natural capital assets: land-based capital estimated at $ 222.3 billion, forests, waters (nine rivers and a 3,333km coastline), petroleum, minerals, and marine resources. But this wealth is dwindling due to weak regulation, climate shocks, and illegal charcoal production driving deforestation.

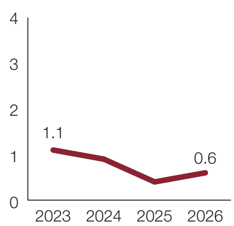
Other capital assets include infrastructure (seaports, roads) that generate tax revenues. Yet the tax-to-GDP ratio remained low at 3% in 2024, constrained by weak tax administration capacity, thus constraining the fiscal space. Somalia has committed to growing its natural capital by improving governance, institutionalizing natural capital promotion, investing in the business climate, strengthening the rule of law, and tackling corruption. Business and financial capital are constrained by the poor investment climate, while human capital is constrained by low skills, high unemployment (21.4%), and poverty (67%).

For capital assets to work better, Somalia needs to integrate natural capital into national income accounts, reinforce natural capital regulation and policy frameworks including illegal fishing, enforcing sanctions against the charcoal ban, enhance policy coordination to deepen capital mobilization, and introduce innovative climate funds for climate change adaptation and mitigation. Strengthening the institutional framework to tackle corruption and combat illicit financial flows will create the fiscal space for critical infrastructure and human capital development investments.

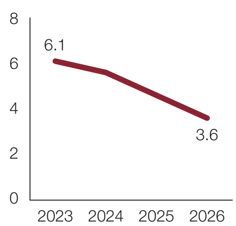
Real GDP growth (%)



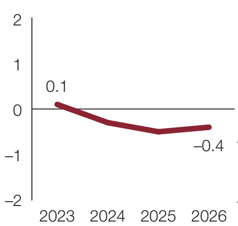
Real GDP per capita growth (%)



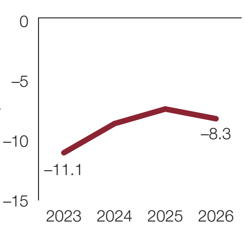
CPI inflation (%)



Budget balance (% of GDP)



Current account (% of GDP)



Source: Data are as of May 2025 and are from domestic authorities; figures for 2024 are estimates and figures for 2025 and 2026 are projections by the African Economic Outlook team.

South Sudan

Recent macroeconomic, financial, and social developments

Real GDP is estimated to have contracted by 27.6% in 2023/2024 from a 2.5% growth in 2022/2023 due to oil export disruption by the conflict in Sudan. The war has increased cost of imports, disrupted trade, and slowed economic activity. Agriculture sector output remained unchanged owing to persistent floods. Inflation grew by 65.6% in 2023/24 driven by monetary financing, currency depreciation, and disruption of cross border with Sudan. Money supply grew by about 200.7% in 2023/24 from 71.3% in 2022/23, due to monetization of fiscal deficit. Overall fiscal balance is estimated at a surplus of 5.8% of GDP in FY2023/24, down from a surplus of 7.0% of GDP in FY2022/23. Debt-to-GDP ratio increased by 38.3% in 2023/24, highlighting high risk of debt distress. The current account surplus narrowed to 5.8% of GDP in 2023/24 from 7.0% of GDP in 2022/23 driven by decline in exports. International reserves declined to 0.3 month of imports cover in 2023/2024, as a result of decline in foreign exchange earnings. The financial sector continues to face challenges due to reduced economic activity. The non-performing loans ratio is estimated to have declined from 1.7% in 2022/23 compared to 1.4% in 2023/24. Poverty remains high with 6.1 million people (45% of the population) estimated to be food insecure in December 2024. Real GDP per capita is estimated to have declined by 31.8% in 2023/24 from 1.0% growth in 2022/23. Unemployment is estimated to have increased from 12.5% in 2022/2023 to 13% in 2023/2024. In December 2024, there were 211,367 refugees from Sudan, and 664,670 returnees.

Outlook and risks

With the resumption of oil exports, the outlook is moderately positive. Real GDP is projected to grow by 4.0% in 2024/25 and 12.1% in 2025/26, supported by improved economic activity on account of increased oil production and exports on the supply side. On the demand side, growth will be supported by an increase in public and private consumption and investment. Inflation is projected at 65% in 2024/25 and decelerate to 8.3% in 2025/26 on the account of improved monetary policy framework, increased foreign exchange reserves, and strengthened local currency and stable exchange rate. Due to expected increase in oil revenues, fiscal balance is projected at 2.0% of GDP in FY2024/25 and 1.9% in 2025/26. With expected increase in government spending, current account balance is projected to deteriorate to 6.5% and 2.6% of GDP in 2024/25 and 2025/26, respectively. Downside risks include prolonged conflict in Sudan, fragility, and climate related vulnerabilities, which could affect oil production and export and agricultural output.

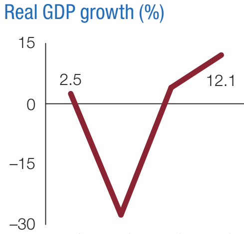
Making capital work better for development

South Sudan is endowed with abundant natural resources including oil, minerals, land, water, fisheries, forests, and wildlife. Except for oil, these resources remain largely untapped. South Sudan's human capital is one of the lowest in the world, with a literacy rate of 34.5%. Financial resources are derived from oil revenue, foreign aid, and remittances.

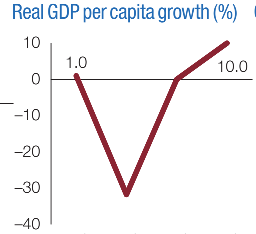
State institutions play a crucial role in ensuring that resources support economic growth and enhance livelihoods. Challenges range from institutional weaknesses, underdeveloped legal frameworks, skill gaps, and a lack of infrastructure. Investment in physical infrastructure is critical to transforming this natural wealth. Domestic financial resource mobilization is low due to limited capacity. A comprehensive mineral resources utilization policy should take into account public-private partnerships and ensure local value addition.

Institutional and governance reforms are critical for the natural resource and mining sectors. The government, with support from development partners, has formulated and is implementing a public financial management strategy reform with the aim of enhancing non-oil revenue mobilization and administration, improving transparency and accountability, and tackling corruption. Other key reforms required to improve domestic resource mobilization include strengthening legal and regulatory frameworks, developing sectoral policies, formalizing informal sectors, and enhancing transparency and accountability.

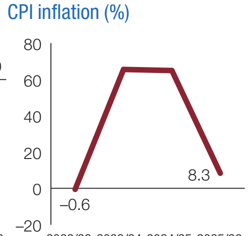
Real GDP growth (%)



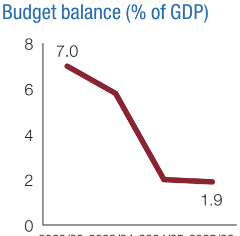
Real GDP per capita growth (%)



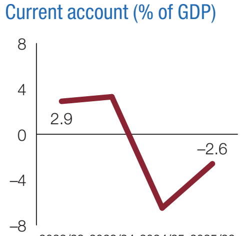
CPI inflation (%)



Budget balance (% of GDP)



Current account (% of GDP)



Source: Data are as of May 2025 and are from domestic authorities; figures for 2024 are estimates and figures for 2025 and 2026 are projections by the African Economic Outlook team. Data on the budget balance correspond to South Sudan's fiscal year, which runs from July 1 to June 30.

Sudan

Recent macroeconomic, financial, and social developments

The conflict's roughly 61,000 deaths, 35,000 injuries, and 13.3 million people displaced have been devastating for Sudan's economic performance. Real GDP is estimated to have contracted by 12.8% in 2024, after contracting 37.5% in 2023. Reduced agricultural activity and decline in services dragged down growth on the supply side. And the loss of income and the massive displacements led to reduced private consumption on the demand side. The fiscal deficit is estimated to have narrowed slightly to 3.2% of GDP in 2024 from 3.7% in 2023, largely on account of reduced government expenditure. However, reduced government revenues due to the subdued economic activity resulted in monetization of the fiscal deficit and a surge in inflation to 176.9% in 2024 from 145.5% in 2023. Sudan remains in debt distress with external debt of $56 billion, equivalent to 163% of GDP during 2023 and 2024. The current account deficit widened to an estimated 5.5% of GDP in 2024, from 4.4% in 2023, due to weak export performance. It was financed by remittances and a drawdown of international reserves. As a result, the foreign exchange reserves remained low, at 1.7 months of import coverage in 2024, compared with 1 month import cover in 2023. The subdued economic activity affected debt service, increasing nonperforming loans above 10% in 2024, from 5% in April 2023.

Real GDP per capita fell by 40.2% in 2023 because of the huge GDP contraction due to the war, and is estimated to have fallen a further 12.1% in 2024, underscoring that poverty rates have increased. According to the 2022 Human Development Index, Sudan ranked 170 of 191 countries with a score of 0.51.

Outlook and risks

Due to the persistence of conflict, real GDP growth is projected to contract further to 0.6% in 2025, before a recovery to 1.3% in 2026, assuming that peace is restored in 2025. The recovery would be supported by reconstruction spending, especially on social services and infrastructure, and resumed economic activity. If peace is restored, the anticipated increase in government revenues and resumed economic activities would moderate inflation to 100.9% in 2025 and further to 45.8% in 2026. Due to higher expected government expenditure, the fiscal deficit would widen slightly to 3.5% in 2025 and further to 3.9% in 2026. The current account deficit is expected to worsen to 7.9% of GDP in 2025 and further to 8.5% in 2026, reflecting an anticipated uptick in imports. Key downside risks to the outlook are the possibility of conflict persisting beyond 2025, the impacts of climate change, and weak institutional capacities. A speedy resolution of conflict and signing a peace agreement could help mitigate these risks, including climate risks.

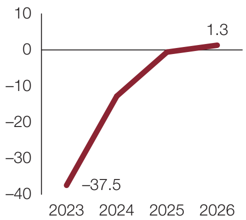
Making capital work better for development

Sudan is rich in various natural resources, including gold, uranium, chromite, gypsum, and iron ore. It has huge human, financial, and business resources. Despite their abundance, resources are not fully realized due to a lack of infrastructure and limited investment and are hampered by corruption, reducing potential revenue.

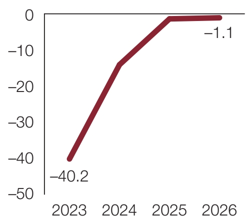
The government has taken some steps to improve natural resource management and increase tax revenues. While Sudan has several sectors where it successfully raises revenue, including oil and gas, there is still untapped potential in manufacturing, services, and real estate. However, weak governance of tax administration hinders efficient revenue collection. Unlocking Sudan's capital potential requires enforcing consistent regulations, formalizing the economy, and deepening regional integration, corporate governance, accountability, and the rule of law.

To improve resource mobilization, particularly the capital it possesses, Sudan needs to implement institutional and governance reforms including enhancing public financial management, strengthening tax administration, improving budget transparency and accountability, developing clear criteria for prioritizing public investments and public-private partnerships, and ensuring that laws are enforced fairly and consistently. Enhancing domestic resource mobilization will create necessary fiscal space, while targeted investments in education, health, infrastructure, R&D and innovation will unlock capital for sustainable development.

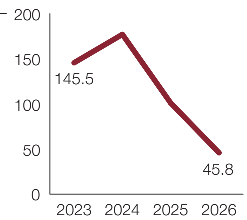
Real GDP growth (%)



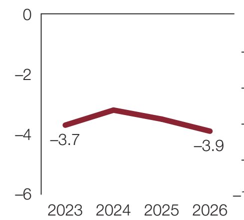
Real GDP per capita growth (%)



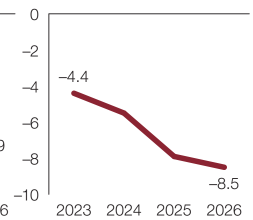
CPI inflation (%)



Budget balance (% of GDP)



Current account (% of GDP)



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Tanzania

Recent macroeconomic, financial, and social developments

Real GDP grew by 5.6% in 2024, up from 5.1% in 2023, driven by services and industry on the supply side and investment and consumption on demand side. Tighter monetary policy and easing food and energy prices reduced inflation from 3.8% 2023 to 3.1% 2024. Instability in exchange rates was subdued as liquidity improved, with the Tanzanian shilling depreciating by 6.3% in 2024, compared with 10% in 2023. The fiscal deficit declined from 3.5% of GDP in 2023 to 3.3% in 2024, driven by expenditure management and revenue improvements. Public debt increased from 46.7% of GDP in 2023 to 47.6% in 2024 but remains sustainable with a moderate risk of debt distress. The current account deficit narrowed from 3.7% of GDP in 2023 to 2.7% in 2024, supported by recovery in tourism and exports, but reserves declined from 4.5 months of import cover in 2023 to 4.1 months in 2024. Financial assets grew by 14.6% in 2023. The banking sector accounts for 72.1% of financial assets and remained sound, with nonperforming loans declining by 1.1 percentage points to 4.4% in 2024.

Social outcomes remain weak despite impressive growth. Poverty declined from 28.2% in 2011/12 to 26.4% in 2017/18, but international and multidimensional poverty rates are higher at 44.95% and 54.59%, respectively. Inequality remains high, with a Gini index of 0.44 in 2020/21, while unemployment stood at 9.3% in 2021/22.

Outlook and risks

The outlook is broadly positive and stable. Real GDP growth is projected at 5.9% in 2025 and 6.0% in 2026, supported by increased economic activity thanks to ongoing structural reforms and improving the business environment. Inflation is projected to remain stable at 3.2% in 2025 and 3.4% in 2026, supported by stability in food supply and energy situation, despite the current global economic uncertainties. Fiscal deficit is projected at 3.5% of GDP for both 2025 and 2026, courtesy of the expected improvements in revenue performance, but increasing government expenditure and declining ODA. The current account deficit is projected at 3.1% of GDP in 2025 and 2.9% in 2026, supported by strong performance in tourism and nontraditional exports, especially minerals. Downside risks include climate vulnerabilities and the effects of multiple global shocks including the heightening trade tensions, which could escalate the prices of food, oil, and agricultural inputs. The authorities' commitment to building climate resilience and economic reforms could help mitigate the risks.

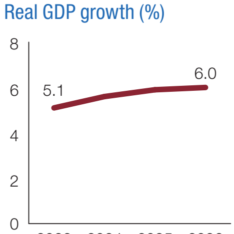
Making capital work better for development

Tanzania's wealth increased by 101% over 1995–2020, but per capita by only 3%. Renewable natural resources increased by 11%, as nonrenewable declined by 48%, reflecting increasing pressure because of population growth and climatic shocks. Fiscal space remains constrained, and business resources improved driven by infrastructure investment.

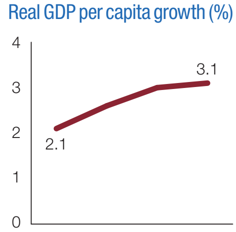
Tanzania has increased its capacity for mobilizing and using capital, and opportunities exist to boost investment and fiscal efficiency. For example, the mineral policy of 2009 and the mining code and guidelines drove the mineral sector contribution from 2.7% of GDP in 2007 to 9.0% in 2023. More stakeholder collaboration can promote investment in exploration and valorization, strengthen regulations and governance, and operationalize financing frameworks.

Tanzania has established structures and institutions to enhance fiscal efficiency, particularly on revenue mobilization, spending, and oversight, but further institutional and governance reforms can enhance capital mobilization. That will require strengthening the capacities of independent oversight agencies such as the Controller and Accountant General and the Internal Audit Office. Other reforms include promoting private investment, strengthening contract enforcement, curbing illicit financial flows, building human capacity, and broadening revenue-base.

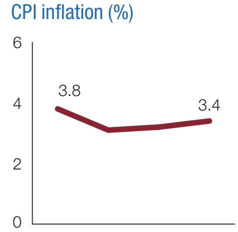
Real GDP growth (%)



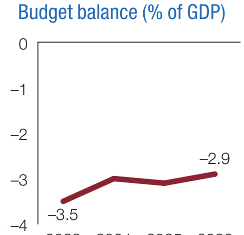
Real GDP per capita growth (%)



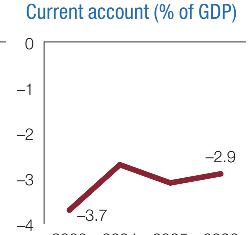
CPI inflation (%)



Budget balance (% of GDP)



Current account (% of GDP)



Source: Data are as of May 2025 and are from domestic authorities; figures for 2024 are estimates and figures for 2025 and 2026 are projections by the African Economic Outlook team. Data on the budget balance correspond to Tanzania's fiscal year, which runs from July 1 to June 30.

Uganda

Recent macroeconomic, financial, and social developments

Uganda's economy grew by an estimated 6.3% in 2024, up from 4.9% in 2023, driven by strong growth in all sectors, led by agriculture and services, which expanded by 7.8% and 5.8%, respectively. Industrial output was the least (5.2%), weighed down by a 9.3% contraction in mining and quarrying. Aggregate demand was dominated by consumption (77.1% of GDP), followed by investment (24.8%) while net exports were –2%. Headline inflation eased to 3.3% in 2024 from 5.5% in 2023. The Bank of Uganda gradually reduced the central bank rate from 10.25% in July 2024 to 9.75% since October 2024. The fiscal deficit declined to 4.7% of GDP in FY2023/24, from 5.5% in FY2022/23, attributed to fiscal consolidation efforts. The debt-to-GDP ratio increased to 52.1% in December 2024 from 49.9% the previous year. The current account deficit remained elevated at 7.5% of GDP in 2024, due to deteriorations in all subaccounts. The financial sector remains sound and well capitalized. Non-performing loans to gross loans ratio declined to 3.98% in 2024 from 4.60% in 2023 due to better loan recovery. GDP per capita rose by 3.4% in 2024.

Approximately 41.3% of Ugandans lived below the international poverty line of US$2.15 per day (2017 PPP) compared to 41.8% in 2023. Income inequality (Gini index) remains high at 42.7 (2019), against 42.8 in 2016. Youth unemployment remains high at 16.5% in 2024. The Human Development Index stood at 0.550 in 2022.

Outlook and risks

Growth is forecast to remain buoyant in 2025, at 6.2%, supported by robust industry and agriculture sector performance. In 2026, growth is projected to climb above 7%, propelled by agriculture, services, and anticipated oil production in 2026. The fiscal deficit is projected to widen to 6.2% of GDP in FY2024/25 due to escalating debt interest payments, increased public spending and revenue shortfalls. The fiscal deficit is projected to narrow in FY2025/26 due to continued implementation of the domestic revenue mobilization strategy, projected to generate additional tax revenue, including anticipated oil revenue. Inflation is expected to remain below the central bank's target of 5%, supported by prudent monetary policy and a stable exchange rate. Potential risks to the outlook include unpredictable climate conditions that may impact agriculture performance, global trade policy uncertainty and possible delays in "first oil" production in 2026, which could lead to slippages.

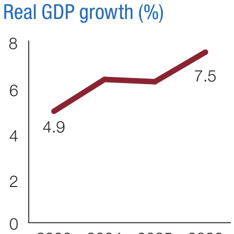
Making capital work better for development

Uganda's total wealth was estimated at $480.6 billion in 2020, comprising produced capital (7%), human capital (65%), and natural capital (28%). Oil reserves are estimated at 6.5 billion barrels, with 1.4 billion considered recoverable Uganda can leverage its capital for by further enhancing governance and improving infrastructure.

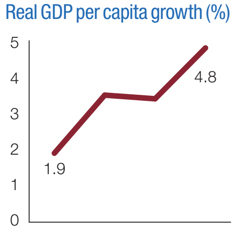
Although the legal framework for the protection of private property rights and contract enforcement exists, Uganda could benefit from strengthening enforcement frameworks and improving access to justice. Land tenure complexity may contribute to occasional risks, especially for investors and landowners in resource-rich or contested areas. Reforms to strengthen domestic resource mobilization and improve expenditure discipline are key to creating fiscal space, and strong oversight mechanisms and enhanced transparency in the oil sector will maximize the benefits.

Uganda can enhance governance to leverage its capital for development through improving institutional efficiency and coordination, bolstering anti-corruption measures, enhancing regulatory transparency, and strengthening capital markets. Uganda should continuously improve tax administration, modernize tax system infrastructure, strengthen tax compliance laws, and promote private sector development to boost domestic resource mobilization. Streamlining bureaucratic processes, promoting public-private partnerships, and fostering investor confidence through consistent policy implementation is key to harnessing capital for sustainable economic development.

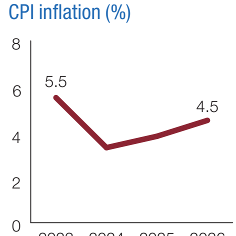
Real GDP growth (%)



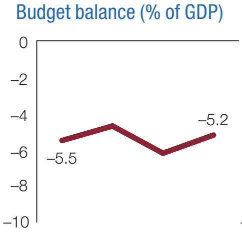
Real GDP per capita growth (%)



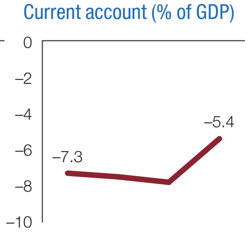
CPI inflation (%)



Budget balance (% of GDP)



Current account (% of GDP)



Source: Data are as of May 2025 and are from domestic authorities; figures for 2024 are estimates and figures for 2025 and 2026 are projections by the African Economic Outlook team. Data on the budget balance correspond to Uganda's fiscal year, which runs from July 1 to June 30.

NORTH AFRICA

Algeria

Recent macroeconomic, financial, and social developments

The Algerian economy continued to perform solidly in 2024, despite multiple geopolitical shocks and a drop in hydrocarbon production linked to a fall in investment. In 2024, real GDP growth reached 3.9%, compared with 4.1% in 2023. This growth was driven by dynamism in non-hydrocarbon sectors (up 5%), notably manufacturing (agrifood, pharmaceuticals, and metallurgy) and by resilience in the agricultural sector (up 6.2%). Monetary policy remains accommodative. Despite a slight depreciation of the Algerian dinar against the euro, inflation decelerated significantly to 4.8% in 2024, compared with 9.3% in 2023, with food prices continuing to fall as supply chains normalized. As budget expenditure on redistributive social policies increased in 2024, the budget deficit widened to 10.6% of GDP, compared with 8.1% of GDP in 2023. In 2024, the current account surplus fell to 0.7% of GDP, compared with 2.2% of GDP in 2023. Foreign exchange reserves remain comfortable, equivalent to 16.2 months of imports. This position improves Algeria's ability to manage economic fluctuations and shocks.

The financial sector is expanding: new banks are opening and the stock market has grown in importance. State-run banks remain the main providers of credit to the economy, accounting for 85%. Growth in credit to the private sector is boosting economic activity.

In 2024, the unemployment rate stood at 12.7% of the working population. The poverty rate has been falling for more than a decade, due to assistance programs and social policies. The HDI was 0.745 in 2022. The Government is seeking to promote inclusive growth.

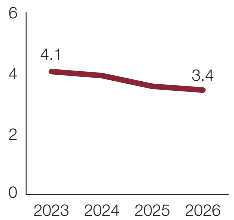
Outlook and risks

The real growth rate is set to slow to 3.6% in 2025 and to 3.4% in 2026, due to reduced external demand and lower hydrocarbon production. Inflation should continue to decelerate (4.0% in 2025 and 3.5% in 2026), with falling internal food prices and continued subsidies. The budget deficit could widen from 12.0% of GDP in 2025 to 12.2% in 2026, due to redistributive social policies and priority public investment projects. In addition, the current account balance should deteriorate from –1.0% of GDP in 2025 to –2.3% of GDP in 2026, with falling hydrocarbon exports and rising imports. This outlook is subject to increased fiscal mobilization, volatile hydrocarbon prices, and improved, rainfall-dependent agricultural yields (water stress). Structural reforms to diversify the Algerian economy are needed to mitigate these risks. Improving the business climate and supporting private sector productivity are essential to integrate the national economy more fully into global value chains and boost the competitiveness of non-hydrocarbon exports.

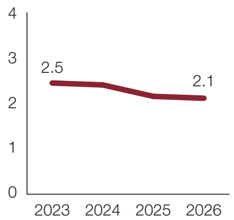
Making capital work better for development

Algeria has considerable resources at its disposal to finance its development. These include natural resources, since the Algerian economy is largely hydrocarbon-based (oil and gas); mining resources, such as iron ore, phosphates, uranium, lead, and gold, which remain underexploited in terms of their potential; and human resources, with the country's population estimated at 46.7 million offering a high level of human capital as a source of wealth. However, the mismatch between training supply and labor market requirements remains a challenge. Capital generated by the exports of oil, gas, and by-products is the main source of investment capital (financial resources); and commercial resources come from hydrocarbon export markets, which generate a real financial windfall for Algeria. However, economic diversification could generate greater non-hydrocarbon resources. The stock of public and private capital has been strengthened by increased investment in infrastructure. Nevertheless, the Algerian economy remains highly dependent on hydrocarbons. Between 2019 and 2023, energy sector taxation, principally from hydrocarbons, accounted for an average 47% of budget revenues. The current account surplus has enabled foreign exchange reserves to accumulate, ensuring economic stability. However, to ensure sustainable and resilient growth, Algeria needs to accelerate the diversification of its economy, by leveraging human capital, optimizing its natural capital, and developing high value-added alternative sectors.

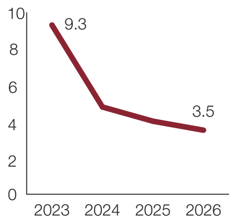
Real GDP growth (%)



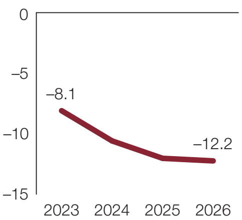
Real GDP per capita growth (%)



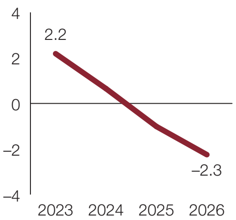
CPI inflation (%)



Budget balance (% of GDP)



Current account (% of GDP)



Source: Data are as of May 2025 and are from domestic authorities; figures for 2024 are estimates and figures for 2025 and 2026 are projections by the African Economic Outlook team.

Egypt

Recent macroeconomic, financial, and social developments

GDP growth fell to 2.4% in FY2023/24, reflecting lower performance in the gas and petroleum sectors and a significant drop in Suez Canal activities due to the disruptions in Red Sea navigation by the war in Gaza. On the demand side, GDP growth was supported by private consumption and exports as the tourism sector recovered. Inflation increased to 33.6%, driven by the depreciation of the national currency as a result of the shift to a more flexible exchange rate regime and rising fuel and electricity prices after the removal of energy subsidies. The fiscal deficit rose to 7.2% of GDP due to higher debt service payments. Thanks to active debt management and proceeds from the $35 billion Ras El-Hekma deal with the government of Abu Dhabi, debt fell to 92.3% of GDP from 98.3% in FY2022/23. The current account deficit increased to 5.4% of GDP in FY2023/24 because of lower Suez Canal revenues. The banking system remained profitable and well capitalized, with a capital adequacy ratio of 19.1% in September 2024, well above the Central Bank's threshold of 12.5%. The ratio of nonperforming loans improved to 2.4% in September 2024.

According to the Human Development Report 2023, Egypt improved its ranking and retained its position as a country with a high human development. To mitigate the impact of inflation on poverty, a social package of $3.4 billion was announced in February 2024. Unemployment remained stable, estimated 6.7% in 2024.

Outlook and risks

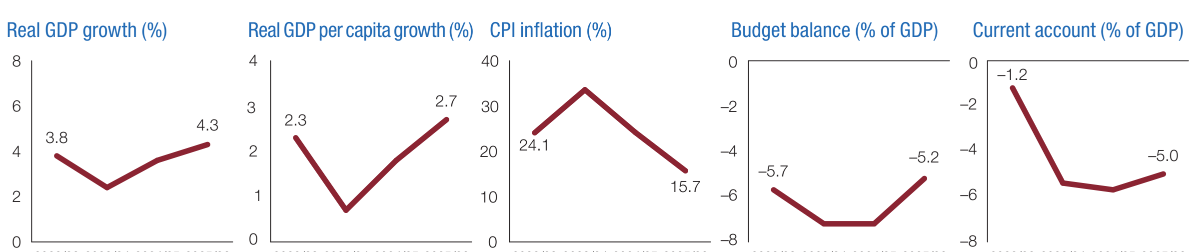
Egypt's economic outlook is positive with economic growth projected at 3.6% in FY2024/25. While the depreciation of the national currency and the removal of energy subsidies continue putting pressure on prices, coordinated monetary and fiscal policies are in place to mitigate these impacts. The fiscal deficit is projected to stay at 7.2% of GDP in FY2024/25. Inflation would remain at double digits in FY2024/25, projected at 24.2%, while the current account deficit might widen to 5.7% of GDP. Egypt remains vulnerable to the global and regional economic context, notably the conflict in the Middle East, which has a big impact on Suez Canal revenues, a major source of foreign currency. And the ongoing conflict in Sudan has led to a significant influx of refugees into Egypt, placing additional strain on public services and infrastructure. Diversifying foreign currency sources, notably through export promotion, is key to strengthening Egypt's resilience against external chocs.

Making capital work better for development

Natural resources form the backbone of Egypt's economy, with oil and gas the most exploited resources. Minerals are abundant but yet to be exploited to their full potential. A large population (114 million) and educated workforce are important human resources. Public and private capital stocks have been growing steadily over the past decade, with a rise in private participation in infrastructure development.

However, challenges remain in the efficient management of natural resources, the quality of education, the educational attainment of the workforce, and the skills gap. Recent fiscal consolidation and cuts in public spendings have affected public capital stock growth, while private participation in the economy remains below its potential. Increasing private sector participation is a key priority in Egypt.

Egypt's tax-to-GDP ratio is low, estimated at 12.5% in 2023/24. On the expenditure side, wages and subsidies exceed investment. Corporate and income tax revenues are limited in part by high informality. The country is committed to implementing strong and decisive tax policy reforms, aiming to broaden the tax base and improve tax efficiency and to cutting untargeted subsidies. This key measure, as part of the ongoing IMF program, would provide fiscal space for public investment, social protection, and human capital development.



Source: Data are as of May 2025 and are from domestic authorities; figures for 2024 are estimates and figures for 2025 and 2026 are projections by the African Economic Outlook team. Data in the figure correspond to Egypt's fiscal year, which runs from July 1 to June 30.

Libya

Recent macroeconomic, financial, and social developments

The Libyan economy is estimated to have contracted by 3.1% in 2024 after a 9.1% rebound in 2023, primarily due to a decline in oil production. Inflation was recorded at 2.1% in 2024, down from 2.4% in 2023, reflecting lower global food prices. To address exchange rate discrepancies, the central bank lowered foreign exchange taxes to 15% and regulated bureaus. It also devalued the national currency by 13.3% in April 2025. The fiscal balance remained unchanged from 2023, posting a modest surplus of 0.1% of GDP, supported by foreign exchange sales taxes amid declining oil revenues. The current account shifted to a deficit of 2.6% of GDP in 2024, down from a surplus of 4.1% in 2023, primarily due to declining oil export revenues. Foreign reserves were estimated at $78.3 billion, covering 34.6 months of imports at the end of 2023. In 2024, the capital adequacy ratio rose to 24.3% from 15.3% in 2023, exceeding the central bank's threshold of 12.5%. But the banking sector still faces challenges with a high nonperforming loan ratio of 19.2%, an improvement from 22.2% in 2023.

Libya is facing political and security volatility, leaving more than 800,000 people in need of humanitarian assistance, according to the World Food Programme. The Human Development Index was high at 0.721 in 2023. Unemployment was at 15.3%, but higher for youth (23.1%) and women (18.4%).

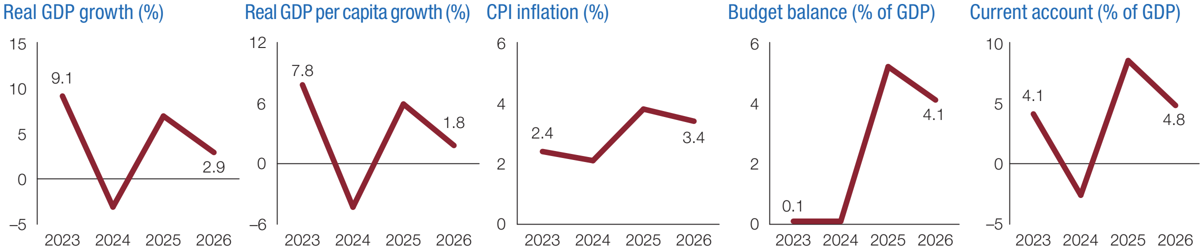
Outlook and risks

The economic outlook for Libya is positive, with projected growth rates of 6.9% in 2025 and 2.9% in 2026, contingent on political stability and moderately rising oil production, as a result of the ongoing investment program of the National Oil Company. The fiscal surplus is anticipated to rise to 5.2% of GDP in 2025 and 4.1% of GDP in 2026. Inflation is forecast to rise to 3.8% in 2025 and 3.4% in 2026, following the devaluation of the dinar. The current account balance is expected to shift to a surplus of 8.5% of GDP in 2025 and 4.8% of GDP in 2026, driven by enhanced oil exports. However, political instability may disrupt oil production and diminish government revenues, while fluctuations in global oil prices present risks to fiscal stability and growth. Initiatives to foster political dialogue and diversify the economy into other industries will be crucial in mitigating these risks.

Making capital work better for development

Libya's oil sector, with 48 billion barrels of reserves, generates substantial liquidity for public expenditures but exposes the economy to volatility risks. Despite its small population, the country grapples with high unemployment, particularly among youth. The underdeveloped private sector is impeded by a complex legal framework, contributing minimally to the economy. Domestic resource mobilization suffers from ineffective management and a heavy reliance on oil revenue, creating vulnerabilities in public service funding. In 2024, oil revenues constituted 72.7% of total revenues, while tax revenues accounted for a mere 2%. Budget allocations favor current expenditure, with only 17.9% allocated to reconstruction projects, which stifles economic growth and tax revenue potential.

Despite political instability and structural challenges, Libya has made progress in public financial management reforms. Emphasizing non-oil sectors and promoting private investment, particularly through public-private partnerships and entrepreneurial support, can boost revenue generation. Broadening the tax base to include more industries and increasing development spending—especially in infrastructure—are vital for sustainable development. And improving transparency in oil revenue management and implementing capacity-building initiatives for public finance officials can enhance budget management and bolster economic resilience.



Source: Data are as of May 2025 and are from domestic authorities; figures for 2024 are estimates and figures for 2025 and 2026 are projections by the African Economic Outlook team.

Mauritania

Recent macroeconomic, financial, and social developments

In 2024, Mauritania's economy, dependent on the extractive sector, was affected by the fall in iron prices. As a result, GDP growth slowed to 5.1%, compared with 6.5% in 2023. This fall in value added in the extractive sector was mitigated by good performance in the agricultural and fishing sectors. On the demand side, growth was driven by final consumption and public investment. Inflation eased to 2.5% in 2024, compared with 5% in 2023, driven by deceleration in food prices. In response, BCM lowered its key interest rate to 6.5% in 2024, down from 8% in 2023. The budget deficit narrowed to 1.1% of GDP in 2024, compared with 2.4% of GDP in 2023, due to higher tax revenues and lower current expenditure. External debt also fell, to 36.3% of GDP in 2024, compared with 42.3% of GDP in 2022. The current account deficit narrowed slightly to 7.5% of GDP in 2024, compared with 8.8% of GDP in 2023; an improvement resulting from a rise in the value of exports of gold and fishery products and from a fall in imports of capital goods. The banking sector has strengthened, with a capital adequacy ratio of 20.1% in 2023, well above the 10% norm. NPLs remained relatively stable, representing 19.3% of loans over 2021–24.

Due to lower inflation and social measures implemented by the Government, the poverty rate fell to 27.4% in 2024, compared with 28.1% in 2023. However, Mauritania remains classified as a country with low human development; and youth unemployment remains a concern, standing at 23.7% in 2023.

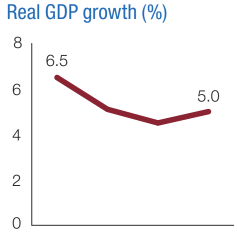
Outlook and risks

In 2025, Mauritania joined the ranks of African gas-producing countries as production started at the Greater Tortue Ahmeyim (GTA) project. However, immediate economic benefits will remain low, and economic growth is expected to slow to 4.5% in 2025, mainly due to lower iron and gold production. In 2026, activity could rebound to 5.0%, supported by the agricultural sector, recovery in the extractive sector, and increased gas activity. Inflation is expected to continue falling, to 2.3% in 2025 and to 2.2% in 2026. The budget deficit should stabilize to 1.1% of GDP in 2025 and 1.0% in 2026. External debt should remain stable at approximately 36.3% of GDP in 2026. The current account deficit is expected to deteriorate to 8.0% of GDP in 2025, due to lower exports from the extractive sector, before improving to 7.8% of GDP in 2026, driven by recovery in iron, gold, and gas exports. However, possible risks to the economic outlook include reduction in public development aid; deterioration in the security situation in the Sahel with a growing influx of refugees, endangering regional stability and investment attractiveness; and the effects of climate change. In addition, possible disruptions to gas production, the trade tariff tensions, combined with falling iron prices, could reduce export revenues from the extractive sector and put pressure on public finances. In addition, rising investment costs for phase 1 of the GTA project are a source of concern in terms of the actual economic consequences for the state budget.

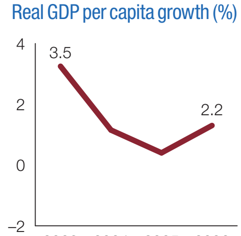
Making capital work better for development

Mauritania is rich in diversified natural capital but contends with overexploitation and unsustainable use. Per capita natural capital had fallen 33%, compared with its 1995 value. This is attributable to a decline in fishery resources, arable land, and minerals. Weak governance limits the contribution of natural capital to budget revenues, with the extractive sector contributing less than 30% to the state budget, or only 3.7% of GDP in 2023. Furthermore, with an HCI of 0.38 and unemployment of school-leavers at 36.4% in 2023, human capital productivity remains low, due to the poor level of technical education among young people and a mismatch with market needs. Public spending on human capital is low, with 1.4% of GDP allocated to education and 4% of GDP to health in 2023. The financial sector remains underdeveloped and tax revenues are below the threshold of 24% of GDP needed to close the annual financing gap of $8.4 billion and accelerate structural transformation. For Mauritania to capitalize on its natural capital, it must strengthen governance and its capacity to negotiate natural resource contracts. Reducing non-social tax expenditure, broadening the tax base, and improving governance will increase budget margins for investments in health, education, and infrastructure.

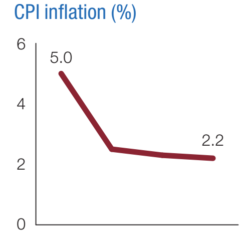
Real GDP growth (%)



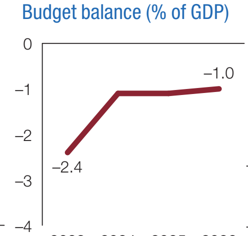
Real GDP per capita growth (%)



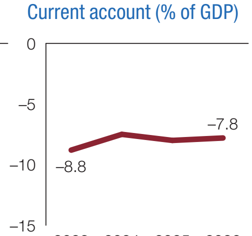
CPI inflation (%)



Budget balance (% of GDP)



Current account (% of GDP)



Source: Data are as of May 2025 and are from domestic authorities; figures for 2024 are estimates and figures for 2025 and 2026 are projections by the African Economic Outlook team.

Morocco

Recent macroeconomic, financial, and social developments

In 2024, economic growth slowed to 3.2%, compared with 3.4% in 2023, due to contraction in agricultural value added. On the supply side, growth was driven by the secondary sector, transport, and tourism. On the demand side, growth was driven by investment and domestic consumption. Inflation fell sharply to 0.9% in 2024, compared with 6.1% in 2023, driven by lower food and non-food prices in a global context of easing commodity prices. In response, BAM lowered twice its key interest rate by 0.25 basis points in 2024, reaching 2.5% by year-end. The budget deficit improved to 3.9% of GDP in 2024, compared with 4.4% of GDP in 2023. The improvement is due to higher tax revenues, adoption of innovative financing mechanisms, and reduction in compensation costs. The financing requirement was mainly covered by the domestic financial market, at 66%. The Treasury's debt ratio was 70% of GDP in 2024, compared with 69.5% of GDP in 2023. The current account deficit widened slightly to 1.6% of GDP in 2024, compared with 0.6% of GDP in 2023, due to an increased trade deficit, mitigated by the services balance. Foreign exchange reserves covered 5.2 months of imports in 2024. Finally, the banking sector remained stable. The average bank solvency ratio held steady at 15.5% in 2023, while the ratio of overdue loans fell slightly to 8.3% in 2024, compared with 8.4% in 2023.

Poverty increased to 3.9% in 2022, compared with 1.7% in 2019 due to the negative effects of the COVID-19 pandemic, while the HDI stood at 0.710 in 2023, an improvement of 0.027 points over 2021, placing Morocco in the high human development category. The unemployment rate increased to 13.3% in 2024, compared with 13% in 2023, particularly affecting young people (36.7%), graduates (19.6%), and women (19.4%).

Outlook and risks

Growth is set to accelerate to 3.9% in 2025, driven by robust domestic demand, particularly by investment, the momentum of non-agricultural activities, and the prospect of a better crop year. Growth is expected to decelerate to 3.7% in 2026, reflecting a slowdown in export industries amid rising U.S. tariffs. Inflation should rise to 2% in 2025 and to 2.3% in 2026. The budget deficit should continue to fall, to 3.6% of GDP in 2025 and to 3.3% of GDP in 2026. The improvement is attributable to consolidation of tax revenues as part of current reforms and to reduction in butane gas compensation charges. On the other hand, the current account deficit is set to widen to 2.1% of GDP in 2025 and to 2.6% in 2026. The deterioration is explained by increased imports, stimulated by infrastructure investment. The economic outlook remains subject to risks, including recurrent droughts and a decline in foreign demand in case of an economic slowdown in the European Union and the tightening of global trade. However, actions that include actively managing water resources and climate chocs combined with a more diversified and competitive trade policy, could mitigate these risks.

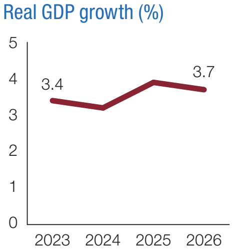
Making capital work better for development

Morocco has a diversified capital base. Natural capital accounts for 28% of total capital, in the form of fishery, agriculture, mining, and renewable energy resources. Natural capital faces water stress. Human capital has developed, but there is still room for improvement in providing education and health services to enhance the quality of services and bridge spatial and gender disparities. The current tax reform should broaden the tax base for better revenue mobilization. The financial sector is developed but could be improved by diversifying its financial instruments and promoting financial inclusion. The private sector's potential could be unlocked by integrating the informal sector and encouraging small business development.

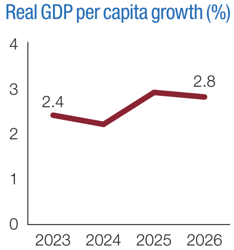
Morocco has reformed its judicial system, strengthening the independence of the judiciary. The new Banking Act, the Organic Finance Act, and the reform of the Commercial Code have modernized the financial sector, strengthened public finance management, and improved the business climate. The business environment would benefit from improving dispute management and company dissolution.

Morocco has made progress in strengthening its institutional infrastructure and governance framework, specifically by digitizing tax administration and the judicial system and by reforming the state's shareholding policy. The challenges posed by tax evasion and fraud highlight the importance of strengthening governance to mobilize capital effectively. Finally, public-private partnerships need to be strengthened to leverage private sector potential.

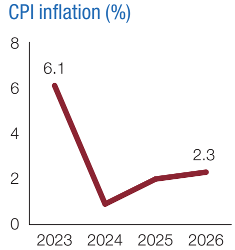
Real GDP growth (%)



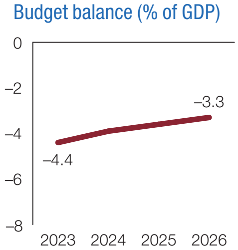
Real GDP per capita growth (%)



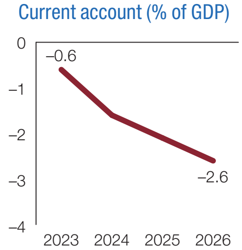
CPI inflation (%)



Budget balance (% of GDP)



Current account (% of GDP)



Source: Data are as of May 2025 and are from domestic authorities; figures for 2024 are estimates and figures for 2025 and 2026 are projections by the African Economic Outlook team.

Tunisia

Recent macroeconomic, financial, and social developments

Tunisia's economy picked up slightly in 2024, with growth of 1.4%, compared with 0.4% in 2023, driven on the supply side by solid performance in agriculture, accommodation and catering, and oil refining. On the demand side, growth was boosted by a slight increase in private consumption and investment. BCT continued its restrictive monetary policy, maintaining its key interest rate at 8%, slowing inflation to 7% in 2024, compared with 9.3% in 2023. The decline is also due to deceleration in prices for food, manufacturing, and services. The dinar remained relatively stable against the euro and the dollar. The budget deficit was reduced to 6.1% of GDP in 2024, due to growth in public revenue (up 5.9%) outstripping growth in expenditure (up 4.9%). However, the level of public debt remains high, at 81.2% of GDP, with a growing share of domestic debt (52% of the total); these increase risks to the banking sector and limit access of private companies to credit. The current account deficit improved to 1.7% of GDP, supported by lower energy prices and a recovery in tourism. Foreign exchange reserves strengthened, covering 121 days of imports at end-December 2024. The financial sector remains resilient, although the ratio of NPLs increased to 14%. The banking sector has strengthened its solvency, with a capital adequacy ratio of 15.3% at end-2023, despite a 23% drop in bank refinancing by BCT.

In 2024, Tunisia continued to face marked regional disparities and high unemployment (16%), affecting mainly women (22.2%), young people (40.9%), and graduates (23.2%). At 15.3%, poverty affected 26% of the population in rural areas, compared with 6.3% in urban areas, underlining spatial inequalities.

Outlook and risks

Economic growth should accelerate slightly in the short term, reaching 1.9% in 2025 and 2.3% in 2026. It should benefit from dynamism in agriculture and tourism. Inflation is expected to slow to 6.4% in 2025 and 6.1% in 2026, supported by tight monetary policy. The budget deficit should gradually improve, reaching 5.3% of GDP in 2025 and 4.9% in 2026, due to fiscal consolidation efforts. However, the current account deficit could widen to 2.2% of GDP in 2025 and to 3.3% in 2026, due to a growing trade deficit resulting from weak exports and rising imports.

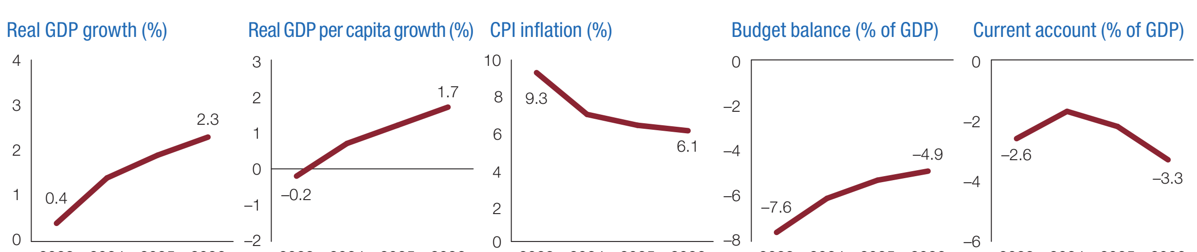
Key risks include the effects of climate change, the pressure of public debt limiting government investment, the slow pace of structural reform, and global geopolitical tensions. To overcome these challenges, Tunisia needs to invest in sustainable agriculture, prioritize productive expenditure, restructure debt and public enterprises, accelerate private sector development, and improve the business climate to attract more foreign investment (such as one-stop shops for investors, digitization of administration, investment law, and so on).

Making the country's capital work better for its development

Tunisia's capital is diversified, but underexploited. Natural capital (phosphate, renewable energy potential, fertile land, biodiversity) increased 145% between 1995 and 2020, but per capita value fell 20%, due to demographic growth. Human capital is young (29% of the population). There is a large diaspora, representing 15.4% of the total population; high unemployment; and a mismatch between training and market needs. Despite a high tax burden (25.1% of GDP), public revenue remains insufficient, weighed down by tax evasion and informality. Financial capital is suffering from a slowdown in investment, down to 15.4% of GDP in 2024.

Reducing red tape is essential for mobilizing capital. Despite some progress (such as tax digitization; TUNEPS, Tunisia's official electronic platform for public procurement management), there is an urgent need to simplify procedures, reduce government payment times, and accelerate the digitization of public services. Predictable regulation application would make it possible to convert potential capital into sustainable, inclusive wealth.

To improve mobilization of its capital, Tunisia needs to modernize its budget management, digitize spending, make greater use of its natural and human capital, and introduce a pro-investment governance jolt (stable regulatory framework, digitized administration, reform of the foreign exchange code and investment law, revamped public-private partnership framework, reinforced economic justice, and effective fight against tax evasion).



Source: Data are as of May 2025 and are from domestic authorities; figures for 2024 are estimates and figures for 2025 and 2026 are projections by the African Economic Outlook team.

SOUTHERN AFRICA

Angola

Recent macroeconomic, financial, and social developments

Angola's real GDP grew by 4.4% in 2024, up from 1.1% in 2023, driven by robust non-oil sector growth (5.3%), particularly in agriculture, fisheries, diamond extraction, and energy, amid 1.2% growth in the oil sector. Public investment and net exports contributed to a 1.2% increase in real per capita income in 2024. Inflation remained elevated at 28.2%, fueled by currency depreciation, the gradual removal of fuel subsidies, and supply constraints. In response, the central bank raised the monetary policy rate by 150 basis points to 19.5% in May 2024. The fiscal deficit widened to 0.4% of GDP in 2024, from 0.1% in 2023, prompting the government to issue a $1.9 billion Eurobond to secure a $1billion loan from JP Morgan to address a liquidity crisis. However, public debt declined significantly to from 71.4% in 2023 to 62.4% of GDP in 2024, supported by nominal GDP growth and debt prepayments. The current account surplus stood at 5.6% of GDP, maintaining gross international reserves at 7.2 months of import cover. The financial sector remains well capitalized, with a capital adequacy ratio of 21.8%, well above the 8% minimum requirement. However, nonperforming loans (19.6% of gross loans) remain a concern, highlighting financial sector vulnerabilities.

Despite significant oil wealth, income inequality is high (Gini index of 0.51). Angola ranks 148 out of 193 countries in the 2023 Human Development Index. Poverty incidence (40.6%) is driven by a lack of jobs and critical social infrastructure. The cash transfer program (Kwenda) is supporting 1.6 million poor households.

Outlook and risks

The country's macroeconomic outlook is challenging. Combined effects of falling global oil prices below the $70/barrel state budget and the potential impact of U.S. reciprocal 32% tariffs will reduce revenues and curtail GDP growth to 3.0% in 2025 and 3.6% in 2026, below the baseline of 4.0%. Inflation is expected to remain high at 23.4% in 2025, driven by food prices and currency depreciation, but could decline to 17.7% in 2026 as supply constraints normalize. The fiscal deficit will rise from 1.7% of GDP in 2025 to 2.1% in 2026, reflecting increased spending to revitalize the economy and ahead of the 2027 elections. Public debt, though rising to 63.9% of GDP in 2025, remains sustainable on a forward-looking basis and below the IMF's threshold of 70%. Falling oil output and prices will weigh on exports, lowering the current account surplus below 3.0% of GDP in 2025–26. Unstable oil production and prices, slippages in the fuel subsidy reform, tensions in trade, and climate change could undermine growth, making economic diversification paramount to mitigate downside risks.

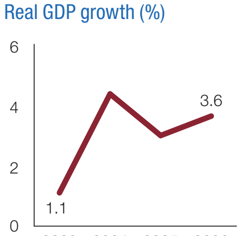
Making capital work better for development

Angola has rich and diverse natural resources. Natural capital, especially per capita, recently deteriorated (renewable natural resources (–43%), timber (–65%), fisheries (–65%), agricultural land (–49%) due to unsustainable use. Human resources are constrained by youth unemployment (56.4%), skills shortages, and poverty. The fiscal space is narrow while the competitiveness of financial and business resources remains weak.

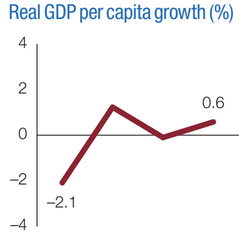
The state's capacity to streamline business regulations is critical for capital mobilization and usage and addressing governance vulnerabilities to boost investment. For example, the Privatization Law 10/19 of May 2019 aims to restructure the public business sector, but challenges persist in repatriating profits and registering property. Unlocking Angola's capital potential requires economic diversification, entrepreneurship and skills, financial sector deepening, and infrastructure.

Angola adopted a non-oil tax reform in 2011 to reduce its dependency on oil revenues. Non-oil revenues, as a share of total revenue, increased from 19% in 2011 to 34% in 2024 but was largely driven by a sharp decline in oil revenues. So, intensifying domestic resource mobilization can create fiscal space to support spending on health, education, and social programs. Targeted and strategic partnerships and innovative financial instruments will unlock capital for sustainable development.

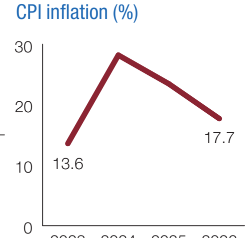
Real GDP growth (%)



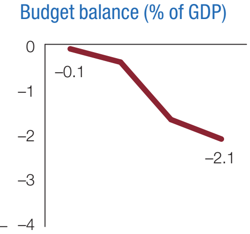
Real GDP per capita growth (%)



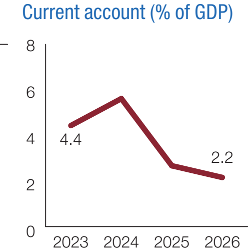
CPI inflation (%)



Budget balance (% of GDP)



Current account (% of GDP)



Source: Data are as of May 2025 and are from domestic authorities; figures for 2024 are estimates and figures for 2025 and 2026 are projections by the African Economic Outlook team.

Botswana

Recent macroeconomic, financial, and social developments

Botswana's economy contracted by 3.0% in 2024, slipping from 3.2% growth in 2023, primarily due to weakened diamond demand and severe drought conditions. The services sector, however, expanded by 4.4%, driven by strong performance in utilities (28.6%), wholesale and retail (7.5%), public administration (5.3%), education (5.7%), and hospitality services (5.4%). Conversely, the mining sector declined by 27.2%, while agriculture shrank by 2.1% and manufacturing by 1.7%. On the demand side, exports declined by 8%. Inflation averaged 2.8% in 2024 from 5.2% in 2023 due to a tight monetary policy stance. The fiscal deficit widened to 8.9% of GDP in 2024 from 4.3% in 2023 due to lower revenue from diamonds, weak economic growth, and higher public expenditure related to the national elections of October 2024. The current account deficit deteriorated to 7.3% of GDP in 2024 from 0.6% in 2023 due to low mineral export revenue. Despite these economic challenges, the financial sector remains stable, with nonperforming loans at 3.5%, well below the 5.0% regulatory threshold.

Economic growth has not been inclusive, nor has it generated sufficient employment opportunities. While poverty declined from 16.1% in 2019 to 14.3% in 2024, income inequality remains high, reflected in a Gini coefficient of 53.3%. Unemployment remains a major challenge, standing at 27.6% overall, with youth unemployment reaching 36%. This is largely attributed to a skills mismatch in the labor market and the economy's heavy reliance on the diamond sector, which has more limited job creation than other industries.

Outlook and risks

Growth is projected at 0.8% and 2.5% in 2025 and 2026, respectively, on account of economic reforms. The fiscal deficit is projected to deteriorate from 8.9% of GDP in 2024 to 9.3% in 2025 and 8.7% in 2026, due to weak growth and revenue from diamonds. Inflation is forecast to rise modestly to 3.3% in 20255 and 3.4% 2026, influenced by fiscal stimulus and infrastructure spending. The current account is projected to deteriorate to 7.6% of GDP in 2025 and 7.3% in 2026, driven by declining diamond exports.

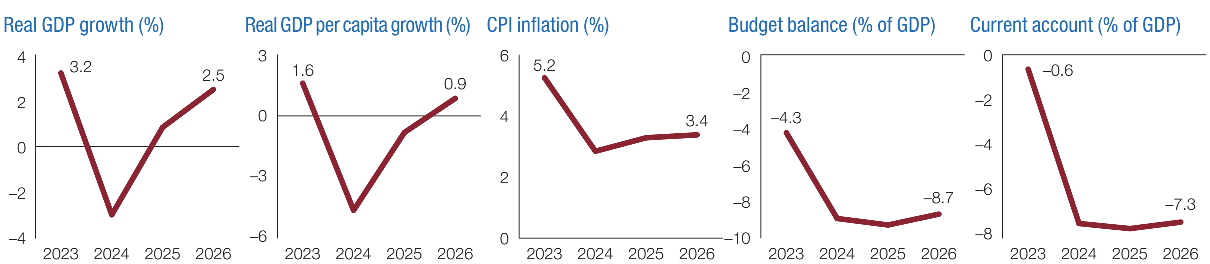
Botswana faces several structural and external risks, including continued overreliance on diamond exports amid commodity price fluctuations, trade tensions, and ODA cuts, and persistent drought hitting agriculture and its value chains. To mitigate these risks, the government is pursuing economic reforms and scaling up infrastructure investments to enhance competitiveness, attract investment, and drive economic diversification. The new administration has prioritized efforts to restore public trust, revitalize the economy, and promote equity-driven growth to strengthen resilience and long-term sustainability.

Making capital work better for development

Botswana's natural capital comprises minerals, land, energy, water, and protected areas. Its human resources comprise a population of 2.7 million people, with 63.8% aged 15–64. Its financial capital comprises commercial banks and non-bank financial institutions. Business resources include government institutions, investment centers, and the private sector. However, these are not fully exploited, and reliance on diamonds makes Botswana vulnerable to shocks. Human resources are constrained by youth unemployment and inequality.

Stronger state capacity is important for capital mobilization and the preservation and utilization of natural resources to drive sustainable development. The vast semi-arid land offers potential to harness livestock, tourism, and renewable energy. Leveraging these resources through infrastructure investments and capacity building can support inclusive growth and sustainable development.

The enactment of the public-private partnerships (PPP) law will help to facilitate increased private sector engagement in public sector works. Strengthening the capacity of the Financial Intelligence Agency and the National Coordinating Committee on Financial Intelligence is needed to improve due diligence and analysis of suspicious transactions and to curb illicit financial flows (last estimated at about $1.2 billion in 2013). Reforms in the education sector are needed to improve educational attainment and skills development.



Source: Data are as of May 2025 and are from domestic authorities; figures for 2024 are estimates and figures for 2025 and 2026 are projections by the African Economic Outlook team. The fiscal years start in the named April and conclude the end of March in the following year.

Lesotho

Recent macroeconomic, financial, and social developments

Lesotho's economy grew modestly by 2.4% in 2024, up from 1.8% in 2023, driven by mega-projects such as the Lesotho Highlands Water Project (LHWP II). The projects provided a boost to the services sector, particularly finance, trade, and transport. Inflation eased to 6.1% in 2024 from 6.3% in 2023, despite volatility in food prices. The central bank responded by cutting interest rates by 50 basis points to 7.25%, aligning monetary policy with domestic and regional conditions. The loti, pegged to the South African rand, depreciated by 2% against the US dollar in 2024 but outperformed many major currencies. Stronger Southern African Customs Union (SACU) revenues and higher water royalties bolstered fiscal and external balances. The fiscal surplus rose to 8.4% of GDP in 2024, up from 7.1% in 2023, marking a significant improvement from prior deficits. The current account deficit narrowed sharply, improving from 6.6% of GDP to 0.4%. Public debt-to-GDP declined to 55.1% in FY2024/25, down from 59.5% in FY2023/24. The financial sector remains stable, with nonperforming loans steady at 4.0% and a strong capital adequacy ratio of 17.2%.

Lesotho faces a high unemployment rate of 30.1% (2024), with youth unemployment reaching 38.9%. In 2024, infant mortality was 39 deaths per 1,000 live births, down from 59 in 2014. Inequality remains high, with a Gini index (2017) of 44.9 and a poverty headcount ratio of 49.7% (2017).

Outlook and risks

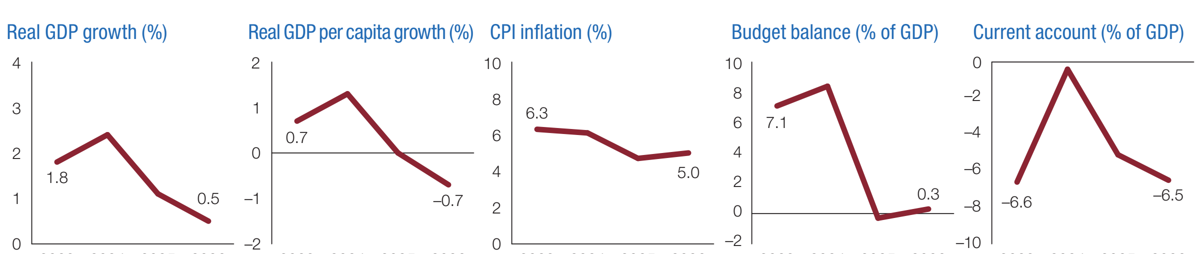
Real GDP growth is projected to slow to 1.1% in 2025, before declining further to 0.5% in 2026, with the LHWP II serving as the primary driver of economic activity, and without which the economy would stagnate. Inflation is expected to ease to 4.7% in 2025 and 5.0% in 2026, reflecting lower fuel prices. Due to slightly lower SACU revenues, cuts in Official Development Assistance (ODA), and increased capital spending, the fiscal balance is expected to deteriorate to a deficit of 0.3% of GDP in 2025, before rebounding to a surplus of 0.3% in 2026. Meanwhile, the current account deficit is projected to widen to 5.1% of GDP in 2025 and 6.5% in 2026. Downside risks to Lesotho's economic outlook include climate vulnerabilities, sluggish growth in key trading partners, escalating geopolitical and trade tensions, and ODA cuts. To mitigate these risks, Lesotho should prioritize economic diversification by shifting to higher value-added sectors, while expanding trade partnerships to reduce reliance on a few key markets.

Making capital work better for development

Lesotho possesses valuable capital assets, though their potential remains underused. Rich in water, diamonds, a youthful population, and a stable financial sector, the country faces challenges with regulatory inefficiency, poor infrastructure, high youth unemployment, and a weak business environment. Renewable natural resources per capita increased recently (41%), though protected areas deteriorated (31%).

Maximizing these resources requires strong state capacity to enforce the rule of law, uphold contracts, and create a stable regulatory environment for investment. Financing development depends on improving domestic resource mobilization and ensuring efficient capital allocation. While tax revenues have increased, reaching 24.1% of GDP in FY2024/25, reliance on volatile SACU revenues remains high. To achieve fiscal sustainability, reducing external dependency, strengthening tax systems, and prioritizing productive investments in infrastructure and governance will enhance capital utilization, driving sustainable growth.

Strengthening institutional quality and governance is key to improving capital mobilization and public spending efficiency. Reforms should enhance transparency, accountability, and fiscal discipline by curbing illicit financial flows, corruption, and informality. Efforts to expand digital tax systems and streamline procurement under the 2023 Public Procurement Act will improve resource allocation. Encouraging private sector participation through regulatory reform will attract investment, foster innovation, improve service delivery, and reduce the fiscal burden on the government, driving sustainable economic growth.



Source: Data are as of May 2025 and are from domestic authorities; figures for 2024 are estimates and figures for 2025 and 2026 are projections by the African Economic Outlook team. Data on the budget balance correspond to Lesotho's fiscal year, which runs from April 1 to March 31.

Madagascar

Recent macroeconomic, financial and social developments

Madagascar's economy is expected to grow 4.2% in 2024, as in 2023. On the supply side, growth was underpinned by the performance of agriculture, textiles, tourism, and telecommunications. On the demand side, it was driven by private consumption, which rose to 78.6% of GDP in 2024, compared with 71.6% of GDP in 2023; and by private investment, which increased to 14.6% of GDP in 2024, compared with 12.9% of GDP in 2023. Inflation fell to 7.6% in 2024, compared with 9.9% in 2023, due to BFM's continued restrictive monetary policy. Fiscal consolidation efforts have reduced the primary deficit to 2.6% of GDP in 2024, compared with 3.5% in 2023. Outstanding public debt has fallen to 51.4% of GDP in 2024, compared with 52.7% in 2023, while the risk of external and total over indebtedness remains moderate. Lower exports of vanilla, nickel, and cobalt have led to a slight increase in the current account deficit to 5% of GDP in 2024, compared with 4.6% of GDP in 2023. However, foreign exchange reserves have strengthened, reaching 6.3 months of imports in 2024, compared with 5.7 months in 2023. The financial system remains solid overall, with the average capital/risk-weighted assets ratio of banks estimated to be 12.8% in 2024, well above the minimum regulatory standard of 8%.%. However, the rate of NPLs, estimated to be 7.9% in 2024, represents a challenge to the stability of the banking sector.

The national poverty rate remained high at 75% in 2022. The unemployment rate was estimated to be 6.6% in 2022, but informal employment represents 95.2% of total employment, according to INSTAT. The persistence of inequality, with a Gini index of 36.8%, and the preponderance of informal employment make growth less than inclusive.

Outlook and risks

Real GDP is expected to grow by 3.8% in 2025 and 4.0% in 2026, supported by agriculture, extractive industries, tourism and telecommunications. The inflation rate should continue to fall, reaching 7.0% in 2025, and 6.7% in 2026. The overall budget deficit is expected to increase to 3.9% in 2025 and 4% of GDP in 2026. Public debt would rise to 52.9% of GDP in 2025, then 53.5% in 2026. The current account deficit is expected to widen to 6.1% of GDP in 2025, and 6.4% in 2026. However, risks linked to climate shocks, geopolitical and trade tensions remain high. Already, the suspension of US aid and the imposition of a 47% tariff on Madagascar's exports to the US are weakening the outlook. This tariff increase would weigh on exports (14.7% of GDP), widening the external deficit, causing a depreciation of the Ariary, an increase in inflation and job losses. The drastic reduction in US aid (from 226.7 million USD in 2024 to 9.2 million USD in 2025) would worsen the social situation, particularly in the social sectors. In the medium term, the combination of these shocks and the general decline in development aid could lead to deindustrialization, a contraction in growth and an increase in poverty. A vigorous response, through the acceleration of reforms and the diversification of partners, remains essential to mitigate these risks.

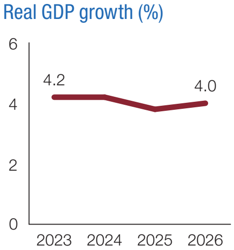
Making capital work better for development

Natural capital accounts for 30% of Madagascar's wealth but remains undervalued. The country has considerable natural assets, including agricultural land, diversified minerals, ecosystems, and rich biodiversity. Human capital remains weak, with limited access to education and health. Strengthening human capital is crucial to reducing the high poverty rate (75%) and the preponderance of informal employment (95% of total employment). Domestic resources are limited, with a low tax burden (10.8% of GDP). Financial capital is underdeveloped, as are transport and energy infrastructures.

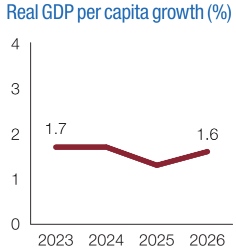
The country has relatively predictable texts and regulations to guarantee the rule of law but capacities remain limited. There are limited domestic resources to finance social and productive sector expenditure, representing 34.5% and 27.2% of the 2024 budget, respectively. It is essential to increase capital expenditure (38% of total expenditure in 2024), and to strengthen the efficiency of public investment and of the business environment to promote sustainable economic growth.

Institutional and governance reforms should be increased to improve mobilization of domestic resources and enhance efficiency in public expenditure. Efforts must be pursued in fiscal digitization, budget transparency, optimized debt management, and the fight against corruption. Public-private partnerships also deserve to be strengthened, with a view to involving the private sector in climate-resilient investment projects to bridge the infrastructure gap.

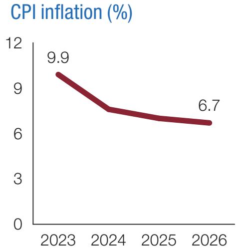
Real GDP growth (%)



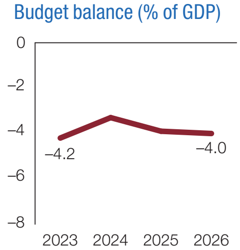
Real GDP per capita growth (%)



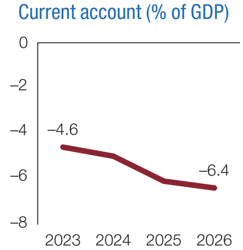
CPI inflation (%)



Budget balance (% of GDP)



Current account (% of GDP)



Source: Data are as of May 2025 and are from domestic authorities; figures for 2024 are estimates and figures for 2025 and 2026 are projections by the African Economic Outlook team.

Malawi

Recent macroeconomic, financial, and social developments

Malawi's real GDP growth is estimated at 1.8% in 2024, slightly below 1.9% in 2023, reflecting declining real incomes due to elevated inflation, monetary tightening, and acute foreign currency shortages, which dampened corporate and consumer demand. On the supply side, agriculture contracted due to weather shocks, while infrastructure bottlenecks and skill shortages reduced productivity. Inflation rose to 32.3% in 2024, up from 28.7% in 2023, despite a tighter monetary policy stance. The policy rate increased from 24% in January 2024 to 26% in February 2024. While the Malawi kwacha stabilized at MWK 1,750 per US dollar since May 2024, international reserves remained critically low, covering less than 0.7 months of imports. The fiscal deficit narrowed to 8.2% of GDP, down from 10.1% in 2023, reflecting fiscal consolidation. Public debt rose to 86.4% of GDP, about 5 percentage points over the previous year, well above the 50% sustainability threshold. The current account deficit widened to 18.5% of GDP in 2024, from 17.5% in 2023, due to higher food imports. The financial sector remains fragile, with nonperforming loans rising to 9% in October 2024, from 6.7% a year earlier, exceeding the 5% regulatory threshold.

About 72% of Malawians live below $2.15 a day, a condition exacerbated by low economic growth, more frequent natural disasters, and policy missteps, making poverty reduction highly challenging. The Integrated Food Phase Classification records that one in four Malawians required food assistance in 2024.

Outlook and risks

The economic outlook remains positive, with real GDP growth projected to rise to 3.0% in 2025 and 3.8% in 2026, driven by a recovery in agriculture and tourism, alongside gains from mining investments. On the demand side, growth will be bolstered by a rebound in exports and improved real incomes, supporting consumer spending and investment. Inflation is expected to decline to 23.8% by 2026, reflecting better food supply conditions. The fiscal deficit is projected to widen to 9.3% of GDP in 2025 before narrowing to 8.6% in 2026, as strict expenditure controls offset the underperformance of public revenues. Although stronger economic activity and higher consumer demand are likely to increase imports, the current account deficit is projected to shrink to 17.9% of GDP in 2025 and 16.9% in 2026, supported by higher export earnings. Key risks to the outlook include U.S. reciprocal trade tariffs and aid cuts, delays in resolving the debt crisis and climate-related shocks, which could undermine fiscal stability, infrastructure investments and agricultural recovery. Addressing these risks will require accelerated structural reforms, strengthened fiscal discipline, and enhanced climate resilience measures to sustain the growth momentum.

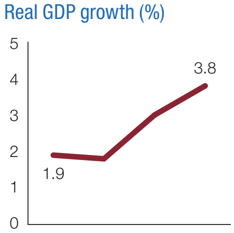
Making capital work better for development

Malawi saw its renewable assets decline by 4% in per capita terms between 1995 and 2018, while its nonrenewable assets increased by 231%. High unemployment, especially for youth (27.4% for ages 15–24) and women, as well as high incidences of poverty (72%) indicate limited use of the country's human resources. In addition, financial and business resources are not being fully exploited due to a constrained investment climate and ageing capital investments. The country's renewable natural capital has been deteriorating largely due to poor management and inadequate regulations. Nonrenewable natural capital per capita has risen thanks to the discoveries of new minerals.

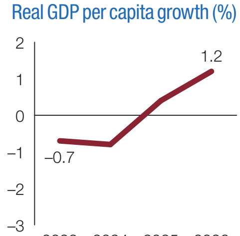
Malawi has limited capacity to mobilize and efficiently allocate capital. Domestic resource mobilization accounts for about 18% of GDP and is mainly allocated to recurrent expenditure (70% of the budget), and 60% of domestic credit goes to government, limiting the resources available for private sector productive activities.

The government is implementing reforms to improve revenue mobilization and fiscal efficiency and thus maximize service delivery. The reforms include strengthening legal and regulatory framework, contract enforcement, curbing illicit financial flows, and combating corruption.

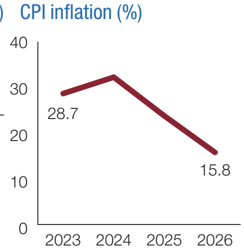
Real GDP growth (%)



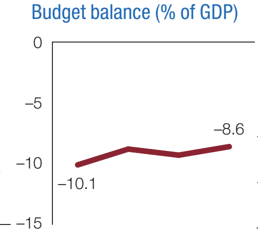
Real GDP per capita growth (%)



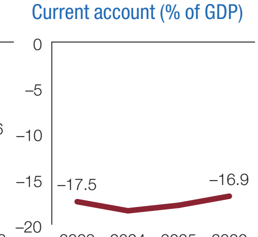
CPI inflation (%)



Budget balance (% of GDP)



Current account (% of GDP)



Source: Data are as of May 2025 and are from domestic authorities; figures for 2024 are estimates and figures for 2025 and 2026 are projections by the African Economic Outlook team. Data on the budget balance correspond to Malawi's fiscal year, which runs from July 1 to June 30.

Mauritius

Recent macroeconomic, financial, and social developments

Mauritius' real GDP grew by 4.7% in 2024, down from 5% in 2023, driven by construction, financial services, and tourism, on the supply side, as consumption and investment supported growth on the demand side. The fiscal deficit narrowed to 5.7% of GDP in 2024, down from 6.1% in 2023, but is projected to widen to 6.8% in 2025 due to lower-than-expected revenue, before declining to 4.6% in 2026 as fiscal reforms take effect. Gross public debt was 83.4% of GDP in June 2024, and accelerated to 87% in December 2024, above the statutory threshold of 80%. The current account deficit widened to 6.4% of GDP in 2024, from 4.6% in 2023, due to a decline in goods exports. Foreign reserves increased to $8.5 billion in February 2025 (13.3 months of imports), from $7.1 billion in February 2024. The rupee remained relatively stable at Rs47.28/$ in February 2025, compared with Rs46.18/$ in February 2024, depreciating by 2.3%. Inflation declined to 3.6% in 2024, from 7.0% in 2023, remaining within the target range of 2–5%, driven by lower commodity prices. Nonperforming loans fell to 3.8% in September 2024, from 5.8% in September 2023, while regulatory capital to risk-weighted assets increased to 22.3% from 21.4%, reflecting improved financial sector resilience.

The proportion of households living in relative poverty decreased from 9.6% in 2017 to 7.3% in 2023, consistent with the World Bank's poverty incidence estimate of 7.5% in 2023 based on $6.85 (for upper middle-income countries). The Gini index was 36.8 (2023). Unemployment stood at 5.8%, with youth unemployment at 16.4% in 2024 Q4.

Outlook and risks

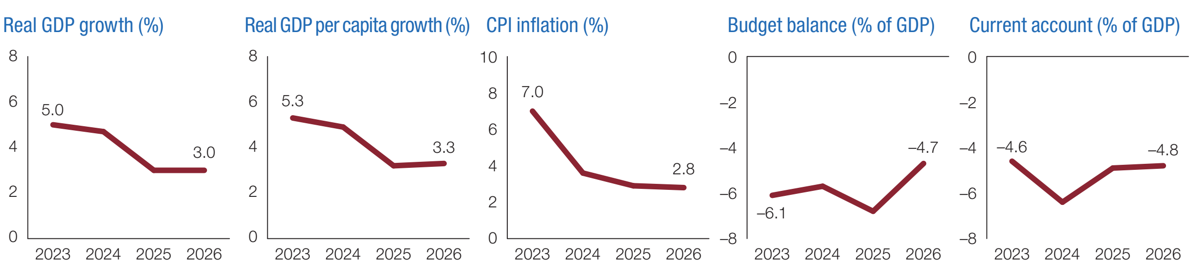
The Mauritius economy is projected to grow at 3% in both 2025 and 2026, driven by expansion in agriculture and manufacturing. Inflation is expected to decline to 2.9% in 2025 and 2.8% in 2026, benefiting from the easing of global commodity prices. While the fiscal deficit is anticipated to peak at 6.8% of GDP in 2025 due to wage increases and expanded social security spending, it is projected to improve to 4.7% in 2026 as fiscal consolidation measures and enhanced revenue collection strategies are implemented. The current account deficit is projected to narrow to 4.9% of GDP in 2025 and 4.8% in 2026, supported largely by strong performance in the tourism sector. Key downside risks to the economic growth outlook include rising debt vulnerabilities, trade tensions, extreme weather events, and tightening labor market conditions. Risk mitigation measures should focus on continued economic diversification and structural transformation, fiscal consolidation and sustained investment in infrastructure.

Making capital work better for development

Mauritius' natural and human capital were valued at $4.2 billion and $57.8 billion, respectively, in 2020. The government has prioritized human capital development through free education and healthcare, but achieving quality education remains the main challenge. The financial sector is the largest contributor to GDP (13.3%) in 2024.

In 2024, the tax-to-GDP ratio stood at 23%, higher than the 16% average for 36 African countries, while tax potential was estimated at 25% of GDP. However, Mauritius' generous tax system limits the government's ability to mobilize additional revenue. In FY 2023/24, 27% of the budget was allocated to infrastructure, health, and education, while 34.7% was dedicated to social protection. To improve domestic resource mobilization, the government should implement comprehensive tax reforms.

The government also needs to curb current spending without undermining social protection. Pension system reform can ensure long-term fiscal sustainability. And Mauritius should leverage its natural capital, particularly ocean resources, promote public-private partnerships (PPPs), reduce tax waivers, and limit energy subsidies to create fiscal space and support economic resilience.



Source: Data are as of May 2025 and are from domestic authorities; figures for 2024 are estimates and figures for 2025 and 2026 are projections by the African Economic Outlook team.

Mozambique

Recent macroeconomic, financial, and social developments

Real GDP contracted by 1.8% in 2024, a significant decline from 5.4% growth in 2023, driven by declining output in extractive industries and agriculture. Weak public consumption, declining to 6.7% of GDP in 2024 from 9.1% in 2023, further dampened demand. Inflation declined to 3.2% in 2024 from 7.0% in 2023, reflecting tight monetary policy and a stable exchange rate. In response to improving price stability, the central bank cut the reference rate from 17.2% in 2023 to 12.7% in November 2024. The fiscal deficit widened to 5.0% of GDP in 2024, up from 4.3% in 2023, despite improved revenues. High public debt remains a major concern with the debt-to-GDP ratio reaching 97.5% in 2024 as short-term debt matures, threatening fiscal sustainability. The current account deficit surged to 12.2% of GDP in 2024, from 10.6% in 2023, largely due to megaproject-related imports. Foreign direct investment inflows and borrowings financed the deficit. Mozambique's financial sector remained resilient, with the capital adequacy ratio standing at 26.3% in June 2024, well above the 12% regulatory minimum. The non-performing loan fell from 10.6% in June 2023 to 8.3% in 2024, against the 5% statutory limit, reflecting improved credit risk management.

Poverty remains a challenge with 74.5% of the population living below the poverty line in 2023. The employment rate fell to 73.6% in 2020 from 75.6% in 2019, highlighting limited inclusive economic growth. Income inequality, as measured by the Gini coefficient, rose to 54 out of 100 in 2024 from 50.4 in 2020.

Outlook and risks

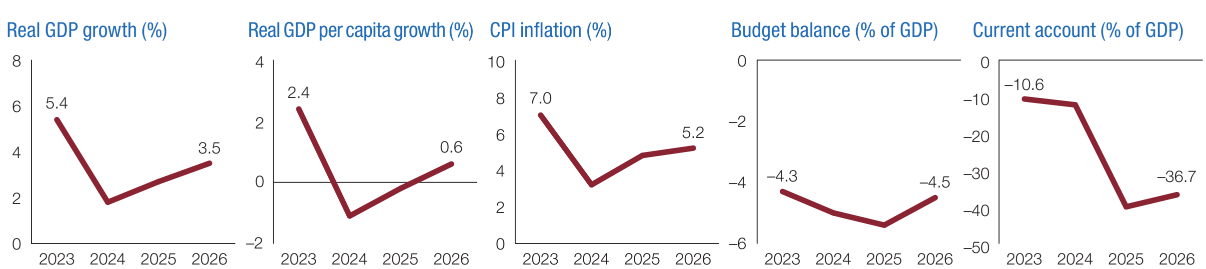
Real GDP growth is projected to increase to 2.7% in 2025 and 3.5% in 2026, pushed by a rebound in extractive sector activities. Inflation is projected to increase to 4.8% in 2025 and further increase to 5.2% in 2026 due to increased local food prices. The fiscal deficit is projected to widen to 5.4% of GDP in 2025 and then narrow 4.5% in 2026 due to fiscal consolidation. The current account deficit is projected at 40.0% of GDP in 2025 and 36.7% in 2026, due to reduced exports of goods and services, and falling investment inflows and export revenues, thus weakening international reserves. Key downside risks to economic growth include climate change, social unrest and its effects on economic activities, ODA cuts, and trade tensions. Mitigation measures include improving spending efficiency, diversifying export markets with promotion of value-added industries to boost domestic consumption, and fostering dialogue among all political parties.

Making capital work better for development

Mozambique's natural wealth is estimated at $209 trillion in 2020, of which renewable natural capital (70%), human capital (38%), and foreign liabilities (34%). Despite the increase in total wealth, Mozambique's wealth per capita fell to $6,726 in 2020 from $7,209 in 2015. Governance inefficiencies, climate vulnerabilities, and security challenges constrain optimal utilization of the existing resources. Human capital remains a strategic growth driver, with 66% of the population under 25, but limited access to quality education and healthcare perpetuates underemployment and income inequality. Lack of access to credit and high public debt are limiting productive investment.

Mozambique's tax-to-GDP ratio remains low at 23% falling below regional benchmarks, signaling unrealized fiscal potential. Revenue mobilization is constrained by illicit financial flows, estimated at $1.3 billion annually, and by weak tax administration. A high wage bill, averaging 90% of tax revenue (2021–23) and rising debt service obligations significantly limit the fiscal space for development spending.

The African Development Bank's Program-Based Operations and the Government Sovereign Wealth Fund provide a framework for sustainable capital utilization. Exiting the Financial Action Task Force Grey List, tackling illicit financial flows, enforcing public-private partnership regulations will be essential to improving the investment climate and boosting economic resilience.



Source: Data are as of May 2025 and are from domestic authorities; figures for 2024 are estimates and figures for 2025 and 2026 are projections by the African Economic Outlook team.

Namibia

Recent macroeconomic, financial, and social developments

Namibia's economy is estimated to have grown by 3.7% in 2024, down from 4.4% in 2023, due to weaker diamond demand and a drought-induced contraction in agriculture. Growth in 2024 was driven by strong performance in electricity, water, and services, particularly wholesale and financial sectors. Inflation slowed to an estimated 4.2% in 2024, from 5.9% in 2023, reflecting lower fuel prices. The Namibian dollar appreciated by 22% against the US dollar and 0.6% against the euro but depreciated by 2.1% against the British pound, reflecting stronger business confidence in the South African rand, to which the Nambian dollar is pegged. The fiscal deficit widened to 2.7% of GDP in 2024, from 2.6% in 2023, due to higher expenditures, though the primary surplus was maintained, supporting debt reduction. The current account deficit rose to 16.5% of GDP in 2024, from 14.6% in 2023, driven by lower inflows. In the financial sector, private sector credit extension during the post-pandemic period was constrained with less than 2% growth, but growth recovered marginally, reaching 4.0% by December 2024. To support weak consumption, the central bank lowered the policy rate by 50 basis points in 2024. Meanwhile, nonperforming loans increased to 5.6% in 2024, from 6.1% in 2023, while the capital adequacy ratio improved to 15% in 2023, up from 13% in 2022.

In 2024, Namibia had an unemployment rate of 36.4%, youth unemployment of 44.4%, a poverty incidence of 26.9%, an HIV prevalence rate of 16.9%, and a Gini coefficient of 0.61. In 2022, Namibia's Human Development Index (HDI) was 0.610, weighed down by high inequality levels in the country, representing medium human development.

Outlook and risks

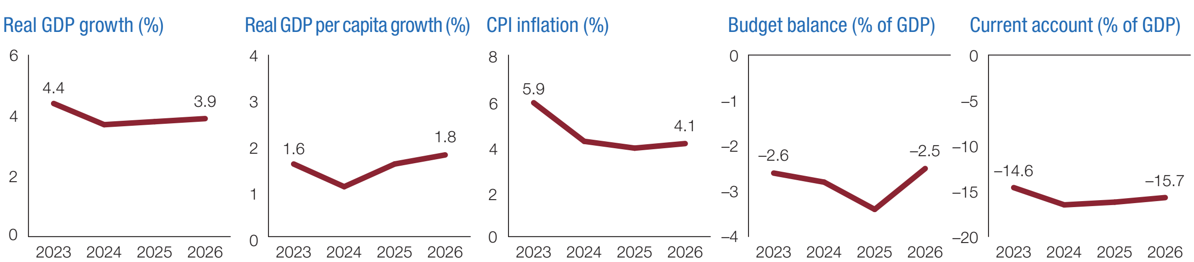
Real GDP is projected to grow by 3.8% and 3.9% in 2025 and 2026, respectively, owing to investment in development projects, construction of mines and a recovery in agriculture. Inflation is projected at 3.9% in 2025 and 4.1% in 2026. The fiscal deficit is projected to widen to 3.4% of GDP in 2025, before narrowing to 2.8% in 2026, driven by higher capital expenditure. The current account deficit is forecasted to remain elevated at 16.2% of GDP due to the high import content of ongoing oil and gas exploration activities. Key downside risks include monetary tightening in advanced economies, which could raise borrowing costs, volatile commodity prices, and trade tensions. Higher tariffs on Namibia's exports are expected to dampen demand for minerals, stock exchange rate volatility, increase inflation, and constrain logistics over the medium-term. Domestically, water supply disruptions and climate change pose additional risks.

Making capital work better for development

Namibia, rich in natural resources, relies heavily on mineral exports, a major source of foreign reserves. However, its vast landmass and limited arable land, coupled with the land tenure system, present challenges for infrastructure development and land use optimization. The low private sector participation and limited skills availability hinder optimal productivity.

Despite allocating more than 27% of the national budget to education, Namibia continues to struggle with high youth unemployment and a persistent skills gap. Ensuring that education spending is efficient is critical, alongside aligning the labor market with a dynamic workforce. The government should promote private sector participation by improving the ease of doing business and implementing its diversification strategy to broaden the revenue base and reduce revenue dependence on Southern African Customs Union revenues.

To address these challenges, Namibia must focus on value addition in mineral exports to increase revenue and foreign earnings. Infrastructure investment should be scaled up through higher budget allocations, public-private partnerships, and public enterprise optimization to free up resources and expand private involvement in key industries. A comprehensive human capital diagnostic is essential to identify barriers to realizing the demographic dividend and to address structural challenges hindering employment and skill development.



Source: Data are as of May 2025 and are from domestic authorities; figures for 2024 are estimates and figures for 2025 and 2026 are projections by the African Economic Outlook team. Data for the budget balance as a % of GDP reflect a financial year that begins April 1 and ends March 31 the following year.

São Tomé and Príncipe

Recent macroeconomic, financial, and social developments

São Tomé and Príncipe's economy is estimated to have grown by 0.9% in 2024, up from 0.4% in 2023, favored by record high cacao prices, eased oil prices, and an ongoing gradual recovery in tourism. Growth was hindered by energy shortages, a strong dependence on fossil fuels for electricity generation, and little private sector credit. Inflation fell considerably to 14.5% in 2024, due to restrictive monetary policies aimed at protecting the currency peg to the euro. The overall fiscal balance improved to 2.7% of GDP in 2024, up from 1.1% in 2023, thanks to higher revenues following the introduction of a Value Added Tax in June 2023. However, the fiscal base remains narrow, and public spending is constrained by a significant wage bill and financing fuel imports. Public debt declined from 88.1% of GDP in 2021 to 68.6% in 2024, due to higher grant inflows and restrictions on commercial borrowing. The current account deficit improved from 12.2% of GDP in 2023 to 7.8% in 2024, reflecting record cacao prices, moderating oil prices, and stronger tourism. The financial sector remains solid, with a capital adequacy ratio of 37%, well above the 12% minimum requirement.

Low growth exacerbated poverty (66.7%), notably in rural areas, adding to scarce jobs (especially for youth) and income inequality (0.47 Gini), pushing approximately 20% of the population to emigrate since 2022. Ranked 141 of 193 countries in human development, the country implements cash transfer and school-feeding initiatives for vulnerable populations.

Outlook and risks

The economic outlook is cautiously positive, with growth projected at 2.7% in 2025 and 4.4% in 2026, supported by relatively high cacao prices, tourism, public works, and programmed infrastructure investments. Inflation should continue falling and reach 7.0% by 2026, which will improve household purchasing power. The overall fiscal deficit is projected to decline to 2.5% in 2025 and 1.4% of GDP in 2026. Incentivized by the IMF's Extended Credit Facility, fiscal discipline should help reduce public debt below 55% of GDP by 2027. The current account deficit is projected to improve in 2025–26, driven by high cocoa prices, tourism and moderate oil prices. Downside risks to this outlook include commodity price volatility, global policy uncertainty, trade tensions, slow progress in energy sector reforms, reductions in ODA, climate change-related events, and global geopolitical conflicts. Policies to promote economic diversification through agricultural value chains and clean energy should be in place to support inclusive growth.

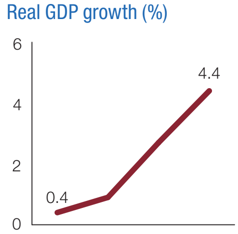
Making capital work better for development

São Tomé and Príncipe's estimated wealth in 2020 was 4.87 billion dollars, comprising human capital (67.2%), natural capital (17.2%), and produced capital (15.6%). Overall wealth has increased but wealth per capita declined, due to lower produced and natural capital. Natural capital consists mainly of agricultural land, forests, and a vast Exclusive Economic Zone. Human capital has led overall capital growth despite persisting challenges, aggravated now by emigration, which in turn erodes produced capital.

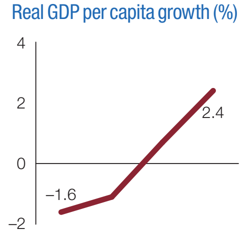
A policy mix that optimizes capital requires stronger State capacity. Weak institutional capacity limits natural asset monitoring and preservation. Poverty is driving many people to emigrate, and there is no fiscal space to incentivize them to stay. The private sector remains underdeveloped, due to a lack of economies of scale and little credit.

São Tomé and Príncipe should use its natural capital to mobilize financial resources that reduce the dependence on imported oil for energy generation, such as solar panels that accelerate the energy transition, climate debt swaps, carbon credits, or fisheries agreements that may alleviate foreign exchange currency shortages. Strengthening public service delivery and addressing skill mismatches will help offset emigration, while reforms to boost formalization and improve dispute settlement mechanisms will stimulate financial sector credit.

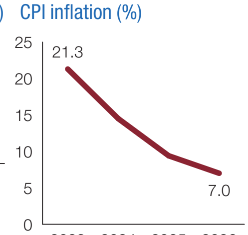
Real GDP growth (%)



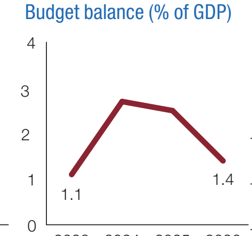
Real GDP per capita growth (%)



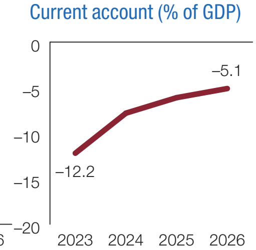
CPI inflation (%)



Budget balance (% of GDP)



Current account (% of GDP)



Source: Data are as of May 2025 and are from domestic authorities; figures for 2024 are estimates and figures for 2025 and 2026 are projections by the African Economic Outlook team.

South Africa

Recent macroeconomic, financial, and social developments

South Africa's economy grew by 0.6% in 2024, down slightly from 0.7% in 2023, reflecting continued weakness in agriculture and industry. Per capita GDP growth remained negative, declining slightly from –0.7% in 2023 to –0.8% in 2024, reflecting slow economic momentum. Inflation averaged 4.4% in 2024, down from 5.9% in 2023, driven by lower fuel prices, reduced transport costs, and improved electricity supply. The decline in inflation prompted the South African Reserve Bank to cut the repo rate three times, reducing it from 8.25% in April 2024 to 7.50% by January 2025. The rand depreciated by 2% against the US dollar in 2024 but outperformed most emerging market currencies. The current account deficit remained unchanged at 1.6% of GDP in 2024, while the fiscal deficit, including grants, expanded to 5.0% of GDP, up from 4.4% in 2023, as revenue collection weakened. Although the financial system remains stable, nonperforming loans increased to 5.7% in 2024, from 4.7% in 2023, as businesses struggled. The capital adequacy ratio remained strong at 17.2% in 2024, compared with 17.4% in 2023.

Poverty was estimated at 55.5% in 2024, based on the upper-middle-income country poverty line, due to low growth and high unemployment (estimated at 32.6%, with youth unemployment at 45.5%), the energy crisis, and global shocks. Income inequality, measured by the Gini coefficient, was estimated at 0.67 in 2022.

Outlook and risks

GDP growth is projected to remain subdued to 0.8% in 2025 and 1.2% in 2026, underpinned by improved energy supply, enhanced rail freight, and better port management. GDP per capita growth is projected to average 0.4% in 2025 and in 2026. Inflation is forecast to average 4.5% in 2025–26, though risks remain due to potential increases in food, electricity, and water prices. This could slow down the policy rate reduction. The fiscal balance, including grants, is projected at 4.9% of GDP in 2025 and to narrow to 4.7% in 2026, as economic growth recovers marginally. The current account deficit is expected to widen to 2.0% of GDP in 2025 on account of lower exports to the US, before declining slightly to 1.7% in 2026. Risks to the economic outlook include global geopolitics, reductions in official development assistance, trade tensions, infrastructure gaps, logistical bottlenecks, and fiscal vulnerabilities arising from state-owned enterprise bailouts. Mitigation measures should focus on resolving the supply constraints, improving logistics efficiency, and fostering investment and trade growth.

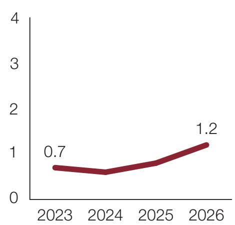
Making capital work better for development

South Africa's natural resources include minerals, agricultural land, and national parks, while its well-developed financial system features strong banking institutions, pension funds, and a dynamic stock exchange. With a population of 63 million, human resources remain a key asset, constrained by youth unemployment (44.6%), poverty, and skill gaps. The private sector is dynamic yet not fully leveraged to drive inclusive growth.

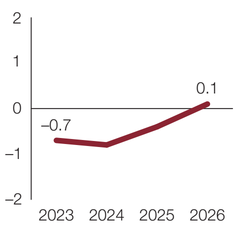
Building state capability remains a key policy priority of the government. Strengthening economic and financial governance is essential for the equitable and sustainable use of natural resources. Investing in skill development and capacity building is critical to addressing youth unemployment and unlocking human potential. Regulatory reforms to enhance public-private partnerships will help finance large infrastructure projects while keeping the fiscal deficit under control. But mobilizing higher domestic capital is necessary to sustain long-term wealth and investment.

South Africa's economic growth prospects depend on the successful implementation of structural reforms to enhance competitiveness, productivity, and investment. Strengthening local government capacity, addressing spatial inequality, advancing digital governance, fostering PPPs, and curbing wasteful expenditure through fiscal consolidation are essential for improved service delivery. Stronger SOE governance, enhanced institutional arrangements, and accelerated capital mobilization will be key to driving growth, reducing poverty, and tackling unemployment.

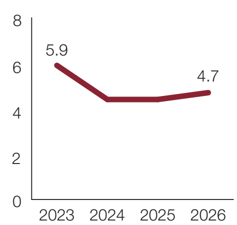
Real GDP growth (%)



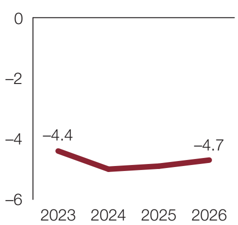
Real GDP per capita growth (%)



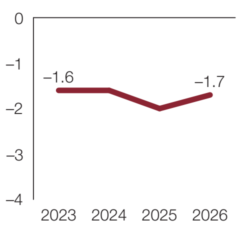
CPI inflation (%)



Budget balance (% of GDP)



Current account (% of GDP)



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eSwatini

Recent macroeconomic, financial, and social developments

Real GDP growth decelerated to an estimated 4.7% in 2024, from 5.0% in 2023. On the supply side, the contraction was driven by high base effects, particularly from the services sector, which had surged due to election-related economic boost in 2023. Delays in implementing large-scale investment projects further dampened growth. On the demand side, economic growth was constrained by delayed public investments, despite higher Southern African Customs Union (SACU) receipts. Inflation eased to 4.3% in 2024 from a four-year peak of 5.0% in 2023, supported by lower oil prices. Interest rates eased to 7.0% in 2024, from 7.5% in 2023, reflecting a more accommodative monetary policy stance. The Lilangeni peg to the South African Rand continued to support exchange rate stability. Fiscal consolidation coupled with stronger SACU inflows, sharply narrowed the fiscal deficit from 4.8% of GDP in 2023 to just 0.1% in 2024. While debt vulnerabilities persist, public debt (at 41% of GDP) remains sustainable, with a moderate risk of debt distress. The current account surplus was 1.5% of GDP in 2024, down from 2.4% in 2023, benefiting from improved exports, particularly of sugar and soft drinks, alongside higher SACU receipts. The financial sector remains small and cash-based, with four commercial banks, while non-bank financial institutions hold 78% of sector assets.

Social indicators remain weak, reflecting the slow average economic growth rate of just 2% over the past decade and the limited impact of a public sector-led growth model since 1995. As a result, unemployment remains high at 37.6%, while income inequality, measured by the Gini index, stands at 54.6. Poverty affects 52% of the population, underscoring the persistent challenges of inequality and economic exclusion. Addressing these issues will require structural reforms, inclusive growth strategies, and increased private sector participation to generate sustainable employment and reduce disparities.

Outlook and risks

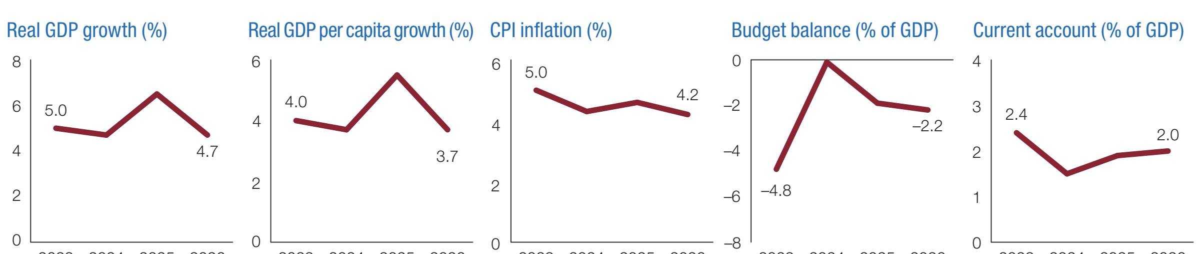
Real GDP growth is projected at 6.5% for 2025, driven by investments in key sectors including: the Lower Usutu Smallholder Irrigation Project; energy and mining (coal and quarrying) projects; infrastructure development, including the construction of various dams under the Mkhondvo Ngwavuma Water Augmentation Program, notably the Mpakeni dam; and road construction, notably the MR14 (Siphofaneni-Sithobela-Maloma-Nsoko) and MR21 (Maloma-Siphambanweni) roads. Inflation is expected to rise in 2025, driven by higher food and administered utility prices, as well as the depreciation of the exchange rate. The fiscal deficit is projected to widen in 2025 and 2026, influenced by a drop in SACU revenues. The current account surplus is expected to fall in 2025, with outflows expected. Downside risks to growth include delays or postponements in public project implementation, unfavorable weather conditions, geopolitical tension spillovers, trade tensions, and ODA cuts. To mitigate these risks, the government remains committed to addressing implementation challenges, mainstreaming climate adaptation and mitigation and environmental protection measures, enhancing domestic resource mobilization, and promoting economic diversification.

Making capital work better for development

In per capita terms, Eswatini's natural capital decreased by 10% in 2020 from USD 8628 in 1998. This trend epitomizes the unsustainable use of natural capital, with restoration efforts hindered by constrained fiscal space. Despite initiatives to enhance the investment environment and expand private sector credit, human capital remains constrained by the large informal sector (62% of total employment), youth unemployment (65%), and extreme poverty (52%).

Fiscal efficiency has been improved through strengthening the public procurement regulatory agency and introducing integrated financial management systems. Strengthening the anticorruption and competition commissions is bolstering the government's capacity to mobilize capital. But enacting a law governing state-owned enterprise (SOE) mergers and public private partnerships can unlock private sector participation.

To mobilize capital for long-term sustainable growth, three reforms will be required. First is improving fiscal management through the rollout of the integrated financial management information system. Second is enhancing public procurement efficiency by strengthening the institutional and human capacity of the Eswatini Public Procurement Regulatory Agency. And third is fast-tracking the rationalization of SOEs by clearly separating regulatory functions from commercial activities.



Source: Data are as of May 2025 and are from domestic authorities; figures for 2024 are estimates and figures for 2025 and 2026 are projections by the African Economic Outlook team. Data on the budget balance correspond to eSwatini's fiscal year, which runs from April 1 to March 31.

Zambia

Recent macroeconomic, financial, and social developments

Real GDP growth slowed to 4.0% in 2024, from 5.4% in 2023, due to an unprecedented drought that caused electricity and agriculture contraction. On the demand side, net exports were the main growth drivers. Inflation reached 15% in 2024, up from 10.9% in 2023, driven by food price inflation. In response, the monetary policy rate was raised to 14% in November 2024, from 11% in November 2023. The fiscal balance reached –3.5% of GDP in 2024, from –4.5% in 2023, due to higher revenue collection and reduced expenditure. Public debt reached 104.6% of GDP in 2024, from 133.4% in 2023, driven by reductions in external and domestic debt. While Zambia's debt remains sustainable, the country is at high risk. The current account balance reached 1.1% of GDP in 2024, from –2.9% in 2023, due to higher copper exports. International reserves increased to 4.5 months of imports in 2024, from 3.5 months in 2023. Nonperforming loans reached 4.4% in 2024, from 4.2% in 2023. The capital adequacy ratio reached 23.7% in 2024, from 23.5% in 2023.

Poverty is estimated at 60%, unemployment at 13.8%, child mortality at 55.6 per 1,000 births. The Gini index is estimated at 0.507. The Human Development Index stood at 0.588. Growth is yet to be inclusive. To reduce inequality, the government is investing in education, health, and cash transfers.

Outlook and risks

Growth is projected to bounce to 6.2% in 2025 and 6.0% in 2026 driven by recovery in energy agriculture and mining. Real GDP per capita is projected at 3.3% in 2025 and 3.1% in 2026. Inflation should fall to 12.6% in 2025 and 7.1% in 2026 as agriculture recovers and food prices decline. Authorities should continue focusing on price stability to curb inflation. The fiscal balance should stand at –3.4% of GDP in 2025 and –3.9% in 2026 due to greater revenue mobilization and better expenditure control. The current account balance should stand at 0.5% in 2025 and –0.7% in 2026 on account of anticipated lower copper price driven by global uncertainty. Downside risks include recurrent drought, reductions in official development assistance, new U.S. trade tariffs, and commodity price vulnerability. Mitigation measures include irrigation-led agriculture, export diversification, regional integration, and a flexible exchange rate.

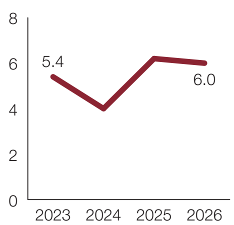
Making capital work better for development

Zambia has various capital assets. But natural capital per capita deteriorated recently—renewable natural resources (–48%), timber (–56%), agricultural land (–49%)—due to unsustainable use. Human resources are constrained by youth unemployment (18.8%) and poverty. Financial and business resources are improving thanks to a stronger business environment.

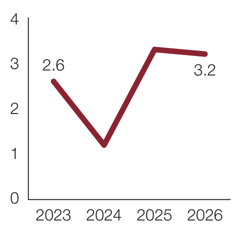
Zambia has made remarkable progress in debt restructuring. It is the first to succeed in debt restructuring within the G20 Framework, with 90% of debt restructured as of today. And all four reviews of the IMF ongoing program have been successful. The legal framework for recognizing and enforcing contract rights is well developed, but enforcement systems require strengthening. Unlocking Zambia's capital potential requires pursuing business-friendly climate reforms, deepening regional integration, and strengthening accountability.

Zambia adopted a decentralized governance system in 2016 but needs to pursue further governance reforms to improve capital mobilization and fiscal efficiency. These include strengthening judicial independence, enforcing contracts, boosting private sector participation and institutional quality, curbing illicit financial flows, and combating corruption. Enhancing domestic resource mobilization will create appropriate fiscal space for investments in education, health, infrastructure, and financial innovation to unlock capital for sustainable growth and development.

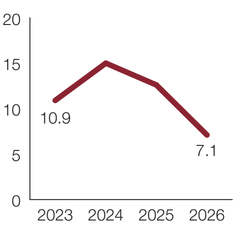
Real GDP growth (%)



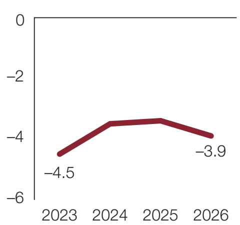
Real GDP per capita growth (%)



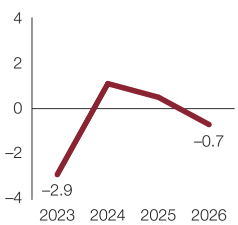
CPI inflation (%)



Budget balance (% of GDP)



Current account (% of GDP)



Source: Data are as of May 2025 and are from domestic authorities; figures for 2024 are estimates and figures for 2025 and 2026 are projections by the African Economic Outlook team.

Zimbabwe

Recent macroeconomic, financial, and social developments

Real GDP growth for 2024 is estimated at 2.0%, a sharp decline from 5.3% in 2023. It was constrained by the El Nino-induced drought, causing a 15.0% contraction in agricultural output. However, wholesale and retail (5.1%), mining (2.3%), and manufacturing (2.0%) sectors recorded moderate growth. On the demand side, growth was primarily driven by government consumption, which expanded by 5.4%. The Zimbabwe gold currency remained stable at ZiG 13.55 per US dollar until September 2024, when it was depreciated by 42% to ZiG 24.40 per dollar. Annual ZiG inflation averaged 55.7% in 2024, driven by local currency depreciation in the first quarter. To contain inflationary pressures, the policy rate increased from 20% to 35% in September 2024. The fiscal deficit narrowed to 1.2% of GDP in 2024, down from 6.4% in 2023, on account of fiscal consolidation and enhanced domestic resource mobilization. The public debt stock stood at 60.2% of GDP ($21.1 billion) as of September 2024 while debt servicing reached 0.5% of GDP. The current account surplus strengthened to 1.5% of GDP, from 0.4% in 2023, supported by a 15% increase in remittances, which boosted official reserves to around $540 million. The financial sector remained stable in 2024, with a capital adequacy ratio of 46%, well above the 12% minimum requirement, signaling strong sector resilience.

Zimbabwe was ranked 159 of 193 countries on the Human Development Index, with a score of 0.550 in 2024, unchanged from 2022. Income inequality remains high (Gini index of 50.3), with the rural population disproportionately affected due to limited economic opportunities and recurrent climate shocks. Poverty remains high, estimated at around 40% in 2024, the same as in 2023. These trends suggest that economic growth in the last decade has not been inclusive. National unemployment was estimated at 21.8% and youth unemployment at 30.1%, while informal employment stood at 58.3% in Q3 of 2024, one of the highest in the world.

Outlook and risks

The economic outlook for 2025 is positive, with real GDP growth projected at 6.0%, driven by a strong recovery in agriculture (12.8%) and steady growth in mining (5.6%). A bumper harvest is forecast for 2025, with an estimated 3.2 million tons of grain, including maize and wheat. However, the growth forecast could be weakened due to recent global events including impacts of trade tariffs which could affect exports of key commodities including gold, platinum and tobacco. Private consumption, expected to expand by 6.6%, will be the main driver of demand. The ZiG exchange rate is expected to remain stable, while annual ZiG inflation is projected to decline to an average of 23.6% in 2025, reflecting improved currency stability and moderated price pressures. The forecasted low fiscal deficit at 0.9% of GDP, supported by enhanced domestic resource mobilization and fiscal consolidation measures, could be undermined by the suspension of ODA. The current account surplus is forecasted at 2.0% of GDP mainly supported by continued growth in remittances and expected higher prices for gold and PGM. However, risks remain elevated, notably climate change vulnerabilities, emergence of new trade tariffs, reductions in ODA, trade tensions, and uncertainty around the implementation of monetary policy.

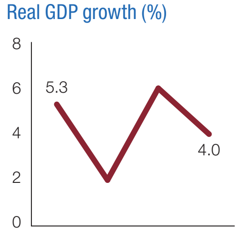
Making capital work better for development

Zimbabwe possesses extensive capital wealth, essential for economic transformation. It is richly endowed with natural resources, an educated population, and huge opportunities for private investment. Natural capital includes gold, diamonds, chrome, and lithium, which contribute more than 8.6% to the country's GDP annually and 60% of export earnings. Institutional weaknesses and volatility of international commodity prices have been major constraints to the growth of the mining sector. However, lithium and cobalt present a major opportunity.

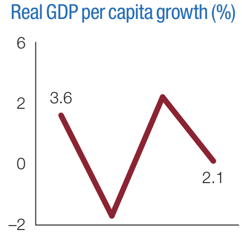
The exploitation of natural capital faces policy and regulatory challenges. The country has prioritized strengthening state capacity, including legal and regulatory reforms, to leverage its vast mineral stock. The government is currently reviewing the Mining Act of 1961, which is still in use but has been overtaken by developments in the mining sector. Property rights, contract enforcement, and the challenging business environment have given rise to the growth of small-scale mining with very few large-scale investors, especially in the gold sector. Ensuring macroeconomic stability is also key for a competitive and vibrant business environment.

Zimbabwe aims to achieve upper-middle-income status by 2030, but realizing this vision requires comprehensive reforms in key sectors such as mining that have huge potential for growth. These reforms will require institutional strengthening of state-owned enterprises and regulatory enhancements to improve governance, efficiency, and economic resilience. Key priority areas for reform include combating corruption, curbing illicit financial flows, and enhancing transparency in the mineral resource sector. Maintaining macroeconomic stability is also critical.

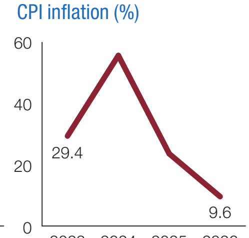
Real GDP growth (%)



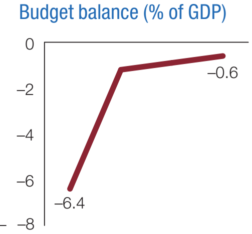
Real GDP per capita growth (%)



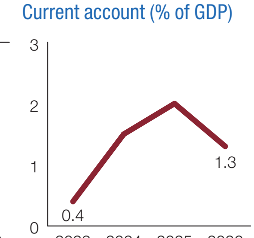
CPI inflation (%)



Budget balance (% of GDP)



Current account (% of GDP)



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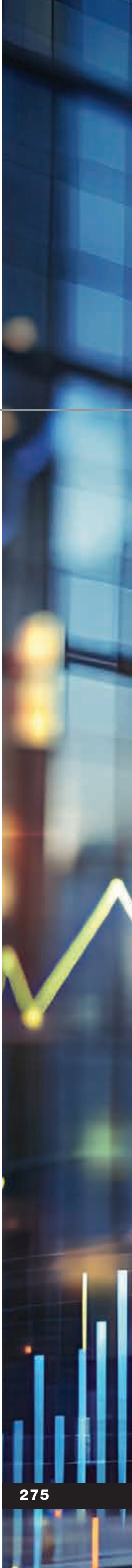
WEST AFRICA



Benin

Recent macroeconomic, financial, and social developments

Benin's recent economic performance shows strong growth. Despite multiple shocks, the country's growth rate was 7.5% in 2024, compared with 6.4% in 2023. The main drivers of growth were construction (12.4%), information technology (10.5%), and manufacturing (up 8.1%). On the demand side, economic growth in 2024 was 11%, driven by both public and private investment. With fuel prices stabilizing and BCEAO continuing tightened monetary policies, the inflation rate fell to 1.2% in 2024, compared with 2.7% in 2023. Fiscal consolidation continued, boosting tax revenues to 13.3% of GDP in 2024, compared with 12.9% in 2023, and controlling public expenditure to 19% of GDP in 2024, compared with 19.2% in 2023. As a result, the budget deficit fell to 3% of GDP in 2024, compared with 4.1% in 2023. Outstanding public debt also stabilized in 2024, at 54% of GDP, compared with 54.9% in 2023. The risk of overindebtedness remains moderate. With stronger exports of goods, the current account deficit has also narrowed to 6.2% of GDP in 2024, compared with 8.2% in 2023. The financial sector has consolidated, with bank assets up 10.6% in 2024, and has remained healthy overall.

According to INSTAD, poverty affected 36.2% of the population in 2022, compared with 38.5% in 2019. There is also high underemployment (72.9%). Benin is ranked among countries with a low HDI and, according to the UNDP's 2023 report, has a score of 0.504, compared with 0.501 in 2021.

Outlook and risks

The economic outlook is favorable, with a projected growth rate of 6.4% in 2025, rising to 6.8% in 2026, due to dynamism in manufacturing and construction (port, roads). Inflation is expected to remain low, below 2% over 2025–26. Fiscal consolidation should continue, with the budget deficit projected to fall to 2.3% of GDP in 2025, and to 2.4% in 2026. Driven by exporting companies, the current account deficit should fall to 5.9% in 2025, and to 5.3% in 2026. Uncertainty continues over changing trade policies and the downward trend in development aid, on which the country is dependent. In addition, the negative effects of climate change and the worsening security threat are also major risk factors. Public authorities should continue their efforts to calm the political climate in the run-up to the 2026 general elections. Accelerating support for economic transformation, decent employment, and the green transition should be promoted.

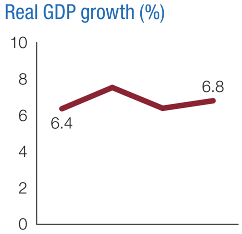
Making capital work better for development

Benin's capital remains underutilized. The country's natural capital is dominated by renewable resources (99.75%), but per capita natural capital has fallen 42%. Despite its key role among the various forms of capital in sustaining growth, the potential of business capital is poorly exploited. Human capital is also hampered by skills mismatches in the labor market. Development of diversified financing instruments to mobilize financial capital flows would support sustainable development.

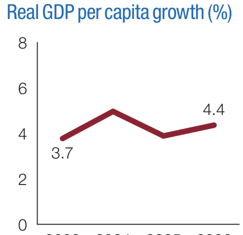
The state's ability to mobilize and use capital is being strengthened with digitization of public services, agency governance of infrastructure, and processing of primary products. Formalization of the informal sector remains a pressing challenge. Digitization is a powerful tool for making the business environment more attractive, improving access to finance, and reducing business costs.

To mobilize capital, reforms are needed to develop new financial tools (alternative finance, innovative financing). It is also important to continue with reforms to attract investment in sustainable infrastructure and improve consistency in industrial policy to promote domestic industries more effectively. Adopting policies with local content, and accelerating full digitization of public services is required to make the business environment more attractive.

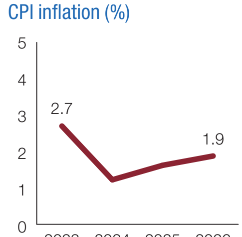
Real GDP growth (%)



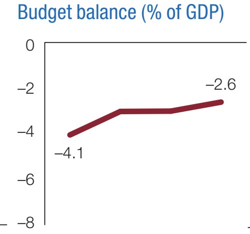
Real GDP per capita growth (%)



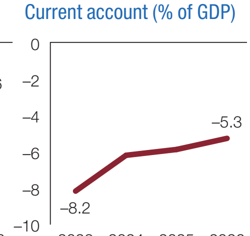
CPI inflation (%)



Budget balance (% of GDP)



Current account (% of GDP)



Source: Data are as of May 2025 and are from domestic authorities; figures for 2024 are estimates and figures for 2025 and 2026 are projections by the African Economic Outlook team.

Burkina Faso

Recent macroeconomic, financial, and social developments

The Burkina Faso economy continued to expand in 2024, with an estimated growth rate of 4.7%, compared with 3.0% in 2023. On the supply side, growth was driven by the services and agricultural sectors. On the demand side, rising final consumption and investment underpinned growth. Inflation rose to 4.2% in 2024, compared with 0.7% in 2023, due to higher local food prices. Monetary policy has remained restrictive since 2022. The budget deficit has continued to fall, to 5.1% in 2024, compared with 6.7% of GDP in 2023. This was due to an increased tax burden of an estimated 19.3% of GDP in 2024, compared with 17.8% in 2023. The proportion of the budget devoted to security (29.5% in 2024) and humanitarian issues remain high, limiting budgetary margins. The risk of overindebtedness remains moderate. Public debt, estimated at 58.6% of GDP in 2024, remains sustainable, despite the large and costlier share of domestic debt (59%), linked to the increased issue of government securities. The current account deficit improved to 5.4% of GDP in 2024, compared with 7.9% in 2023, following the rise in the value of gold exports. In 2023, the banking book's deterioration rate was 7.6%, and a 14.2% solvency ratio exceeded the 11.5% minimum standard.

Despite improvement in the security situation, the humanitarian crisis remains a concern. The Government continues to support internally displaced people. The incidence of poverty was 43.7% in 2022. The HDI remains low at 0.438 (2022), ranking Burkina Faso 185 out of 193 countries.

Outlook and risks

The economic outlook is positive, with real GDP growth projected to be 5.0% in 2025 and 5.7% in 2026, supported by increased agricultural and extractive production. Strengthening these growth drivers remains dependent on improved security conditions. In 2025, inflation is expected to fall to 2.1%, with good prospects for the agricultural season; the budget deficit is expected to stand at 5.3% of GDP, due to higher government expenditure. Public debt is expected to decline, as the issue of government securities eases. The current account deficit should improve to 5.2% of GDP in 2025 and to 5.0% of GDP in 2026, due to higher gold export revenues and lower food imports. Risks to this outlook include a deterioration in the security situation; major adverse effects of climate change; a fall in export commodity prices; and disputes resulting from tensions between regional groups. The Government should continue to ensure the security of its territory while consolidating social cohesion; adopt a strategy of economic diversification and development of local value chains; and strengthen adaptation to climate change.

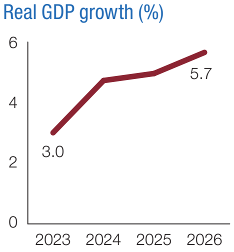
Making capital work better for development

Burkina Faso's estimated wealth was $191.6 billion in 2020, consisting primarily of natural capital (67%) and human capital (29%). Although total wealth has been increasing, per capita wealth has been gradually declining ($8,902 in 2020), due to the low rise in wealth in relation to population growth. The Government needs to exploit its renewable resources (agricultural land) and its non-renewable resources (gold) more effectively to generate more development funding. Challenges include insecurity, governance, and low levels of human capital.

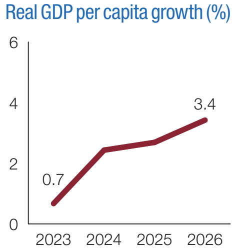
Government measures to enhance the country's capital focus on the agricultural sector, reforestation, the new Mining Code, increased national content in the mining sector, industry, an improved business climate, budget consolidation, and increased public expenditure on education. These measures have been bolstered by improved security and enhanced adaptation to climate change.

Capital enhancement requires improved governance. Expanding digitization of public administration should strengthen the fight against corruption and improve revenue collection and efficiency of public expenditure. Promoting public-private partnerships would increase the provision of public infrastructure while strengthening the development of the private sector. Tackling illicit financial flows in the mining sector could help generate additional resources.

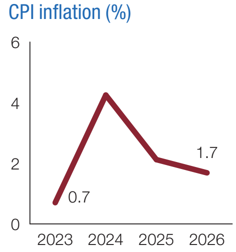
Real GDP growth (%)



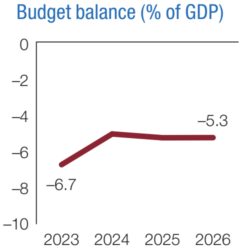
Real GDP per capita growth (%)



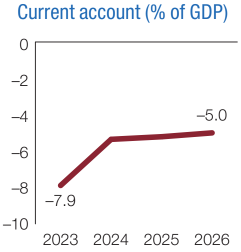
CPI inflation (%)



Budget balance (% of GDP)



Current account (% of GDP)



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Cabo Verde

Recent macroeconomic, financial, and social developments

Cabo Verde's growth rate rose to 7.3% in 2024 from 5.4% in 2023 supported by the service sector, domestic consumption, and exports. The Banco of Cabo Verde's (BCV) interest rate moved from 1.0% in October 2023 to 1.25% in November 2023, then to 1.50% in May 2024, 1.75% in November 2024, and 2.25% in December 2024. Inflation declined from 3.7% in 2023 to 1% in 2024 due to successive increases in interest rates. The fiscal deficit rose to 2.8% of GDP in 2024 from 0.3% of GDP in 2023 due to high overall expenditure. The primary balance deficit improved from 2.6% of GDP in 2023 to 0.7% of GDP in 2024 as total current revenue rose. Public debt declined to 108.5% of GDP in 2024 from 112.2% in 2023 but remains high, constraining fiscal space. The current account deficit declined to 0.9% of GDP in 2024 from 2.5% of GDP in 2023 due to rising exports of goods and services. Remittances helped to maintain foreign reserves, standing at Euros 712.9 million in November 2024, representing on average 40% of the total. Nonperformance loan ratios fell from 8.1% of gross loans in 2021 to 7.8% in 2023.

Cabo Verde recorded an Human Development Index of 0.661 according to the 2023 report, placing the country in the medium human development category. Challenges remain in ensuring universal access to basic services such as clean water, sanitation, and healthcare, particularly in rural areas.

Outlook and risks

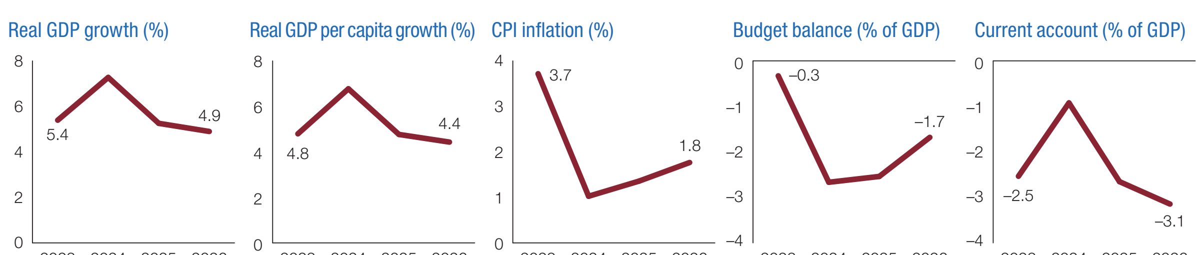
The country is expected to have moderate GDP growth of 5.3% in 2025 and 4.9% in 2026. Growth in 2025 will be supported by continued demand for tourism services and investments in the energy sector. The BCV is committed to contain inflation and support macroeconomic stability. Inflation is projected to remain unchanged at 1.4% in 2025 and 1.8% in 2026 due to continued prudent macroeconomic policy. The fiscal deficit is expected to decline to 2.4% of GDP in 2025 and 1.8% in 2026 as a result of broader tax base, while the current account deficit is projected to stand at 2.6% of GDP in 2025 and 3.0% in 2026. Growth might be affected by global uncertainty in international trade, which reduces global growth and thus tourism demand. The country should continue implementing its economic reforms to strengthen macroeconomic stability.

Making capital work better for development

Cabo Verde's renewable capital consists mainly of fisheries, marine species, sun, and wind. Mineral resources include salt, pozzolana, and limestone. Its youth population 18–30 stands at 60% of the total, but around 23.9% of youth 17–24 are unemployed. However, the government has been making efforts to improve the country's business environment to attract investment and increase employment.

Cabo Verde's state capacity is important for capital mobilization. Strengthening the rule of law is key to boosting investment and fiscal efficiency. To this end, the government created independent procurement (October 2015) and competition (June 2022) authorities to ensure a level play field for economics agents. But challenges persist for direct contracting by government, business registration and financing. Unlocking Cabo Verde's capital potential requires consistent regulations, formalizing the economy, and deepening regional integration, corporate governance, accountability, and the rule of law.

Progress on good governance has been insufficient to mobilize the required development capital. Therefore, the country needs to continue implementing reforms strengthening judicial independence, enforcing contracts, boosting private sector participation and institutional quality, curbing illicit financial flows, and combating corruption.



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Côte d'Ivoire

Recent macroeconomic, financial, and social developments

Economic activity remained robust in 2024, with real GDP growth estimated to be 6.1%, compared with 6.5% in 2023. On the supply side, economic activity was driven by renewed dynamism in cocoa production, increased exploitation of the Baleine hydrocarbon field, and expansion in trade, transport, and telecommunications activities. On the demand side, the main growth drivers were private consumption and investment. Inflation decelerated to 3.5% in 2024, compared with 4.4% in 2023, due to improved food supply and measures to combat the high cost of living. The implementation of ongoing reforms to increase domestic revenues has helped reduce the budget deficit to 4% of GDP in 2024, compared with 5.2% in 2023. These fiscal consolidation efforts must continue. The current account deficit narrowed to 4.2% of GDP in 2024, compared with 8.3% of GDP in 2023, due to improved terms of trade, specifically higher cocoa prices in 2024. The performance of the financial sector remains satisfactory, with loans to the economy up 11.5%. NPLs (as a percentage of total loans) were at 7% in June 2024, compared with 7.2% in June 2023.

In 2023, Côte d'Ivoire advanced to the category of countries with medium human development, achieving an HDI score of 0.582, up from 0.565 in 2022, and rising five places in the global ranking, from 162nd to 157th. The poverty rate fell to 37.5% in 2021, down from 39.4% in 2018.

Outlook and risks

The economic outlook remains favorable, with real GDP growth projected to average 6.3% over 2025–26. Economic activity should benefit from investments scheduled for before implementation of the National Development Program 2021–25 ends and production of phase 2 of the Baleine field begins. Inflation is expected to fall to 2.8% in 2025 and to 2.4% in 2026, in line with the BCEAO's target of 1–3%. This is a result of improved supply of food products, due to favorable weather conditions and stronger supply chains. The budget deficit is projected to be 3% of GDP in 2025 and 2026, in line with the WAEMU criterion. The current account deficit is projected to be 2.6% of GDP in 2025, due to improved terms of trade, which should be boosted by agricultural exports and increased hydrocarbon exports.

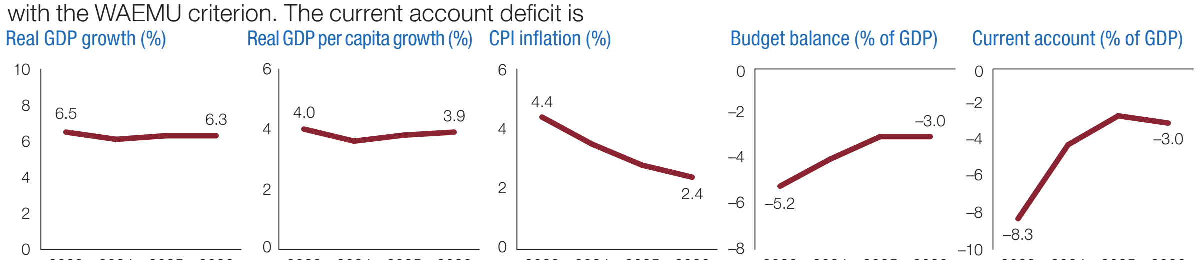
However, these prospects could be subject to certain downside risks, including climate hazards, global trade tensions, deterioration in the regional security situation, and uncertainties surrounding presidential elections in October 2025. Strengthening macroeconomic, security, and institutional stability should help mitigate these risks.

Making capital work better for development

Côte d'Ivoire has a large and diversified capital base. The country is endowed with vast natural resources, notably in agriculture, forestry, and mining, which represent a valuable source of wealth. Human resources remain limited by the challenges of matching training to jobs. Financial and commercial resources are gradually improving, with the tax burden rising to 13.8% of GDP in 2024, compared with 13.5% in 2023. However, sustained efforts are needed to increase domestic revenue mobilization, thereby widening fiscal room for maneuvering and enabling sustainable financing for growth and social priorities.

The country benefits from mechanisms ensuring the transparent management of public finances: adoption of Organic Law no. 2014–337 of June 5, 2014, on the transparency code in public finance management; and Decree no. 2019–81 of January 23, 2019, on the management charter for programs and allocations. However, institutional reforms are still needed to improve governance, particularly in terms of budget execution, the fight against corruption, and illicit financial flows.

To unlock Côte d'Ivoire's full capital potential, structural reforms are needed to overcome existing challenges and exploit available resources. It is essential to improve productivity and resource mobilization, and to formalize the informal sector. The country should also enhance the value of its natural capital, improve the match between training and employment, invest more in technical and vocational training, and promote a culture of good governance.



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The Gambia

Recent macroeconomic, financial, and social developments

The economy is projected to expand by 5.8% in 2024, up from 5.3% in 2023. This growth is driven largely by an agricultural sector that has performed robustly due to improved rainfall and targeted government support. Substantial contributions have also come from the construction sector—fueled by extensive public infrastructure projects and heightened private investment—and a revitalized tourism industry, which has improved foreign exchange earnings and employment through increased international arrivals. Monetary policy tightened in 2023 to counter high inflation, which peaked at 16.6%, and improved food price dynamics and better exchange rate management helped reduce it to 14.4% in 2024. The central bank's policy measures, including elevated interest rates and higher reserve requirements, have been instrumental in stabilizing prices and curbing volatility. Fiscal consolidation was evident as the overall fiscal balance improved from –4.1% of GDP in 2023 to –3.6% in 2024, driven by enhanced revenue mobilization and more disciplined expenditure. The current account deficit narrowed significantly from –8.9% in 2023 to –4.7% in 2024, reflecting a healthier trade balance and improved external financial flows. The financial sector remains stable, with a capital adequacy ratio of 24.6% in 2023, significantly above the regulatory minimum of 10%. Credit growth has shown positive momentum, though exact figures for 2024 are unavailable. The nonperforming loan ratio has improved to 3.3% in 2023, down from 4.6% in 2022, but continued monitoring is crucial to ensure sustained financial stability.

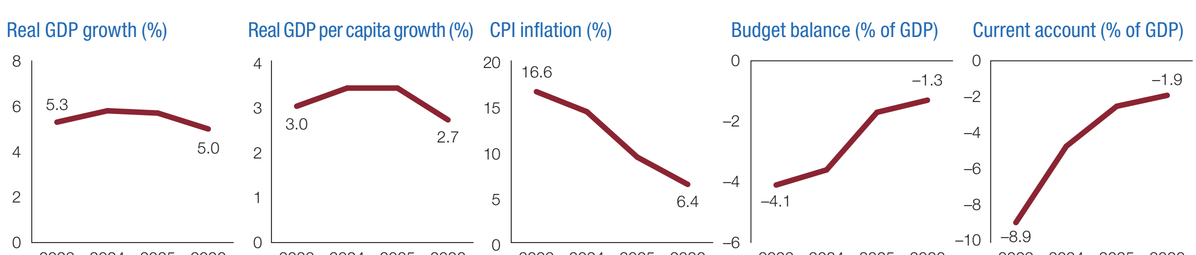
Despite economic growth, The Gambia faces persistent challenges: 53.4% of the population lived in poverty in 2020, with rural poverty at 64.6%. Income inequality increased, as the Gini index rose to 38.8 in 2020. Youth underemployment reached 41.5% in 2022. To address these disparities, the government is expanding social protection programs.

Outlook and risks

Over the next two years, the economic outlook is cautiously optimistic. Real GDP is projected to grow at 5.7% in 2025 and 5.0% in 2026, with per capita gains following suit. Inflation is expected to moderate, falling from approximately 14.4% in 2024 to 9.4% in 2025 and 6.4% in 2026, supported by tighter monetary policy and easing food prices. Fiscal conditions are expected to improve, with the deficit narrowing progressively, while the current account balance tightens due to trade improvements. Significant risks include external shocks, such as commodity volatility and policy shifts, along with domestic challenges from delayed reforms. Upside risks involve accelerated fiscal consolidation and increased export diversification. Mitigation measures include reinforcing fiscal discipline, maintaining a flexible monetary stance, and implementing targeted structural reforms to ensure sustainable, inclusive growth. Additional risks include global downturns and exchange rate volatility, although continued reforms and prudent policies should mitigate them.

Making capital work better for development

The Gambia's development trajectory depends on effectively mobilizing and leveraging its capital assets—natural, human, financial, and institutional. Despite 43.5% of its land being arable, only about 57.3% of that is cultivated, hindered by inadequate infrastructure and climate vulnerabilities affecting 80% of the agriculture-dependent population. Rapid urbanization, at 3.75% annual growth, strains existing services and leads to inefficient land use. Human capital presents both challenges and opportunities. More than 60% of the population is under 25, offering a potential demographic dividend. But high unemployment at 6.5% in 2023 and underemployment at 41.5% in 2022, coupled with a 63% informal employment rate, constrain productivity. Addressing these issues requires expanding technical education, aligning skills with labor market needs, and creating youth employment opportunities in sectors like tourism, agriculture, and technology. Financial capital remains constrained, with tax revenue at 12.1% of GDP in 2023 and limited domestic savings. Strengthening domestic resource mobilization, tackling illicit financial flows, and improving credit access for businesses are essential. Institutional reforms, including combating corruption and enhancing public financial management, are vital for investor confidence. And with only 56.2% of the population having electricity access, targeted investments in energy and infrastructure are crucial for sustainable development.



Source: Data are as of May 2025 and are from domestic authorities; figures for 2024 are estimates and figures for 2025 and 2026 are projections by the African Economic Outlook team.

Ghana

Recent macroeconomic, financial, and social developments

GDP growth is estimated to have improved to 5.7% in 2024 from 3.1% in 2023, driven by the service sector which contributed 44% to the overall GDP growth, supported by information and communication. The industry sector contributed 40% to the GDP growth resulting from improved performance of the mining and quarrying, and construction. Agriculture on the other hand contributed only 10% to the growth, attributed to lower crop yield because of adverse weather conditions. On the expenditure side, growth was driven by external demand (net export) and investment. Inflation eased to 22.9% from 40.3% in 2023 attributed to non-food inflation. Non-food inflation decreased from 33.5% in 2023 to 22.9% in 2024. In response to the moderating inflation, monetary policy was accommodative, with the Bank of Ghana reducing the Monetary Policy Rate (MPR) to 27% in 2024 from 30% in 2023. The fiscal deficit widened to 4.8% of GDP from 3.4% in 2023 driven by increased government spending particularly related to the 2023 elections despite fiscal consolidation measures. According to the IMF, public debt decreased to 70.5% of GDP from 76.4% in 2023 attributable to debt restructuring, including domestic debt exchange program and Eurobond restructuring. The current account is in surplus at 1.8% of GDP compared with 1.7% in 2023, attributed to higher exports of gold and oil as well as remittances. This coupled with the decline in capital/financial net outflows, improved international reserves accumulation to 3.5 months of import cover in 2024 from 1.6 months in 2023. The cedi depreciated by 42% against 11% in 2023 due to increased import demand, a sharp decline in cocoa exports and energy sector payments. The financial sector strengthened in 2024, with the banking sector capital-adequacy ratio rising to 15.5% from 13.9% in 2023 helped by strong banking sector profitability due to high yields on treasury bills. However, asset quality is weak with non-performing loans at 24.1% against the prudential threshold of 10%.

Poverty at 29.5% (2023), unemployment at 13.7% (2023) and income inequality at 43.5% (2022) are high compared with regional peers. The 2022 Multidimensional Poverty Index (MPI) show that 24.8% of the population is multidimensionally poor while an additional 20.0% is classified as vulnerable to multidimensional poverty. Fast-tracking structural transformation for a rapid, inclusive and sustainable growth remains a priority to address socio-economic challenges.

Outlook and risks

GDP is projected to slow to 4.5% in 2025 and 4.8% in 2026 attributed to activity in the mining sector, reduced fiscal consolidation momentum and higher interest rates. Inflation is projected to ease to 15.5% in 2025 and 9% in 2026 supported by tight monetary policy, reduced exchange rates depreciation, and lower food prices. The fiscal deficit is projected to narrow to 3.5% of GDP in 2025 and 3.0% in 2026 supported by the ongoing fiscal consolidation efforts and public financial management reforms including enhanced fiscal responsibility framework and new rules to tighten expenditure commitments. Public debt to GDP ratio is projected to decrease further to 66.4% in 2025 as debt restructuring with commercial creditors and revenues increase following improved tax compliance and reduced tax expenditure. The current account balance is projected at 2.6% of GDP in 2025 and 1.4% in 2026 attributed to improved exports of oil and gold export. Downside risks to the outlook could emanate from climate change, possible policy reversals, direct and indirect effects of US tariff increase. Staying on the fiscal consolidation path will help mitigate the risks.

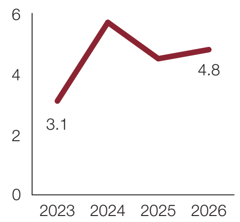
Making capital work better for development

Ghana's wealth was estimated at $845 billion in 2020, up 69% from 2010. It is made up of produced capital (also known as manufactured capital), financial capital ($88 million), human capital ($475 billon), and natural capital ($306 billion), and a negative net foreign asset (–$25 billion) because Ghana was a net debtor. Natural capital includes renewable and nonrenewable natural resources, amounting to $267 billion and $39 billion, respectively.

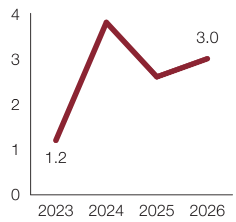
Ghana has the potential to increase its wealth through domestic and external savings mobilization. In the short term, this entails ensuring macroeconomic stability, enforcing rules, laws, and regulations, and improving the business environment—and in the medium to the longer term, fast tracking economic transformation and properly valuing and accounting for the natural capital and associated ecosystems.

Ghana has embarked on a fiscal consolidation program, and efforts are under way to value and account for natural capital by developing the National Plan for Natural Capital Accounting. Initiatives are in place to compile pilot NCAs and integrate them into the System of National Accounts. The integration would increase Ghana's wealth profile, increase credit worthiness, and unlock sustainable financing resources through domestic resource mobilization.

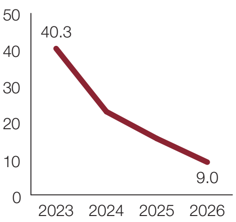
Real GDP growth (%)



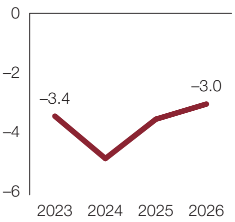
Real GDP per capita growth (%)



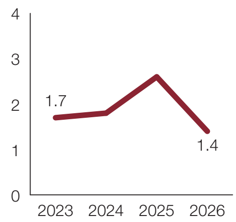
CPI inflation (%)



Budget balance (% of GDP)



Current account (% of GDP)



Source: Data are as of May 2025 and are from domestic authorities; figures for 2024 are estimates and figures for 2025 and 2026 are projections by the African Economic Outlook team.

Guinea

Recent macroeconomic, financial, and social developments

The economy remained resilient in 2024, even though the oil depot explosion in December 2023 led to a fall in economic growth to 4.1%, compared with 5.7% in 2023. Growth was driven by strong bauxite production, and by road and rail investment at Simandou. Inflation rose to 8% in 2024, compared with 7.8% in 2023, due to disruption in hydrocarbon supplies. BCRG reduced its key interest rate by 25 basis points to 10.75%, from 11% over the period. Fiscal policy was eased to finance emergency expenditure following the oil depot explosion. As a result, the budget deficit widened by 1.2 pp to 3% of GDP in 2024, compared with 1.8% of GDP in 2023. This occurred in a context of subsidies, tax revenue losses, and a low rate of domestic resource mobilization estimated at 13.1% of GDP in 2024, compared with the WAEMU standard of 20%. The debt level rose to 38.7% of GDP in 2024, compared with 37.1% of GDP in 2023, with a moderate level of overindebtedness. The current account deficit increased to 9.7% of GDP in 2024, compared with 8.9% in 2023, due to electricity imports and the Simandou project. Foreign exchange reserves fell to 1.3 months of imports in 2024, compared with 1.9 months in 2023. The NPL level has risen, concentrated in trade and catering. However, bank capitalization remains satisfactory.

Guinea moved to LMI status in 2023, with GNI per capita of $1,180. The poverty rate fell to 43.7% in 2019, compared with 55.2% in 2012. However low inclusiveness in growth remains a challenge.

Outlook and risks

Growth should rebound to 5.7% in 2025 and to 5.8% in 2026, driven by the resilience of mining and agricultural production, which had suffered from flooding in 2024, and by the continued investment in Simandou infrastructure. Inflation is expected to fall to 6.4% in 2025 and to 6.5% in 2026, driven by a prudent monetary policy and recovery in local supply. The budget deficit is expected to narrow to 2.3% of GDP in 2025 and to 2.4% in 2026, due to consolidated tax revenues from digitization of tax departments, optimization of mining revenues, broadening of the tax base, recovery of state assets, reduction in emergency spending, and subsidies to mitigate the effects of the oil depot explosion. The current account deficit should gradually narrow to 9.3% in 2025 and to 9.1% in 2026, reflecting progress in the infrastructure construction phase of the Simandou project.

Risks to this outlook are linked to social tensions stemming from uncertainty over the end of the transition; heavy dependence on mining exports; fluctuations in the price of raw materials; a drop in FDI and trade volumes, resulting from geopolitical tensions; and events linked to climate change (drought or flooding). Sociopolitical consensus on the current transition and an IMF-approved program would be positive developments.

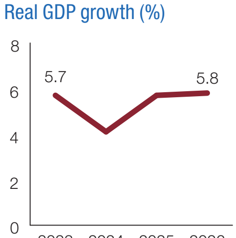
Making capital work better for development

Guinea is capital rich in various ways. But natural capital, in particular metal ores extracted for added value, has deteriorated by GNF 198.5 billion, due to a temporary halt in artisanal gold mining over the rainy season. In human capital, there is higher unemployment among young people (40.5%) and women (22.1%), and there is poverty. In terms of budget resources, aggregates show a projected 12.1% increase in revenue, with the tax burden remaining low. There are significant initiatives in the financial markets and the private sector aimed at revitalizing the economy.

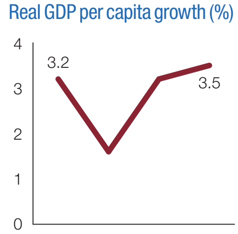
The Government's ability to mobilize and use its resources effectively is key to meeting the funding requirement in the 2030 Agenda of $2.54 billion. It is crucial to strengthen the rule of law and its function. For example, public reforms aimed at improving the tax burden from 25% to 75% would increase tax revenues from 2.62% of GDP to 7.87% of GDP.

To close the financing gap for the 2030 Agenda, Guinea should strengthen domestic resource mobilization by broadening the tax base; conduct periodic audits of transfer prices in the various sectors; recoup state assets in state-owned organizations and enterprises; increase the absorption rate of external financing already mobilized; and explore new financial vehicles for climate finance and public-private partnerships.

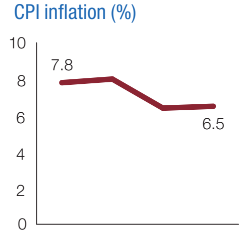
Real GDP growth (%)



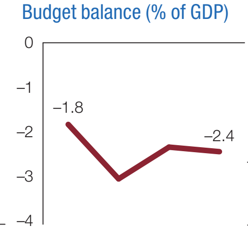
Real GDP per capita growth (%)



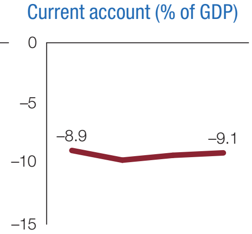
CPI inflation (%)



Budget balance (% of GDP)



Current account (% of GDP)



Source: Data are as of May 2025 and are from domestic authorities; figures for 2024 are estimates and figures for 2025 and 2026 are projections by the African Economic Outlook team.

Guinea-Bissau

Recent macroeconomic, financial, and social developments

In 2024, economic growth in Guinea-Bissau was 5%, compared with 4.4% in 2023. Growth was mainly driven by the booming agrifood and manufacturing industries (up 7.4% and 9.6%, respectively); strong cashew production; and communications (up 7.9%), stimulated by fiber optic infrastructures coming into service. On the demand side, growth was fueled by a rise in public and private investment (up 6.4 and 16.5%, respectively), geared toward expanding the power grid (OMVG, up to 80 MWh) and upgrading roads (Bissau city center and the Sanfim–Bissau); and final consumption (up 6.5%). Real GDP per capita grew 2.7% in 2024, compared with 2.2% in 2023.

Inflation fell significantly to 3.6% in 2024, compared with 7.2% in 2023, due to BCEAO's monetary tightening and targeted subsidies on essential products. The budget deficit also narrowed significantly to 3.8% of GDP, compared with 8.6% in 2023, due to higher tax revenues (up 14.6%, compared with a 13.1% rise in 2023), and to lower public expenditure (down 18.4%, compared with a 21.7% decline in 2023). Public debt fell slightly to 80.3% of GDP, compared with 80.5% in 2023. The current account deficit improved to –5.8% of GDP in 2024, compared with –7.6% in 2023, due to an improved trade balance linked to cashew nut exports. However, the financial system remains vulnerable: credit to the private sector has fallen (–2.7%) and the bank solvency ratio remains negative (–18.5%).

The poverty rate rose to 60.4% in 2023, compared with 59.9% in 2022, due particularly to low cashew nut production yields. Income inequality remains high, with a Gini index of 34.8% in 2021. The HDI remained low at 0.483 in 2023, ranked 179 of 193 countries.

Outlook and risks

Guinea-Bissau's economic outlook is favorable. The projected growth rate of 5.6% in 2025 and 5.8% in 2026 is driven by a booming primary sector (4.1% and 4.3%, respectively) and an equally booming secondary sector (4.5% and 9.2%, respectively); and by increased investment and final consumption. Inflation is set to slow to 2.7% in 2025 and to 1.8% in 2026, due to stabilizing international prices. On the fiscal front, the deficit should gradually narrow to –3.6% of GDP in 2025 and to –1.6% in 2026, due to tighter fiscal management. This should reduce the debt/GDP ratio to 76.2% in 2025 and to 72.8% in 2026. The current account deficit should also improve, reaching –5% of GDP in 2025 and –3.9% in 2026, driven by a recovery in exports, specifically cashew nuts.

However, this outlook remains vulnerable to several risks: political instability ahead of the November 2025 elections, uncertainties over the cashew crop, a potential drop in global demand for raw materials, and tighter financial conditions. Increased mobilization of concessional external financing will be essential to preserve macroeconomic stability and strengthen the country's resilience.

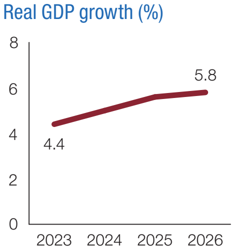
Making capital work better for development

Guinea-Bissau has abundant but underexploited renewable natural capital: forests (some 70% of the territory), agricultural land (30%), and an exclusive fishing zone of 105,000 sq. km. Between 1995 and 2018, the value of per capita natural capital fell 36%, reflecting the effects of 2.2% per year demographic growth and persistent challenges in sustainable environmental management. Human capital remains constrained: a literacy rate of 53.9%, high maternal mortality (667 deaths per 100,000 live births), unemployment of 3.9%, and an informal economy (80% of activity). Business capital is fragile, limited by restricted access to financing and a very low tax burden (8.5% of GDP in 2024).

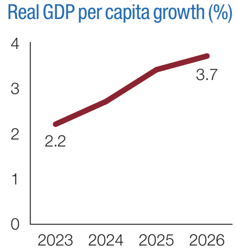
Guinea-Bissau's ability to mobilize and leverage this capital is currently limited by fragile governance, institutional instability, and a rule of law faced with numerous challenges. Corruption-related challenges continue to weigh on the business environment, limiting investor confidence and efficiency in capital allocation. Strengthening economic and judicial governance, and improving transparency and public accountability, is crucial to optimizing the use of the country's resources.

Profound institutional reforms are essential to improve budget efficiency and capital mobilization. Guinea-Bissau must prioritize digital modernization and strengthen control mechanisms against illicit financial flows. In addition, developing secure and transparent public-private partnerships; and investing strategically in education, health, basic infrastructure, and innovation will lead to improved exploitation of national resources, and ensure sustainable and inclusive economic development.

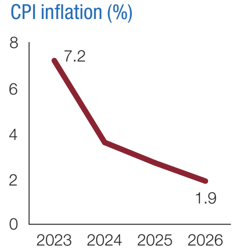
Real GDP growth (%)



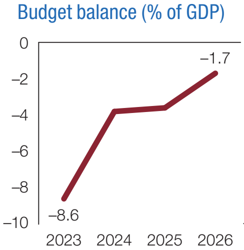
Real GDP per capita growth (%)



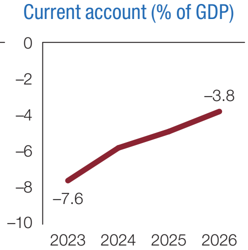
CPI inflation (%)



Budget balance (% of GDP)



Current account (% of GDP)



Source: Data are as of May 2025 and are from domestic authorities; figures for 2024 are estimates and figures for 2025 and 2026 are projections by the African Economic Outlook team.

Liberia

Recent macroeconomic, financial, and social developments

Liberia's GDP grew by 4.8% in 2024 from 4.6% in 2023, largely driven by the agriculture and fisheries subsectors on the supply side and public spending on the demand side. Inflation fell from 10.1% in 2023 to 8.1% in 2024, reflecting a moderation in domestic food inflation and relative exchange rate stability. After depreciating by 1.14% year-on-year in 2023, the exchange rate depreciated by 9.5% in 2024 due to increased demand for imports. Due to weaker revenue performance, the fiscal deficit increased to 3.2% of GDP in 2024 from 2.5% in 2023. Public debt reduced slightly to 57.2% of GDP in 2024 from 58% in 2023, reflecting reduced domestic and external borrowing. The current account deficit improved to 24.2% of GDP in 2024 from 26.8% in 2023 due to stronger exports of iron ore. International reserves weakened to 2.9 months of import cover in 2024 against 3.8 months in 2023, attributed to lower forex inflows. The banking sector remained sound with a capital adequacy ratio of 27.6% in 2024 against the 10% threshold, but nonperforming loans remained high at 19.2% against the 10% threshold.

Poverty declined marginally from 27.9% in 2023 to 27.2% in 2024 due to increased social spending. But youth unemployment is more than 40% for those aged 15–24. The maternal mortality rate is also high at approximately 725 deaths per 100,000 live births.

Outlook and risks

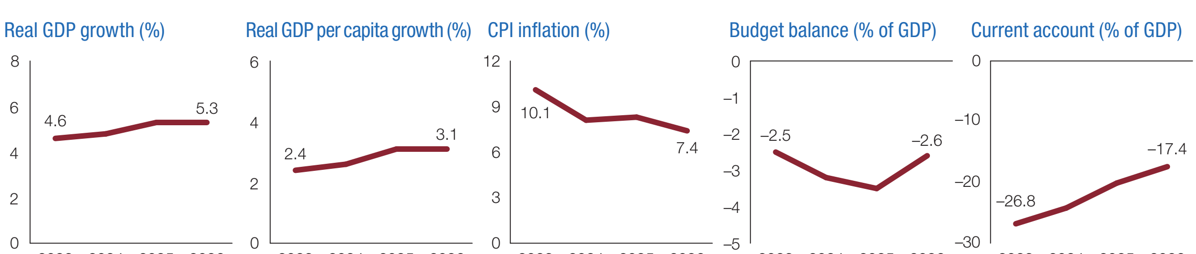
GDP growth is projected to improve to 5.3% in both 2025 and 2026, driven by expansion in mining and agriculture. Inflation is projected to increase to 8.3% in 2025 due to the impact of the global shock but will moderate to 7.4% in 2026 due to anticipated stability in the exchange rate. The fiscal deficit is projected to widen further to 3.5% of GDP in 2025 due to increased spending pressure from reduced aid flows, but is projected to reduce to 2.6% in 2026 due to an increase in domestic revenue. The current account deficit is projected to moderate to 20.1% of GDP in 2025 and 17.4% in 2026, due to an anticipated increase in the output of major primary commodities, including gold and rubber. The downside risks to the outlook include political instability and governance challenges, commodity price volatility, and external shocks. Mitigation measures could consist of strengthening institutions and anticorruption efforts, economic diversification from extractive to agriculture, and value addition.

Making capital work better for development

From 1995 to 2020, the value of Liberia's natural capital grew by 13%, driven by a 9.9% increase in renewable resources, particularly agricultural land, which saw a 55% rise. But nonrenewable assets, including gold, declined in value by 12.1% due to exploitation. Despite the overall increase, the per capita value of total natural capital dropped by 56.2%, a trend observed across all components. This reflects sustainable growth but highlights challenges in managing nonrenewable resources.

The state's role in increasing Liberia's wealth hinges on upholding the rule of law, which fosters a stable environment for leveraging capital. Strong legal frameworks protect property rights, enforce contracts, and ensure transparency, attracting both domestic and foreign investment. To mobilize capital, Liberia must improve its legal infrastructure, streamline business regulations, and provide incentives for investment. Strengthening institutions and ensuring efficient legal processes will help unlock financial, human, and natural resources, driving sustainable economic growth.

To improve Liberia's mobilization of capital and efficiency in public spending, key reforms can strengthen governance, transparency, and accountability. This includes enhancing public financial management systems, improving the regulatory environment, and reducing corruption. Streamlining institutions responsible for capital mobilization and public spending will also attract more investment. Leveraging capital through targeted infrastructure projects, innovation, and strategic partnerships can maximize its value, promoting sustainable development, creating job opportunities, and boosting economic growth.



Source: Data are as of May 2025 and are from domestic authorities; figures for 2024 are estimates and figures for 2025 and 2026 are projections by the African Economic Outlook team. Data on the budget balance correspond to Liberia's fiscal year, which runs from July 1 to June 30.

Mali

Recent macroeconomic, financial, and social developments

Mali's economic recovery strengthened, with real GDP growth of 5% in 2024, compared with 4.7% in 2023. This growth was driven by resilience in the agricultural sector, specifically cotton (up 31.3%), and mining (up 6.5%). On the demand side, growth was underpinned by private consumption (up 4.0%), and public investment aimed at increasing energy supply (up 6.5%). Monetary policy was accommodating, with key rates maintained at their levels as of December 16, 2023. In 2024, loans to the economy rose 11.1% over 2023. Inflation was estimated to be 2.5% in 2024, compared with 2.1% in 2023, due to lower world food prices and good agricultural production. The primary budget deficit was reduced to 2.6% of GDP, compared with 3.9% of GDP in 2023, due to exceptional mobilization of tax and nontax revenues (up 105.9% and 193.5%, respectively). The public debt ratio was set at 49.7% of GDP in 2024, compared with 50.9% in 2023, and the debt risk is considered moderate. The current account deficit was estimated to be 6.1% of GDP in 2024, an improvement of 1.8% over 2023, due to a lower trade balance deficit and healthy remittances from Malians living abroad. On the financial front, overdue receivables rose slightly by 1.4%.

The improved security situation has enabled government and basic social services to return to the center and north of the country and reduced the number of people in need of humanitarian assistance by 1.7 million. The poverty rate was estimated to be 43.9% in 2024.

Outlook and risks

Real GDP growth, projected to be 5.6% in 2025 and 6.0% in 2026, will be sustained by an improved security environment; start-up of several industrial production units (gold, lithium); and increased public investment. Inflation is projected to fall to 2.8% in 2025 and to 2.3% in 2026. The budget deficit is forecast to be 2.8% of GDP in 2025 and 2.4% of GDP in 2026, due to improved domestic revenues, and financed in part by issue of government securities on the regional market. The current account balance should reach 5.4% of GDP in 2025 and 3.6% of GDP in 2026, supported by gold and lithium exports. The gradual increase in public investment and social spending, and reforms to improve fiscal consolidation, governance, and the business environment should also sustain the momentum of growth. Inflation is expected to fall to 2.8% in 2025 and to 2.3% in 2026, in anticipation of improved food supplies for the domestic market.

The main risks to this dynamic are continuing insecurity in the region, volatile oil production and oil exports, rising fuel and food prices, and unfavorable weather conditions. The new regional dynamic generated by the Alliance of Sahel States (AES) confederation should also be monitored.

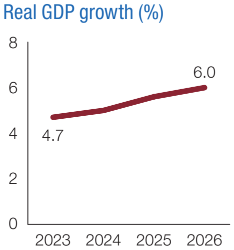
Making capital work better for development

Mali possesses abundant natural resources, including gold, lithium, iron, bauxite, oil, and gas, which can contribute to the diversification of the economy. Gold currently stands out as the mainstay of the economy, generating 80% of export earnings and 30% of tax revenues. Human capital is constrained by low skill levels, high poverty (43.9%), and a 31.5% youth unemployment rate. Fiscal space is limited, with a relatively low tax burden of 14.6% of GDP. The financial market is well served by financial and commercial resources.

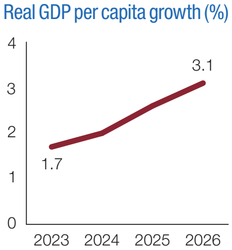
Frequent institutional changes and insecurity have had an impact on the Government's ability to release capital for the country's sustainable development. With application of provisions in the new Mining Code, the Government has taken control of certain industrial mines and acquired a 30% stake in the capital of five companies. However, transparency and predictability are required to reassure actors in the sector and to avoid eroding the country's attractiveness to national and international capital.

Mali has embarked on an ambitious program to rebuild the state, combat corruption, and improve capital management. Reforms also extend to strengthening judicial independence and the private sector, and to combating illicit financial flows and the financing of terrorism. Broadening the tax base is a priority to improve mobilization of domestic resources and ensure the country's greater financial autonomy for targeted and strategic investments.

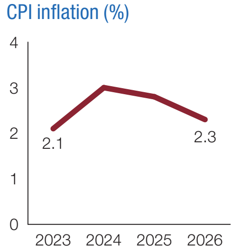
Real GDP growth (%)



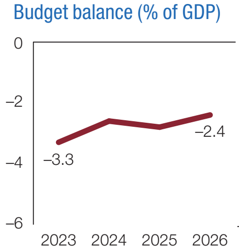
Real GDP per capita growth (%)



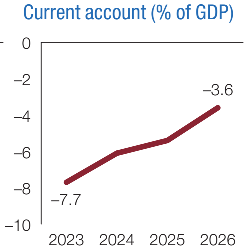
CPI inflation (%)



Budget balance (% of GDP)



Current account (% of GDP)



Source: Data are as of May 2025 and are from domestic authorities; figures for 2024 are estimates and figures for 2025 and 2026 are projections by the African Economic Outlook team.

Niger

Recent macroeconomic, financial, and social developments

Economic activity in Niger made a strong recovery in 2024, with real GDP growth estimated to be 10.6%, compared with 2.7% in 2023. On the supply side, growth was mainly driven by increased oil and agricultural production. On the demand side, growth was driven by government final consumption. Despite BCEAO keeping its key interest rates unchanged, inflation rose to 9.1% in 2024, compared with 3.7% in 2023. This is due to disruptions in supply chains following the closure of the border with Benin. The budget deficit declined to 4.3% of GDP in 2024, compared with 5.2% in 2023, due mainly to lower expenditure. Total public debt as a percentage of GDP is estimated to be approximately 48% in 2024, compared with 51.9% in 2023. Debt sustainability analysis has deemed the overindebtedness risk of Niger's total and external public debt to be high but sustainable. The current account deficit fell to 7.1% of GDP in 2024, compared with 13.7% of GDP in 2023, due to an improved trade balance. At end-2023, overdue loans represented 23.5% of gross loans and 14.9% of net loans after provisioning in the banking sector.

The incidence of poverty was 41.2% in 2021. The primary school completion rate was estimated to be 49.9% in 2024, an illustration of the poor internal efficiency in education. Construction of boarding schools for girls and expansion of the Unified Social Registry aim to support vulnerable populations.

Outlook and risks

The economic outlook is favorable, with GDP growth projected to be 7.0% in 2025 and 6.2% in 2026, driven primarily by oil production and dynamic agricultural activity. Inflation is expected to decelerate to 4.9% in 2025 and to 3.9% in 2026, compared with 9.1% in 2024. Due mainly to reduced expenditure, the budget deficit is projected at 3.2% of GDP in 2025 and 2.6% of GDP in 2026. The current account deficit is projected at 5.7% of GDP in 2025 and 5.0% of GDP in 2026 due to an improved trade balance. Climate shocks, insecurity, and the potential effects of Niger's exit from ECOWAS could affect these positive economic prospects. One way of mitigating these risks is to maintain macroeconomic stability, principally by pursuing fiscal consolidation efforts. Actions in favor of human capital development, such as widening access to education for vulnerable people, should be continued and extended. Implementation of development programs such as the Kandadji Project should be accelerated to contain the negative effects of climate change.

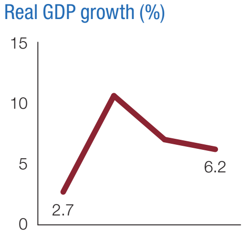
Making capital work better for development

Niger has diversified natural capital. According to the World Bank, over 1995–2020, per capita natural capital declined significantly in terms of renewable resources (down 49%) and non-renewable resources (down 72%). The trend is mainly due to demographic growth and unsustainable exploitation. Human resources are limited by low retention rates in schools and literacy classes. Tax revenues are low (around 8% of GDP in 2024). Financial and commercial resources could increase in a more favorable business environment.

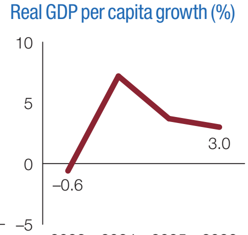
The role of government is decisive in increasing Niger's capital. Thus, strengthening resource mobilization remains pivotal, given the high cost of market financing. Tax revenue mobilization is limited, due primarily to the importance of agriculture and the informal sector in the economy. Broadening the tax base should help improve short-term tax revenues and budget allocations to social sectors.

To develop its natural capital, Niger is implementing flagship programs: construction of the Kandadji dam will boost agricultural production and contribute to electrical energy self-sufficiency; the Desert to Power initiative will increase electricity production using solar energy. Niger, which in 2024 was ranked 30 out of 54 countries on the IIAG, could take greater advantage of its natural capital by strengthening its institutions and resilience to climate change.

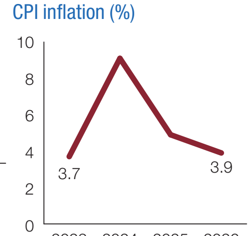
Real GDP growth (%)



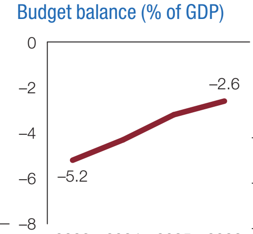
Real GDP per capita growth (%)



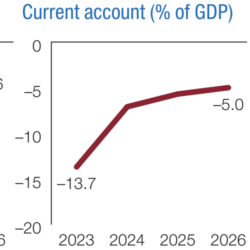
CPI inflation (%)



Budget balance (% of GDP)



Current account (% of GDP)



Source: Data are as of May 2025 and are from domestic authorities; figures for 2024 are estimates and figures for 2025 and 2026 are projections by the African Economic Outlook team.

Nigeria

Recent macroeconomic, financial, and social developments

The Nigerian economy expanded by 3.4% in 2024, higher than the 2.9% in 2023, supported by market enhancing economic reforms rolled out since May 2023. Services contributed three-quarters to GDP growth, and 13% was attributed to industry growth, driven by higher oil production, which rose 2.8% to 1.56 mbpd in 2024. Agriculture production supported by competitive domestic prices contributed 9% to GDP growth. Demand was moderated by suppressed consumption due to higher prices. Market determined petrol prices increased 77% and the naira weakened 42% during 2024, both key underlying factors contributing to inflation, which stood at 33.2% in 2024, up from 24.7% in 2023. To dampen inflation pressures, the central bank tightened the policy rate to 27.5%. The fiscal deficit of 3.9% of GDP was marginally lower than 4.0% in 2023, largely driven by increased non-oil revenue. Public debt increased to 52.3% of GDP in 2024 from 41.5% in 2023, driven by a weaker naira and increased public borrowing. The current account surplus increased to 9.2% of GDP in 2024 from 1.6% of GDP in 2023 as higher import prices lowered imports. The financial services sector has initiated recapitalization to align with the trillion-dollar economy agenda. Financial stability improved as nonperforming to gross loans ratios fell to 4.1% mid-2024 from 4.4% in 2023.

Driven by higher prices on basic items and food essentials, the daily cost of a healthy diet doubled over 12 months. Estimates in 2024 point to an increase in poverty to 56%, though inequality remains relatively low (Gini index 35.1). While national unemployment was just 3.0%, that of the working poor was estimated at more than 26%.

Outlook and risks

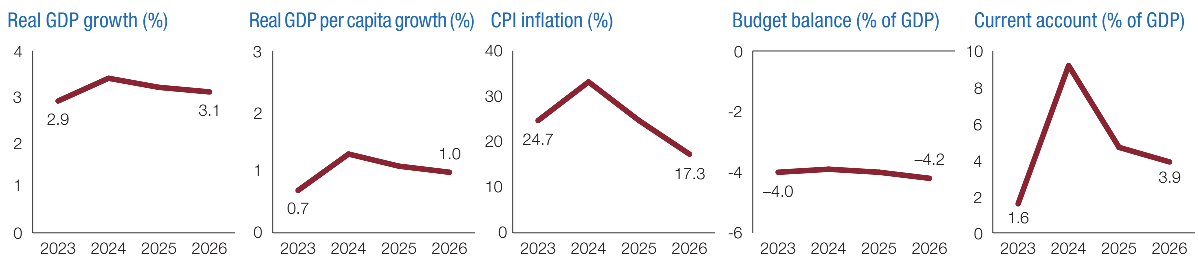
Real GDP is projected to moderate to 3.2% in 2025 and 3.1% in 2026, as global uncertainty has increased. Services and industrial expansion will drive the economy as inflation moderates and higher oil production reaches 1.8 mbpd. Inflation is projected to moderate to 24.7% in 2025 and 17.3% in 2026, supported by tight monetary policy. The fiscal deficit is projected to remain at 4.0% of GDP. The current account surplus is projected to narrow to 4.7% of GDP in 2025 and 3.9% in 2026, as imports start to normalize. The risks to the outlook include rising geopolitical tensions and greater policy uncertainty, volatile commodity prices, lower oil prices, slowdown in reform momentum, insecurity, and adverse weather events.

Making capital work better for development

Nigeria has an abundance of capital, which, used efficiently, can contribute to accelerating economic growth. In 2020, Nigeria's total capital wealth per capita was $19,071, comparable to other middle-income countries. Human capital contributes 31% of total wealth followed by produced capital, 28%, renewable capital, 26% and nonrenewable capital, 15%.

Through fiscal and tax reforms, the government is poised to increase tax revenues for higher public investments in critical public infrastructure, like electricity and transport, which will further drive economic growth. The tax reforms are aimed at simplifying the tax structure, increasing compliance, and adjusting tax rates—all expected to increase collections. The government's ambition is to raise domestic revenue to 18% of GDP by 2030 from 13% of GDP in 2024.

The ongoing monetary reforms need to be matched with reforms on the fiscal side. Accelerating tax policy and administration reforms to reduce complexity will help improve domestic resource mobilization. To support the policy objective of the trillion-dollar economy, the central bank has increased the financial sector's minimum capitalization requirements, building resilience to shocks. In the high-interest rate environment, innovations in concessional or blended finance will help investment in growth- and job-enhancing sectors.



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Senegal

Recent macroeconomic, financial, and social developments

Senegal's real GDP growth is estimated to be 6.9% in 2024, compared with 4.3% in 2023. Growth was mainly driven by the secondary sector (up 13.7%), boosted by oil extraction (up 160.2%), and to a lesser extent by the primary and tertiary sectors (up 4.7% and 3.8%, respectively). On the demand side, growth was driven by consumption, particularly private consumption, and exports. The inflation rate was 0.8%, well below the WAEMU norm (3%), due to subsidies on energy and essential food products. The budget deficit improved to 11.3% of GDP in 2024, compared with 12.3% in 2023. The Court of Auditors' Report, published in February 2025, revealed significant unrecorded capital expenditure. While still significant, the current account deficit contracted to –13.9% of GDP in 2024, compared with –20.3% in 2023.

The poverty rate fell to 32.9% in 2019, compared with 38% in 2011, due to improved agricultural incomes, the development of urban activities, and the strengthening of social services. However, with COVID-19 and global inflation, it rose again to 37.5% in 2023.

Outlook and risks

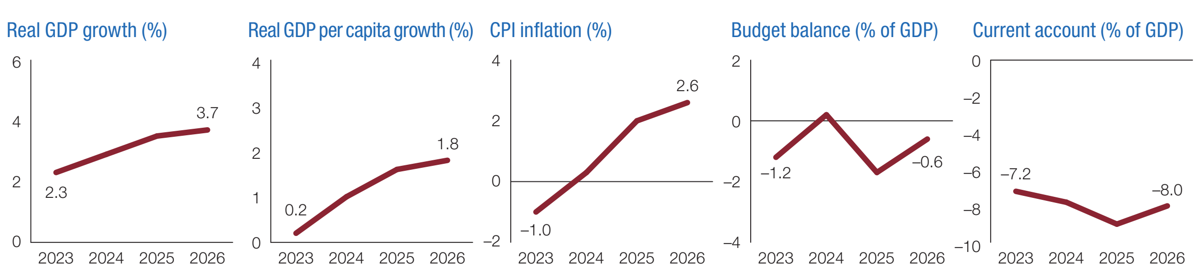
The outlook for economic growth is good, with real GDP growth projected to be 10.3% in 2025 and 7.1% in 2026, driven by increased oil production and the effective start-up of gas production. Inflation is projected to be 2.6% in 2025 and 2.1% in 2026, contained by food and electricity subsidies. The budget deficit is expected to fall to –7.7% of GDP in 2025 and to –7.1% of GDP in 2026, due to selective investment spending. The current account deficit should narrow to –10% in 2025 and to –8.2% in 2026, due to lower imports from the oil and gas industries. However, there are major risk factors to this positive outlook: specifically, changes in oil and gas prices; the effects of climate change; and, in particular, the terms for resolution of public debt currently under discussion with the IMF. However, Senegal has the international community's goodwill in support of the Senegal 2050 National Transformation Agenda. The Government's commitment to good economic governance, including transparency, raising more revenue, and optimizing expenditure is a guarantee of macroeconomic stability.

Making capital work better for development

Senegal has a diversified capital base. Natural capital, particularly per capita, has recently deteriorated due to demographic pressures: renewable natural resources (down 11.83%), including non-timber forests (down 50.37%); protected areas (down 24.1%); and grazing land (down 26%). Skilled human capital is limited; there is high youth unemployment (20.3%) and marked poverty (37.5%). Budget margins are limited due to the high level of indebtedness (99.67%). However, there is significant potential in financial resources, with opportunities for FDI and remittances from the diaspora (9% of GDP). Since 2024, Senegal has become an oil and gas exporter.

Senegal ranks among the best-performing countries in the UEOMA region in terms of domestic resource mobilization, with a tax burden rate of 17.8% in 2024 and 19.3% in 2025. In the 2025 budget, the Government has put tax reform at the heart of its financing strategy by broadening the tax base and increasing digitization. Spending on health and education accounts for approximately 20% of public expenditure, and investment for 34%.

To improve governance, the Government intends to step up the fight against tax evasion and corruption; control public subsidies; safeguard national interests in international contracts (oil and gas); and strengthen the use of public-private partnerships to support public investment and improve control of external debt. Finally, the Government intends to preserve and strengthen the business environment by further simplifying and digitizing administrative procedures.



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Sierra Leone

Recent macroeconomic, financial, and social developments

GDP growth slowed to 3.9% in 2024 from 5.7% in 2023, partly explained by inflationary pressures. Growth in 2024 was driven by services, mining, and agriculture sectors on the supply side, and private consumption and investments on the demand side. Monetary policy remained relatively tight, with broad money supply growth decelerating from an annual average of 43% in 2023 to 22% in the first three quarters of 2024. Inflation declined to 30% in 2024 from 47% in 2023, due to stability in the exchange rate and tight monetary policy. The exchange rate stabilized around SLL 22.6 per US dollar throughout 2024. The fiscal deficit narrowed to 3.2% of GDP in 2024 from 5.2% in 2023 due to better revenue performance and prudent expenditure management and was financed by external and domestic borrowing. Public debt, estimated at 46.5% of GDP is deemed sustainable, but the risk of debt distress remains high. The current account deficit narrowed to 4.4% of GDP in 2024 from 5% of GDP in 2023, supported by higher mineral exports. The financial sector remained sound with nonperforming loans declining from 8.8% in December 2023 to 7.5% in June 2024, lower than the prudential threshold of 10%.

Poverty remains high at 56.8%, and inequality has increased over the past decade. Poverty, exacerbated by food insecurity, is predominantly rural, where 74% of the population is poor. Youth unemployment is high at 10%, and an estimated 60% of the 15–35 age population are unemployed or underemployed, while 50% are illiterate or unskilled.

Outlook and risks

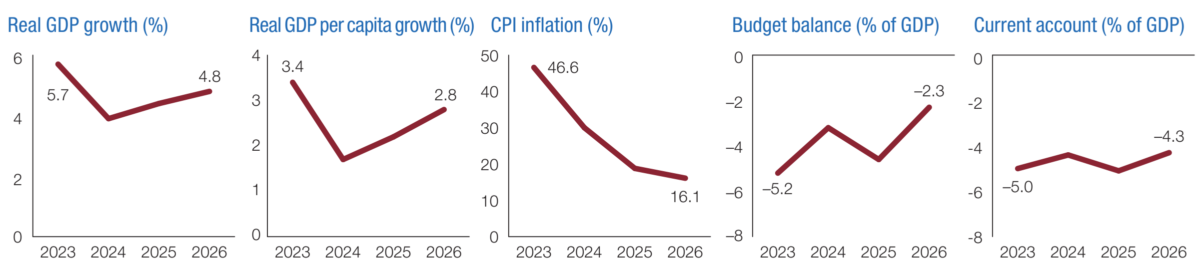
GDP growth is projected to increase to 4.4% in 2025 and 4.8% in 2026, driven by services, mining, and agriculture on the supply side, and by consumption and investments on the demand side. The fiscal deficit is projected at 4.6% of GDP in 2025 and 2.3% in 2026—driven by high financing needs, low domestic revenue, and high debt service obligations—and will be financed by domestic and external borrowing. The current account deficit is projected to widen to 4.7% of GDP in the medium term and will be financed mainly by external borrowing. The key downside risks to growth include a global economic slowdown, high level of food insecurity, narrow tax base, and climate-related risks. Mitigation measures include fast-tracking the ongoing implementation of agriculture transformation programs for food security and strengthening institutional capacity for climate action and domestic resource mobilization, especially from mining sector.

Making capital work better for development

Sierra Leone is richly endowed with natural resources, including minerals, fisheries, and forests. Human capital is constrained by high levels of poverty (56.8%) and youth unemployment. Fiscal space is constrained, in part due to low domestic revenue mobilization (8% of GDP) leading to high levels of government domestic borrowing and crowding out financing for the private sector. In addition, Sierra Leone earns less than 0.7% of GDP in revenues from the mining sector, which accounts for more than half of the country's export earnings.

State capacity to mobilize and utilize capital is constrained by governance challenges, including gaps in the rule of law and regulatory framework. Although the country has a competition and consumer policy and a consumer protection law, it does not have a competition law, thus limiting the state capacity to regulate anti-competitive conduct. Private sector development is constrained by infrastructure deficit especially in energy and transport.

To improve capital mobilization and utilization and fiscal efficiency, Sierra Leone needs to strengthen governance and the rule of law. Broadening the tax base should be a priority, including implementation of measures to improve revenue flows from the mining sector. Targeted investments in education, health, and infrastructure development will boost capital mobilization.



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Togo

Recent macroeconomic, financial, and social developments

Togo's economy remains robust, with growth estimated to be 5.8% in 2024, compared with 6.4% in 2023. This performance is explained by dynamism in the primary sector (up 4.8%), in cotton and cocoa; the secondary sector (up 3.4%), in manufacturing products; and the tertiary sector (up 6.9%), in real estate activity on the supply side and gross fixed capital formation (up 14.4%) and final consumption (up 5.2%) on the demand side. Per capita real GDP growth remained strong at 3.5% in 2024, compared with 4.0% in 2023. Monetary policy has remained unchanged since December 16, 2023. Inflation fell to 2.9% in 2024, compared with 5.3% in 2023, due to energy price control. The budget deficit fell to 6.1% of GDP in 2024, compared with 6.6% of GDP in 2023, due to increased domestic resource mobilization and reduced public expenditure, fuel subsidies specifically. Togo presents a high risk of debt distress, with public debt rising to 69.7% of GDP in 2024, compared with 68% of GDP in 2023. The current account deficit has widened to 3.2% of GDP in 2024, compared with 2.8% of GDP in 2023, driven by imports of major petroleum products. Regional reserves fell to 3.3 months of import cover in 2024. Banking sector NPLs increased to 9.1% in 2024, compared with 8% at end-2023, and the UTB was recapitalized.

The people of Togo benefit from universal health insurance, cash transfers, and subsidies. Poverty fell to 42.4% in 2023, compared with 45.5% in 2019, although it remains widespread. Income inequalities have fallen, although they remain significant. The HDI improved to 0.547 in 2023–24, compared with 0.539 in 2021–22.

Outlook and risks

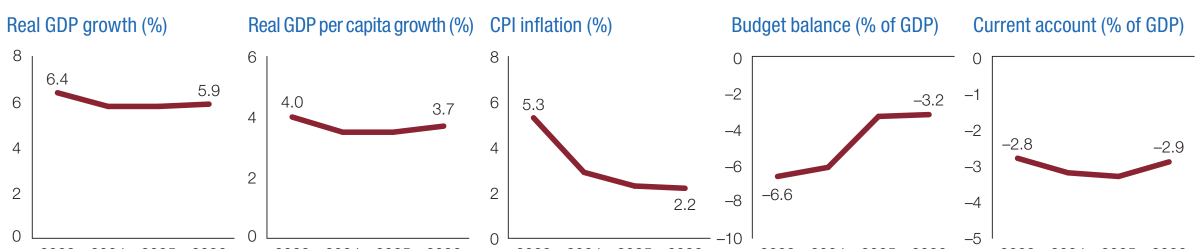
Togo's economic outlook is favorable, with real GDP growth projected to be 5.8% in 2025 and 5.9% in 2026. Economic activity will be driven by higher agricultural production, increased mining, and industrial production at Adétikopé. On the demand side, economic activity will be driven by private consumption (8%), private investment (11.2%) and exports (6%). Real GDP per capita is expected to grow at an average of 3.6% between 2025 and 2026. Over this period, inflationary pressures should moderate to an average of 2.2%. The country is expected to remain committed to governance and fiscal consolidation reforms, resulting in lower twin deficits, with the budget deficit averaging 3.3% of GDP and the current account deficit averaging 3.1% over 2025–26. Risk factors to these good growth prospects include global geopolitical shocks, downward fluctuations in phosphate and cotton prices, insecurity in the Sahel, climate change, and the return of global tariff barriers. Continuation of the economic program and implementation of structural investments could contain these risks.

Making capital work better for development

Togo has several capital assets necessary for its development. Per capita natural capital has deteriorated recently —renewable natural capital (down 15%), wood (down 72%), and fish (down 93%)—due to unsustainable use because of demographic growth of 2.3%. Human capital is constrained by broadly defined youth unemployment (19.4%) and poverty (42.4%). Budget revenues are inadequate (19.8% of GDP) despite a tax burden of 14.7%, although business capital is improving, with a dynamic and favorable business environment since 2023.

Togo has effective institutions to manage its capital assets, and reforms to strengthen the rule of law. Public finance reform could raise the tax/GDP ratio to 15% by 2025. Ongoing public administration reform is stimulating good governance, the fight against corruption, and a cleaner investment environment. Investments in infrastructure to modernize agro-industrialization could contribute to social inclusion.

Togo is implementing institutional and governance reforms to improve laws and make a successful shift from a service economy to one making optimal use of the country's abundant capital. This would help create competitive mining and manufacturing industries and achieve inclusive growth. In this regard, the country should promote mining expertise, digitization, technical and skills training, simplification of procedures, alternative financing, and development of public-private partnerships.



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ABBREVIATIONS

4IR	Fourth Industrial Revolution
AARP	Africa Asset Recovery Practitioners
ABSA	Amalgamated Banks of South Africa
ADF	African Development Fund
AEO	African Economic Outlook
AEOI	Automatic exchange of information
AfCFTA	African Continental Free Trade Area
AfDB	African Development Bank Group
Africa CDC	Africa Centers for Disease Control and Prevention
AFSM	Africa Financing Stability Mechanism
AGOA	African Growth and Opportunity Act
AIF	Africa Investment Forum
ALSF	African Legal Support Facility
AML	Anti-Money Laundering
AML/CFT/PF	Anti-Money Laundering and Combating the Financing of Terrorism and Proliferation
ASM	Artisanal and small-scale mining
AU	African Union
AUC	Africa Union Commission
AUDA-NEPAD	African Union Development Agency–New Partnership for Africa’s Development
AVM	African Mining Vision
BEPS	Base Erosion and Profit Shifting
BESA	Bond Exchange of South Africa
BP	British Petroleum
CAGR	Compound annual growth rate
CAPAR	Common African Position on Asset Recovery
CEMAC	Central African Economic and Monetary Community
CMU	Carnegie Mellon University
CPIA	Country Policy and Institutional Assessment
CRA	Credit rating agencies
CWON	Changing Wealth of Nations
DAC	Development Assistance Committee
DAMREV	Digital Asset Management and Revenue Exchange
DFI	Development finance institutions
DMO	Domestic market obligations
DRC	Democratic Republic of Congo
DRM	Domestic resource mobilization
EAC	East African Community
EAP	East Asia and the Pacific
ECA	Export credit agencies
ECCE	Country Economics Department
ECI	Economic complexity index
ECMR	Macroeconomic Policy, Forecasting, and Research Department
ECNR	African Natural Resources Management and Investment Center
ECST	Statistics Department
ECVP	Economic Governance and Knowledge Management Vice-Presidency
EDA	Emerging and Developing Asia
EITI	Extractive Industries Transparency Initiative
FATF	Financial Action Task Force
FDI	Foreign direct investment
FE	Fixed effects
FIU	Financial Intelligence Unit
G20	Group of Twenty
GDP	Gross domestic product
GHE	Government health expenditure
GII	Gender Inequality Index
GNF	Guinean francs
GNI	Gross national income
GRA	Ghana Revenue Authority
GSM	Global System for Mobile Communications
GST	Gross sales tax
GTED	Global Tax Expenditures Database
GWh	Gigawatt-hours
HCI	Human Capital Index
HDI	Human Development Index
HRD	Human Resource Development
ICT	Information, communication and technology
IFF	Illicit financial flows
IFI	International financial institution
IFMIS	Integrated Financial Management Information System
ILO	International Labour Organization
ILX	ILX Management B.V
IMF	International Monetary Fund
ITAS	Integrated Tax Administration Systems
KRA	Kenya Revenue Authority
LAC	Latin America and the Caribbean
LAR	Liquid-asset ratio

LNG	Liquefied natural gas
MCA	Mining concession agreement
MCM	Mopani Copper Mines Plc
MDA	Minerals development agreement
MDB	Multilateral development bank
MEO	Macroeconomic Performance and Outlook
MIMIC	Multiple Indicators Multiple Causes
MNE	Multinational enterprise
MW	Megawatts
NCA	Natural capital accounting
NDB	National development bank
NEET	Not in education, employment, or training
NPL	Non-performing loan
ODA	Official development assistance
OLS	Ordinary least squares
OPEC+	Organization of the Petroleum Exporting Countries Plus
PAPSS	Pan African Payment and Settlement System
PAU	Pan-African University
PEFA	Public expenditure and financial accountability
PIT	Personal income tax
PMI	Purchasing Managers' Index
PPP	Public–private-partnership
R&D	Research and development
RBL	Resource-backed loan
RCRWA	Regulatory capital to risk-weighted assets
REE	Rare earth elements
RMC	Regional Member Country
ROA	Return on assets
SA	South Asia
SADC	Southern African Development Community
SAPZ	Special Agro-Processing Zone
SAR	Special Administrative Region
SARA	Semi-Autonomous Revenue Authority
SARS	South African Revenue Service
SDG	Sustainable Development Goals
SEEA	System of Environmental–Economic Accounting
SFPA	Sustainable Fisheries Partnership Agreements
SME	Small and medium enterprise
SOE	State-owned enterprise
STEM	Science, technology, engineering, and mathematics
SWF	Sovereign wealth fund
TFP	Total factor productivity
TVET	Technical and vocational education and training
TZS	Tanzania shillings
UHC	Universal health coverage
UN	United Nations
UNCTAD	United Nations Trade and Development
UNDP	United Nations Development Programme
UNESCO	United Nations Educational, Scientific and Cultural Organization
UNICEF	United Nations agency for children
URA	Uganda Revenue Authority
US	United States
USAID	U.S. Agency for International Development
VAIDS	Nigerian Voluntary Asset and Income Declaration Scheme
VAR	Vector autoregression
VAT	Value-added tax
VC	Venture capital
WAEMU	West African Economic and Monetary Union
WDI	World Development Indicators
WEO	World Economic Outlook
WHO	World Health Organization
WIPO	World Intellectual Property Organization
WoRLD	World Revenue Longitudinal Database
ZRA	Zambian Revenue Authority

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 a 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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