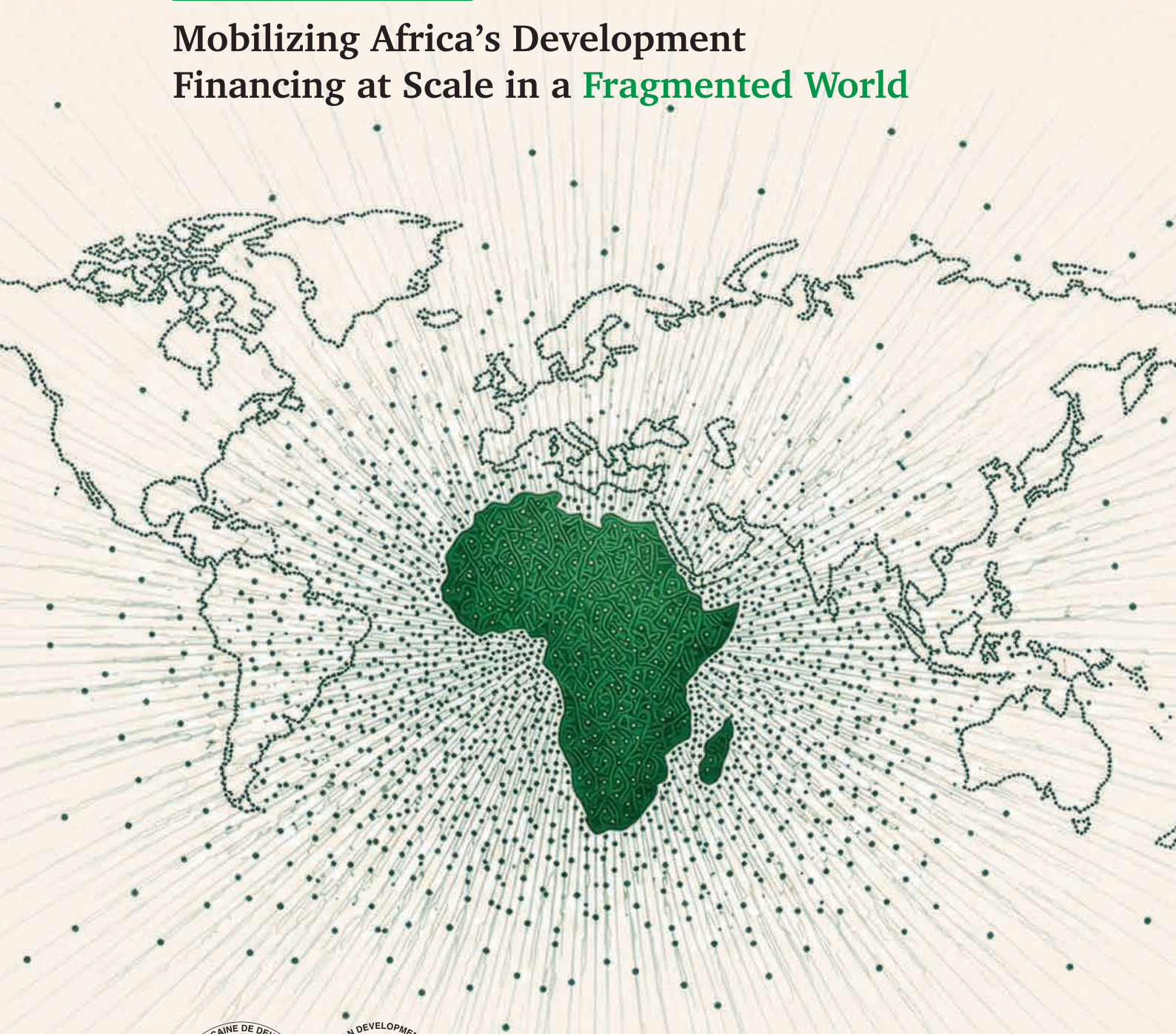


AFRICAN ECONOMIC OUTLOOK 2026

Mobilizing Africa's Development
Financing at Scale in a **Fragmented World**



AFRICAN DEVELOPMENT BANK GROUP

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FOREWORD

Africa stands at a critical juncture in its development journey. Its economies continue to demonstrate remarkable resilience despite numerous concurrent challenges, such as escalating trade tensions, the intensifying effects of climate change, effect of COVID-19 pandemic, declining international aid and foreign direct investment, increased global and regional conflicts and ongoing geopolitical fragmentation, including the evolving impact of the Middle East conflict which broke out last February.

In 2025, African economies expanded amid heightened trade tensions, with average real GDP growth strengthening to 4.4 percent, nearly one percentage point higher than the previous year. This placed Africa among the world's fastest-growing regions.

Despite recurrent global and regional shocks, the continent has continued to demonstrate resilience and determination. Yet this resilience is increasingly tested by a fragmented global environment, marked by supply chain disruptions, tighter financial conditions, and elevated uncertainty. Despite improved growth, deep structural constraints persist. Transformation is too slow. Vulnerability to shocks remains high, and development needs are outpacing available financing. The result is, inequality remains stubborn.

The *2026 African Economic Outlook (AEO 2026)* calls for a fundamental rethinking of Africa's development financing and policy management. Its theme, *Mobilizing Africa's Development Financing at Scale in a Fragmented World*, underscores an urgent shift from fragmented, policy responses, toward

coordinated strategies that unlock the continent's fiscal, financial, natural, and human resources.

Achieving sustained and inclusive growth will require a substantial increase in investment. Africa must raise annual growth to 7 percent or higher, sustained over decades, to enable large-scale job creation and accelerated poverty reduction. This demands a sharp increase in capital stock growth from about 3.3 percent today to roughly 8.7 percent annually by 2030. By addressing inefficiencies in resource mobilization and utilization, Africa could unlock up to \$1.43 trillion in additional annual financing—more than its estimated annual development financing gap of \$1.3 trillion.

Domestic resource mobilization is central to this effort. Nearly \$469 billion remains untapped due to weaknesses in tax compliance, administration, and policy design. Equally important is improving the efficiency of public spending. More than 40 percent of public investment is currently lost to inefficiencies, and closing this gap could generate up to \$299 billion each year for growth-enhancing investments.

Financing constraints are also rooted in the structure of Africa's financial systems. Shallow and fragmented markets limit the mobilization of domestic savings and their allocation to productive investment. The AEO 2026 sets out priorities to strengthen financial architecture through deeper capital markets, improved regulation, and greater regional integration, including integrated capital markets and payment systems that support a more cohesive Pan-African financial ecosystem.

The report also situates these priorities in a rapidly evolving global context of declining concessional finance and shifting trade and capital flows. While risks are rising, opportunities are emerging—especially in critical minerals, climate finance, and global institutional investment. Seizing them will require credible policy frameworks, strong institutions, and innovative instruments that crowd in private capital.

Ultimately, Africa's challenge is not only to close financing gaps, but also to transform financing systems to mobilize capital at scale, deploying it efficiently, and strengthening financial agency. That's the path to enhanced resilience and accelerated inclusive growth.

The African Development Bank Group remains committed to this agenda through the provision of affordable development financing, production, and dissemination of knowledge products with vital information about the continent's socioeconomic development, and its regional as well as global convening power. Through innovative strategies such as the New African Financial Architecture for Development, a continent-wide framework to mobilize and deploy its own financial resources at scale, the Bank will help to fix fragmentation, risk allocation, and strengthen coordination across Africa.

Dr. Sidi Ould Tah

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2007	Access to Drinking Water and Sanitation in Africa
2008	Technical and Vocational Training
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2021	From Debt Resolution to Growth: The Road Ahead for Africa
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2023	Mobilizing Private Sector Financing for Climate and Green Growth in Africa
2024	Driving Africa's Transformation: The Reform of the Global Financial Architecture
2025	Making Africa's Capital Work Better for Africa's Development

AFRICA'S ECONOMIC PERFORMANCE AND OUTLOOK

KEY MESSAGES

Over the last five decades, African economies have been buffeted by increased volatility in commodity prices, the outbreak of COVID-19, geopolitical tensions, economic fragmentation, volatility in financial conditions, and rising climate risks, to name but a few. Despite these shocks, African economies have tended to recover more strongly, often beating expectations. Notably, the quick recovery from the COVID-19 pandemic underscored the continent's resilience. But this resilience is under renewed tests, spurred by heightened geopolitical tension in the Middle East. These new geopolitical tensions are reinforcing earlier multiple shocks and pockets of regional conflict that continue to shape Africa's economic outlook.

In 2025, economic growth improved in Africa, despite heightened trade and geopolitical tensions. Average real gross domestic product (GDP) growth accelerated to an estimated 4.4 percent in 2025, up from 3.5 percent in 2024, making Africa one of the world's best-performing regions alongside Asia and ahead of Europe and Latin America and the Caribbean. Growth was driven by improved agricultural output, supportive macroeconomic policies, and high commodity prices. And a weaker US dollar helped mitigate the negative growth effects of aid reductions and trade policy tensions on African economies. Strong growth in 2025 amid heightened trade tensions underscores the continent's resilience to multiple and recurring shocks. Crucially, growth in 2025 was broad-based with 36 out of the continent's 54 countries posting higher growth rates than in 2024, 22 of them by more than 5 percent.

Real GDP growth is projected to moderate to 4.2 percent in 2026, before recovering to 4.4 percent in 2027, the same as in 2025. The projected marginal decline in GDP growth for 2026 is mainly attributed to the expected effects of ongoing conflict in the Middle East. The impact of this shock on growth and macroeconomic stability will depend on the duration of global supply chain disruptions and their effects on global energy and fertilizer prices. Growth projections for 2026 and 2027 assume that the current global shock will last only for two to three months. This could lead to a 0.2 percentage point lower real output growth in 2026 than in 2025 and 0.3 percentage point decline relative to the January 2026 Macroeconomic Performance and Outlook (MEO) projections prior to the current shock. Assuming the conflict lasts for 3–6 months, before a gradual de-escalation of tensions, real GDP growth is projected to decline by 0.4 percentage points to 4 percent in 2026.

In 2025, real GDP per capita in Africa grew by an average of 2.1 percent compared with 1.1 percent in 2024. But it is projected to slip marginally to 1.9 percent in 2026 due to slow economic growth before increasing to 2.2 percent in 2027. At this rate, it remains below the minimum

The spike in global oil and gas prices is stoking inflationary pressures across Africa

3.5 percent required to enhance inclusive growth. Income inequality and concentration are high in Africa. The median Gini coefficient is estimated at 38.5, ranging from 27.6 in Algeria to 63.0 in South Africa. The richest 10 percent of the population account for 40–65 percent of total income, while the bottom 50 percent receive only 10–15 percent.

In Central Africa, growth is projected to improve from an estimated 3.6 percent in 2025 to 3.8 percent in 2026 and to 4.1 percent in 2027 (figure 1.1). Growth in these countries will benefit from sustained higher commodity prices, especially oil, with higher growth rates expected in three of the region's seven countries in 2026.

In East Africa, growth is projected to decline from an estimated 6.6 percent in 2025 to 5.9 percent in 2026. This reflects the impact of supply chain disruptions, due primarily to geopolitical tensions in the Middle East, which have contributed to rising energy and import costs, and intensified food security vulnerabilities. Growth is projected to recover to 6.4 percent in 2027, as the effect of the supply shock dissipates and the benefits of macroeconomic policies and investments in key public infrastructure kick in, coupled with gains from sustained efforts toward economic diversification.

Growth in North Africa, estimated at 4.4 percent in 2025, is projected to slow to 4.0 percent in 2026. Disruptions to shipping traffic in the Strait of Hormuz will affect the region's exports to the Middle East, raise the cost of fertilizer inputs and energy for net importers of petroleum products such as Egypt, Morocco, and Tunisia. The region's tourism sector could also be affected by low arrivals from Gulf countries. Growth is projected to be 4.2 percent in 2027, premised on easing supply chain disruptions.

Growth in West Africa, estimated at 4.8 percent in 2025, is projected to remain marginally unchanged at 4.7 percent in 2026 and slow to 4.5 percent in 2027. The subregion's relative stability in growth in 2026 is attributable to robust agricultural output, deepening agro-processing value chains, and sustained public investments in energy, logistics, and transportation infrastructure.

Expansion in mining and hydrocarbon production and improved private investment spending, particularly in the construction sector, will provide additional impetus to the region's growth outlook.

In Southern Africa, growth in 2025 was estimated at 2.3 percent, driven by strong mining activity and the recovery of agricultural output.

In 2026, growth is projected to decline to 2.1 percent due to current supply chain shock and attendant disruptions of domestic economic activity associated with the Middle East conflict. Growth is expected to recover to 2.7 percent in 2027, reflecting increases in or expected increases in public sector capital spending, agricultural output, and exports.

The spike in global oil and gas prices is stoking inflationary pressures across Africa.

Inflation is projected to average 10.4 percent in 2026 (a 0.9 percentage point increase from the January 2026 MEO report), before declining to 8.9 percent in 2027. Although average inflation in 2026 will remain elevated, the projected rate represents a substantial decline from 13.7 percent in 2025 and is attributed to expectations of increased agricultural output and benefits of tight monetary policy in previous months. Even so, inflation in 2026 is projected to remain below 5 percent in 26 countries. The shock has fueled currency depreciations across Africa. As of 31 March 2026, currencies of 29 countries had depreciated against the U.S. dollar, in 10 of them by more than 2 percentage points relative to baselines.

African central banks cut interest rates in 2025, signaling broader improvement in the medium-term inflation outlook.

Between January 2025 and March 2026, policy rates were cut by an average of 1.33 percentage points. This yielded inflation-adjusted policy rates, averaging 2.8 percent in real terms. Most African countries entered the current shock with a restrictive monetary policy stance, providing them with added scope for monetary policy easing when the current inflationary pressures subside.

The average overall fiscal deficit in 2025 widened slightly to 4.9 percent of GDP from 4.8 percent in 2024, reflecting weak revenue amid elevated spending. A 14 percent decline in

TABLE 1.1 Outlook for key macroeconomic indicators in Africa, 2026 and 2027

Country	Real GDP growth		Inflation		Current account balance		Fiscal balance		Country	Real GDP growth		Inflation		Current account balance		Fiscal balance	
	2026	2027	2026	2027	2026	2027	2026	2027		2026	2027	2026	2027	2026	2027	2026	2027
Algeria	4.1	4.2	3.3	2.6	-1.4	-3.4	-13.3	-14.3	Lesotho	0.5	1.8	5.7	4.3	-8.7	-4.5	2.1	3.1
Angola	2.9	3.3	17.7	15.3	3.4	1.0	-1.1	-2.1	Liberia	5.0	5.3	8.2	6.7	-14.8	-13.2	-2.7	-2.4
Benin	6.6	7.1	2.5	2.1	-5.8	-5.2	-2.7	-2.4	Libya	6.5	4.3	2.5	2.2	6.1	3.5	2.2	1.6
Botswana	1.2	3.5	6.3	4.7	-6.7	-4.4	-8.9	-8.0	Madagascar	3.0	4.5	9.0	6.5	-7.5	-6.0	-4.4	-3.8
Burkina Faso	5.4	5.8	2.1	1.7	-3.0	-2.4	-4.2	-3.8	Malawi	2.3	3.3	24.6	18.7	-17.5	-15.3	-10.7	-10.0
Burundi	4.3	4.6	22.1	13.7	-6.3	-5.4	-3.6	-3.1	Mali	6.0	5.9	3.1	2.5	-5.8	-5.0	-3.2	-2.9
Cabo Verde	4.7	5.0	2.6	2.3	1.1	-1.8	-1.3	-1.0	Mauritania	4.4	4.7	2.5	2.6	-8.6	-6.7	-0.9	-0.5
Cameroon	4.0	4.1	3.5	2.7	-4.1	-3.9	-1.9	-0.7	Mauritius	2.8	3.8	6.0	3.9	-7.0	-4.3	-7.3	-5.4
Central African Rep.	2.9	3.9	3.9	2.9	-6.6	-5.1	-4.0	-3.4	Morocco	4.2	4.3	2.4	2.3	-3.5	-3.4	-3.7	-3.2
Chad	3.6	3.5	4.0	3.3	-3.0	-3.9	-2.2	-2.8	Mozambique	2.1	3.5	6.2	5.2	-28.8	-32.7	-6.4	-7.0
Comoros	3.4	4.0	3.7	2.6	-5.9	-5.0	-2.7	-2.4	Namibia	2.0	3.5	6.1	4.5	-16.4	-12.6	-6.0	-4.8
Congo	3.3	3.4	3.4	3.1	2.9	2.6	4.3	3.9	Niger	6.6	6.4	3.8	2.3	-6.3	-5.7	-3.6	-2.7
Congo, Dem. Rep.	5.0	5.6	6.4	5.4	-4.2	-2.8	-3.4	-2.1	Nigeria	4.1	3.7	16.2	13.0	5.8	4.1	-2.3	-2.5
Côte d'Ivoire	6.2	6.5	2.6	2.0	-2.0	-2.5	-3.0	-3.0	Rwanda	7.0	7.4	5.6	4.8	-14.9	-14.2	-6.0	-5.6
Djibouti	6.5	6.8	2.4	1.7	14.1	14.6	-1.9	-1.0	São Tomé and Príncipe	2.4	3.2	11.5	8.6	-6.4	-5.0	-1.4	-1.6
Egypt	4.0	4.3	14.7	14.6	-4.6	-4.5	-7.0	-6.4	Senegal	5.2	5.9	2.3	1.2	-8.9	-5.7	-8.1	-7.2
Equatorial Guinea	-1.7	-1.4	3.1	2.9	-2.4	-3.3	-2.1	-3.4	Seychelles	3.1	3.4	1.8	1.9	-5.6	-4.6	-1.2	-0.7
Eritrea	2.8	3.2	5.1	4.9	10.1	12.4	-3.3	-2.9	Sierra Leone	4.2	4.8	9.2	7.2	-5.9	-4.6	-4.3	-2.8
Eswatini	4.0	3.5	4.0	3.5	-1.0	-1.2	-6.4	-5.4	Somalia	3.1	3.4	5.2	4.1	-9.9	-8.8	1.1	-0.7
Ethiopia	7.8	8.5	14.1	8.8	-1.1	-0.9	-2.4	-1.9	South Africa	1.2	1.6	3.9	3.6	-1.4	-1.6	-5.1	-4.7
Gabon	2.7	3.1	3.1	2.3	1.1	-2.4	-4.4	-5.7	South Sudan	22.0	6.8	21.8	16.8	-0.4	-1.5	1.6	3.0
Gambia, The	4.9	5.0	5.2	4.9	-5.6	-4.5	-1.7	-1.2	Sudan	2.1	3.2	78.3	51.3	-5.1	-4.4	-2.9	-2.4
Ghana	5.0	5.4	9.0	7.2	3.0	2.7	-2.6	-2.2	Tanzania	5.4	6.1	3.8	3.7	-3.0	-2.2	-3.4	-3.5
Guinea	9.3	9.8	4.2	3.6	9.6	9.2	-3.5	-3.7	Togo	5.9	6.2	2.1	1.6	-3.2	-2.5	-2.9	-2.6
Guinea-Bissau	4.9	5.1	2.5	2.2	-5.2	-3.4	-3.6	-3.2	Tunisia	2.1	2.8	5.7	5.4	-5.3	-4.7	-6.1	-5.6
Kenya	4.6	4.7	5.4	4.8	-2.8	-2.2	-6.1	-5.8	Uganda	6.2	8.0	6.0	4.5	-5.6	-3.7	-6.9	-5.9
									Zambia	5.0	6.3	9.3	7.2	0.8	3.1	-2.7	-1.9
									Zimbabwe	4.3	4.5	14.7	10.1	-0.2	1.3	-0.7	-0.5

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

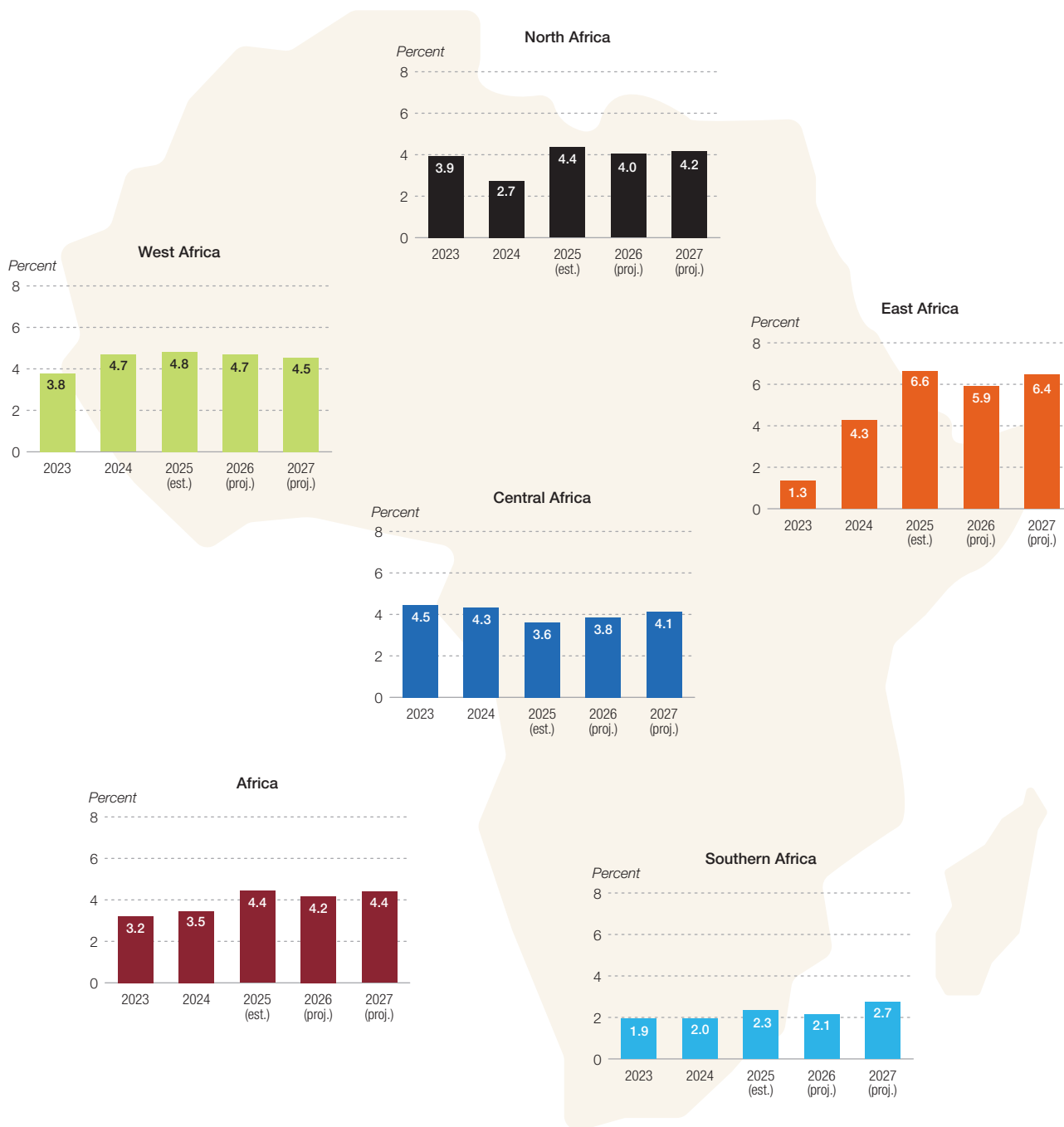
Source: African Development Bank statistics.

global oil prices in 2025 widened the fiscal deficit in oil-exporting countries to 6.4 percent of GDP from 5.7 percent in 2024. This outcome reflects the procyclicality of fiscal positions to movements in oil prices. This symmetry implies that the current wave of higher oil prices will bolster revenue for net exporters and improve average fiscal

position to 5.6 percent of GDP in 2026. The net effect would be reflected in narrowing the overall average fiscal deficit to 4.8 percent of GDP in 2026 and to 4.6 percent in 2027.

However, net oil-importing countries could face a sharp rise in import bills due to high

FIGURE 1.1 Real GDP growth across African regions, 2023–27 (percent)



Source: African Development Bank statistics.

oil prices. The fiscal deficit in net oil-importing countries—comprising other resource-intensive and non-resource-intensive economies—could widen. In other resource-intensive economies, the overall fiscal deficit is expected to reach 4.0 percent of GDP in 2026, from 3.7 percent in 2025,

and in non-resource-intensive economies, it is projected to widen to 4.6 percent in 2026, from 4.2 percent in 2025. These developments could limit the capacity of net oil-importing countries to provide support to low-income households affected by higher energy costs.

The external position of African countries has shown signs of short-term stabilization but remains vulnerable to global shocks and trade imbalances. The average current account deficit narrowed to 1.2 percent of GDP in 2025 from 1.7 percent in 2024, reflecting easing import bills, supported by a weaker U.S. dollar and subdued domestic demand. But the current account deficit is projected to widen again to 1.7 percent of GDP in 2026 and to 1.9 percent in 2027, as higher energy and fertilizer prices boost import costs and offset gains in export receipts.

Rising geopolitical tensions could reduce official development assistance flows to Africa, heightening near-term risks to overall external financing. In 2024, remittances increased to \$104.6 billion from \$91.6 billion in 2023. Over the same period, Foreign direct investment (FDI) rose from \$55.4 billion to \$97.0 billion, and net portfolio investment switched from outflows of \$1.6 billion to inflows of \$22.9 billion. ODA increased as well, from \$61.7 billion to \$65.9 billion, mainly driven by higher multilateral aid that offset aid cuts by major bilateral donors. With donors reallocating resources toward domestic and strategic foreign policy priorities, the decline in bilateral aid is likely to persist, and multilateral aid may also come under pressure, since these shifting priorities could reduce contributions to multilateral institutions. Escalating geopolitical fragmentation has stoked volatility in global commodity and financial markets, straining fiscal positions, exacerbating debt vulnerabilities, and heightening the risk of portfolio flow reversals. The current global supply chain shock could weaken labor market conditions in the Middle East, which accounts for 14 percent of African migrants. This poses a risk to remittance transfers to Africa. These trends strengthen the case for African countries to reduce dependence on external sources and explore domestic opportunities to mobilize resources to finance their development.

Africa continues to face elevated debt pressures amidst a changing global financing landscape. Between 2020 and 2024, total public debt stock increased by about 4.4 percent a year and reached \$1.9 trillion in 2024, up from \$1.6 trillion in 2020, driven by large public spending needs. On

the positive side, the debt-to-GDP ratio declined from an average of 63.9 percent in 2023–24 to 62 percent in 2025 and is projected at 61.4 percent in 2026. The declining debt-to-GDP ratio reflects a rebound in economic growth and fiscal consolidation undertaken in several countries. Nevertheless, vulnerabilities remain due to the changing structure of public debt. This shift has driven up debt service costs, which further constrains fiscal space and crowds out government spending on key social services and infrastructure projects. The share of government revenue devoted to external debt service increased from 23.7 percent in 2017 to 31 percent in 2024.

The medium-term macroeconomic outlook in Africa will continue to evolve in line with the developments in domestic and external factors. Persistently high oil and fertilizer prices could increase prospects of a global economic slowdown and weigh heavily on African economies. Inflationary pressures could intensify and necessitate contractionary monetary policies as well as erode household purchasing power. A weaker global macroeconomic environment and domestic structural rigidities across the continent could exacerbate debt vulnerabilities and constrain fiscal space across many countries.

Governments in the continent have a menu of policy instruments they can deploy to strengthen growth resilience and to push it to a higher trajectory.

Short-term policy recommendations

Strengthen strategic monetary policy and foreign exchange policy management to mitigate the impact of multiple shocks. African central banks need to implement prudent monetary and exchange rate policies tailored to anchor long-term inflation expectations. In coordination with finance ministries, they should act decisively against a build-up of second-round effects of food and energy price hikes. Market-clearing exchange rate policies will allow for orderly adjustment to reflect prevailing economic and structural fundamentals. This will help balance the price and exchange rate stability with national growth objectives.

Persistently high oil and fertilizer prices could increase prospects of a global economic slowdown and weigh heavily on African economies

With crisis-prone growth, priority should be given to broadening the tax base and improving the efficiency of revenue collection

Implement prudent fiscal policies to mitigate the effects of rising energy and food prices to lower business costs and alleviate pressures on poor and vulnerable households. Monetary policy stances must be strategically coordinated with fiscal policy measures within each country's context to ensure that governments can cushion the adverse effects of food and energy price hikes on the most vulnerable households and small-scale businesses. Governments should not resort to expensive subsidies and blanket fuel tax holidays that could be difficult to unwind and thus hurt economic resilience in the medium to long term. Where fiscal space permits, temporary and targeted social protection measures should be deployed to protect the most vulnerable populations from ongoing global shocks. Such measures should be temporary and carefully calibrated within each country's context and strategically deployed to avoid broad-based price suppression and fiscal profligacy through expensive subsidies that could otherwise deepen long-term financial risks.

Use oil and gas windfall revenue to cushion against shocks. The current global supply chain shock exerts significant pressure on Africa, but it offers an avenue to oil and gas producing countries to benefit from rising global prices. These countries should save excess revenue during this price boom into sovereign wealth funds or other countercyclical revenue buffers to cushion against the inevitable post-war price correction. Countercyclical fiscal policy helps to manage crisis-induced disruptions and prevents costly macroeconomic instability in lean times. Countries with large energy potential (especially oil and gas) should develop appropriate capacity to strengthen their resilience to future shocks. They can achieve this by diversifying asset portfolios as well as investing in human and physical capital, while scaling up exports to boost nonoil revenue.

Strengthen the capacity to attract and retain external financial flows. Securing a larger share of global investment financing requires more absorption capacity, particularly in emerging sectors, such as data centers and renewable energy. Positioning African economies to attract

investments requires improving infrastructure, enacting stronger and stable regulatory frameworks, and fostering digital ecosystems. Preserving macroeconomic stability while deepening and broadening domestic financial markets can sustain investor confidence and anchor portfolio investment flows over the medium term to avoid costly reversals. As remittance inflows come under pressure, countries need to deploy targeted instruments such as diaspora bonds and to reduce transfer costs.

Improve domestic resource mobilization to expand fiscal space and reduce vulnerability to external shocks. With crisis-prone growth, priority should be given to broadening the tax base and improving the efficiency of revenue collection. Notably, digitizing tax administration represents can enhance revenue collection, strengthen transparency, and reduce corruption risks associated with direct interactions between tax officials and taxpayers.

Strengthen the domestic fiscal social contract to improve voluntary tax compliance. In an environment marked by declining international aid flows, driven by evolving partner priorities and nationally oriented policy approaches to development, African countries need to rethink the foundations of their development financing. Strengthening fiscal and financial autonomy is essential to better anchor development financing on domestic resources. This should be accompanied by a stronger fiscal social contract between the state and the citizens, grounded in efficient, transparent, and equitable use of public resources, to engender voluntary compliance by citizens in meeting their tax obligations.

Deploy proactive crisis response measures. Mitigating the impacts of recurrent global shocks on African countries requires proactive crisis response measures implemented at national, regional, and continental scales. Countries need contingency financing arrangements such as preferred pooled fuel procurement and emergency food corridors. They also need to diversify sourcing of fuel, food and fertilizer, where logistically feasible. And they need to provide temporary

liquidity lines to distressed businesses when possible. Multilateral development banks (MDBs), Africa's development finance institutions and other development partners need to promptly deploy countercyclical instruments such as emergency budget support, trade finance facilities to cover critical import financing (food, fuel, and fertilizers) for oil-importing countries, and contingent credit lines for countries with IMF programs to provide a complementary liquidity buffer. The COVID-19 pandemic showed that timely deployment of crisis response measures can provide fiscal buffers for countries in times of shocks and hence offset medium to longer term impacts and build economic resilience.

Strengthen Africa's sovereignty in global governance. Under the Africa Union framework, countries need to speak with one voice on geopolitical subjects—Universal Human Rights, Peace and Security, and International Law. The challenges facing the continent demand unity of purpose and strategic partnerships to strengthen Africa's political and economic agency in global governance.

Coordinate policies. Countries should ensure seamless interagency coordination of both monetary and fiscal policy measures with implementation actions across relevant ministries and government agencies, including finance, agriculture, energy, and trade. In addition, development partners need to provide coordinated technical assistance and policy advice to tailor their policy responses to country contexts and to mitigate implementation challenges.

Medium- to long-term policy recommendations

Strengthen macroeconomic buffers and external resilience. African countries need to build adequate foreign exchange reserves, targeting at least 3–4 months of import cover, maintain prudent macroeconomic policies, and limit excessive reliance on external borrowing. This will help ease exchange rate pressures, contain risk premiums, and safeguard debt sustainability amid widening current account deficits and rising geoeconomic uncertainty.

Expand Africa's energy mix and energy markets by accelerating investments in renewables and gas to bolster national security. Increased domestic investment in renewable energy sources and transition fuels such as gas will help balance the energy mix, reduce the reliance on oil imports and provide alternative green energy sources for the continent's development. Africa should fast-track full implementation of energy projects identified under the Programme for Infrastructure Development in Africa (PIDA) to strengthen the continent's energy security. This includes constructing hydroelectric dams such as the INGA dam, accelerating the implementation of key initiatives such as the Desert to Power Initiative and the Mission 300, and strengthening intra-Africa energy markets through regional oil refineries and liquefied natural gas facilities. Investing in cross-border electricity transmission lines, large scale solar parks, and gas pipelines will further bolster energy security for the continent. Developing green energy technologies for urban public infrastructure such as e-vehicles can drive down the costs of fuel imports.

Deepen regional integration and trade to cushion against recurrent global shocks. Targeted industrial policies, unified customs regulations to enhance movements of people, goods, and services, full implementation of the AfCFTA, and strategic export promotion—all are needed to expand export diversification and value addition in all sectors and strengthen regional value chains and intra-African trade. Deepening collaboration with strategic bilateral and multilateral partners will help diversify financing sources and expand external markets, reducing exposure to external vulnerabilities and improve access to global capital.

Reduce import dependence and enhance trade competitiveness. African countries should scale up domestic production and diversify energy and fertilizer supply sources through preferred procurement policies to strengthen regional and intraregional trade in oil and gas and fertilizer. They also need to build strategic reserves to reduce reliance on extra-regional imports, particularly for energy, food, and key intermediate goods. In parallel, investing in trade logistics, transport

Increased domestic investment in renewable energy sources and transition fuels such as gas will help balance the energy mix, reduce the reliance on oil imports and provide alternative green energy sources for the continent's development

Collective action to maintain sustained peace and security in African communities is a key aspect of economic development

corridors, improving port efficiency, and digital trade facilitation to reduce costs will improve competitiveness, and strengthen export capacity, especially for small businesses.

Deepen policy reforms to improve institutional efficiency and trade outcomes. African countries should broaden the base through tax-policy reform by gradually phasing out inefficient exemptions and introducing high-yield instruments where feasible aligned to administrative capacity. They should align fiscal and customs frameworks with regional agendas via the harmonization of policies and procedures in line with AfCFTA to reduce multiple/double taxation. They should institutionalize high-performance revenue administrations by investing for instance in leadership, human resource modernization, performance management, service culture, and accountability. They should reduce leakages by curbing illicit financial flows, corruption, risk mispricing, and investments in unproductive infrastructure, among others. And they should ensure productive investments and uses of public resources.

Strengthen and consolidate Africa's financial systems to scale up domestic capital mobilization for Africa's development and strengthen capacity to absorb shocks. The African Development Bank Group should accelerate the implementation of the New African Financial Architecture for Development to strengthen Africa's agency in global financial market. Launched in Abidjan, Côte d'Ivoire in April 2026, it aims to build a more resilient, autonomous, and development-oriented financial system in Africa, to reduce dependence on external financing and better support sustainable economic growth. It will help in leveraging the more than \$4 trillion in assets under management in Africa's financing ecosystems to support development financing in Africa.

The African Union should expedite the full operationalization of the African Financing Stability Mechanism (AFSM) and the African Monetary Institute (AMI) towards the establishment of the African Central Bank and the Africa Credit Rating Agency (AfCRA) to address the heightening debt refinancing risks, enhance monetary stability,

and address information bias in sovereign risk ratings in African countries, respectively.

The African Union and Regional Economic Communities should strengthen early warning systems, intelligence sharing, maritime security cooperation to safeguard supply chains along critical trade corridors and strengthen peacebuilding for regional security. There can be no sustainable development without sustained peace and security in communities and countries. Collective action to maintain sustained peace and security in African communities is therefore a key aspect of economic development. In an increasingly fragmented world, deepening regional economic integration and trade, political unity and peace are critical aspects of macroeconomic policy stability and resilience.

GROWTH PERFORMANCE AND PROSPECTS

Forces shaping Africa's economic growth performance and outlook

Africa's economies have remained resilient despite recurring global and domestic shocks. This resilience is once more being tested by the heightened geopolitical tension in the Middle East. The new geopolitical tension is reinforcing earlier multiple shocks including the increased global trade policy uncertainty and regional conflicts that continue to shape Africa's economic outlook. The key transmission channels of the recurring global shocks on Africa include global trade, logistics, and supply chain disruptions; the energy, food, and fertilizer price shocks; and capital flows, debt risks, and tourism receipts.¹

The disruption of trade flows through the Strait of Hormuz triggered dislocations in global supply chains, and increased insurance premiums due to heightened risk of attacks on shipping vessels. About 13 percent of Africa's total imports (mostly oil and fertilizer) pass through the strait. Shipping lines have been forced to reroute from the Suez Canal to the Cape of Good Hope which increases costs, delays, and logistical challenges for global trade.² Commodities transiting through this critical waterway are important inputs in transport,

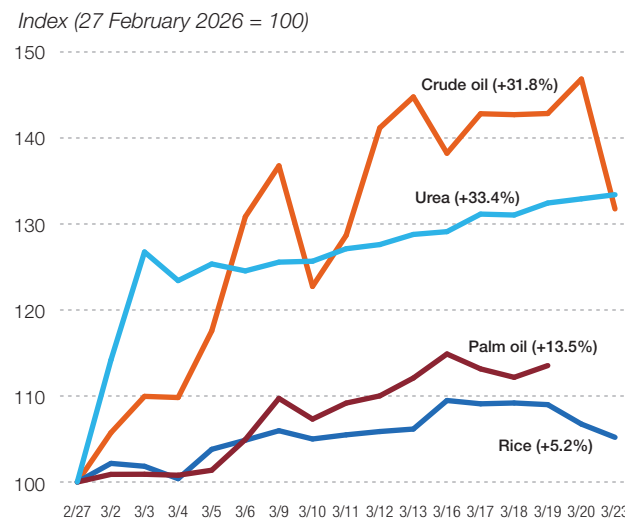
agriculture, and the production of other goods, amplifying the economic impact of the shock. In less than a week, the Freightos Baltic Index increased by 16.8 percent to 23 March 2026.³

Rerouting shipping lines could provide opportunities for African seaports along the Indian Ocean rim (such as Lamu in Kenya, Durban in South Africa, Walvis Bay in Namibia, and Port Louis in Mauritius) as ships dock at these ports to refuel and offload cargo. But the rerouting elevates transactional costs, causes further delays, and induces second-round effects on inflation. For example, a shift to the Cape of Good Hope route is estimated to increase transit times between Asia and Africa by 10 to 15 days and freight costs by 20 to 40 percent.

The supply chain disruptions have led to a spike in global prices of oil, liquefied natural gas, and fertilizer, with negative implications for African countries. Since the start of the current global supply chain shock, prices of crude oil have increased by more than 50 percent and urea by 35 percent (figure 1.2). Africa's oil-importing countries are hit most through higher petroleum import bills and depreciating currencies. The direct pass-through of rising domestic pump prices and in transport costs have fueled inflationary pressures in several countries. Higher oil prices have also widened trade and current account deficits, triggering currency depreciations in at least 29 African currencies. Oil-exporting economies—such as Nigeria, which in recent years improved its refining capacity at the Dangote Refinery—could benefit from revenue windfalls and stronger fiscal positions. But these will be tempered by imported inflation and risks to global demand that could affect the countries' nonoil exports.

The elevated uncertainty is creating volatility in global capital and financial markets, with at least seven of 12 stock markets in Africa reporting a decline in trading. Between 23 February and 9 March, the Casablanca All Share Index declined by 11 percent, followed by Egypt's CASE 30 Share Index (by 8.8 percent) and the Johannesburg Stock Exchange (by 6.6 percent). Portfolio realignment toward safe-haven assets such as gold, whose rising price could weaken emerging-market currencies. Capital flight from frontier and emerging economies will further widen sovereign

FIGURE 1.2 Selected commodity price indices



Source: African Development Bank staff calculations based on data from Bloomberg.

spreads, increase the cost of capital, and reverse the Eurobond market recovery that African countries enjoyed during 2024–25, when several issued bonds to raise capital for debt refinancing. And renewed global inflationary pressures could prompt central banks in advanced economies to delay monetary policy easing or revert to policy tightening.

A prolonged global supply chain shock could reduce investment and tourism flows from the Middle East. In 2024, Africa received more than \$100 billion, much from the Gulf countries, led by Saudi Arabia, Qatar, and the United Arab Emirates.⁴ In 2024, the Emirates spearheaded a \$35 billion development deal for Egypt's Ras El-Hekma peninsula, the largest driver of North Africa's record FDI in 2024. In 2025, Qatar pledged \$103 billion in investments to Africa, the Emirates mobilized \$4.5 billion for its Africa Green Investment Initiative, and Saudi Arabia has been expanding its presence in Africa through the Public Investment Fund. With FDI from the Gulf Cooperation Council countries directed toward Africa's infrastructure, logistics, energy, and agriculture, reduced investment would impair Africa's economic transformation and long-term growth prospects.

Tourism receipts could be hit as elevated instability, flight cancellations, and costly air travel undermine investor confidence and reduce tourism

Some African countries are already changing their transport systems to reduce dependence on imported fuel

revenue. Africa accounts for about 3 percent of GCC outbound travelers, and remittances to Africa from the GCC amounted to \$28.3 billion in 2023.⁵

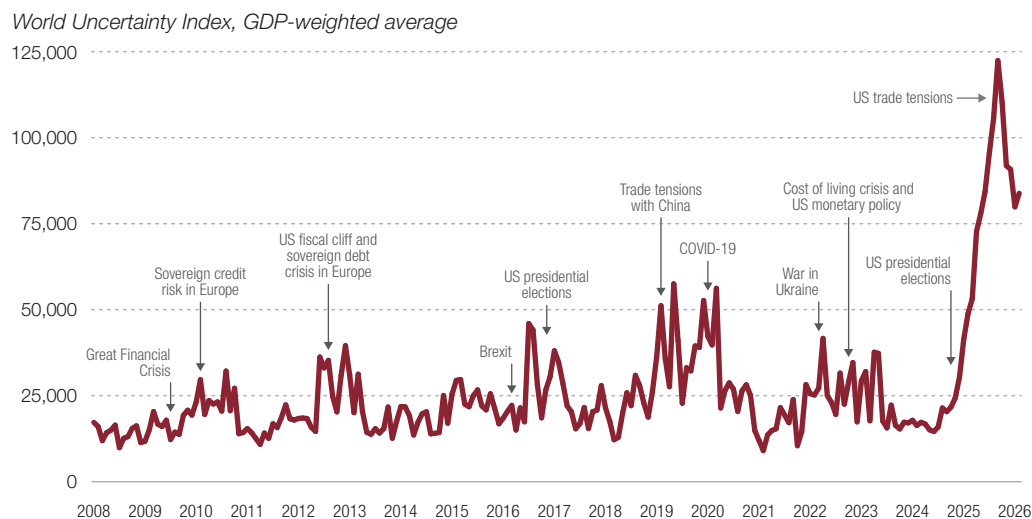
The rise in the World Uncertainty Index (WUI) underscores increasing geopolitical fragmentation and erratic and protectionist trade policies globally (figure 1.3). In September 2025, the WUI reached its peak as uncertainty about progress in resolving trade tensions among major global players increased. Several factors could drive the WUI up in 2026. The Gulf region holds over 55 percent of the world's oil reserves, and Iran about 13 percent. Continued closure of the Strait of Hormuz, responsible for about one-fifth of global oil supplies, will exacerbate the already volatile situation. A prolonged closure could threaten established energy-trade frameworks.

Africa's economic activity is also constrained by internal conflicts and pockets of political instability. The Africa Economic Policy Uncertainty Index, trending upward in recent years, points to a more fragile and shock-prone policy environment (figure 1.4). Despite easing from the COVID-19 pandemic peak in 2020, the index remained elevated through 2022–25, reflecting the persistent effects of global and domestic disruptions. And the escalation of conflict in the Middle East contributed to a marked increase in the index in February 2026. The persistence and frequency of

recent shocks suggest that uncertainty in Africa is becoming more entrenched—a new normal—with downside risks to investment and macroeconomic policy management. This means that in the absence of shock absorbing buffers, Africa's resilience to shocks could gradually weaken, undermining the continent's ability to attain and sustain higher growth of 7–10 percent.

Given the inelasticity of demand for oil and gas, households and businesses may not quickly restructure their fuel consumption in response to the sudden price spikes. But if the shock lasts beyond two to three months, demand could begin to change as governments seek alternative sources and supply routes. Some African countries are already changing their transport systems to reduce dependence on imported fuel. In 2024, Ethiopia banned imports of gasoline and diesel vehicles to reduce fuel costs and air pollution. Uganda started producing electric buses for public transport, whose demand could pick up as more countries seek to reduce dependency on fossil fuels. African countries could use this crisis to expand investment in regional domestic refining capacity and energy diversification. During the 2026 The Africa We Build Summit in Nairobi, Aliko Dangote announced plans to build a 650,000-barrel-a-day oil refinery in East Africa to address the region's energy needs.

FIGURE 1.3 World Uncertainty Index, January 2008–February 2026



Source: <https://worlduncertaintyindex.com/> updated to February 2026, based on Ahir et al. (2022).

FIGURE 1.4 Africa Economic Policy Uncertainty Index, January 2015–February 2026



Source: African Development Bank statistics.

Recent growth performance and outlook

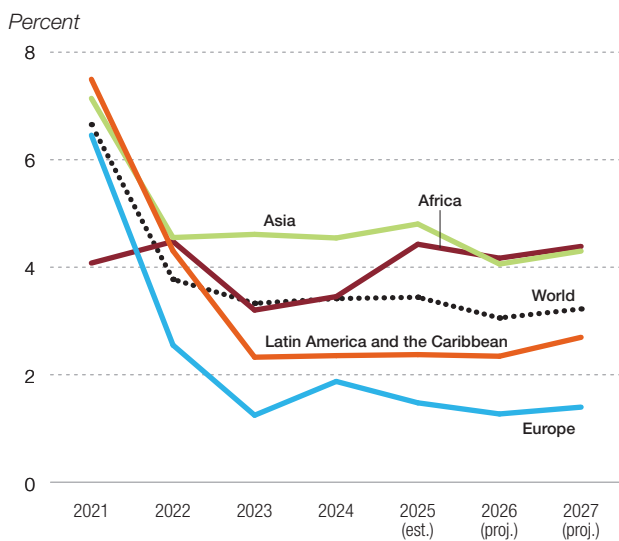
Africa sustained its growth momentum in 2025, but the medium-term outlook could be affected by the global supply chain shock

Africa’s real GDP grew by an estimated 4.4 percent in 2025 (figure 1.5). This was 0.2 percentage points higher than the earlier estimate of 4.2 percent reported announced in the January 2026

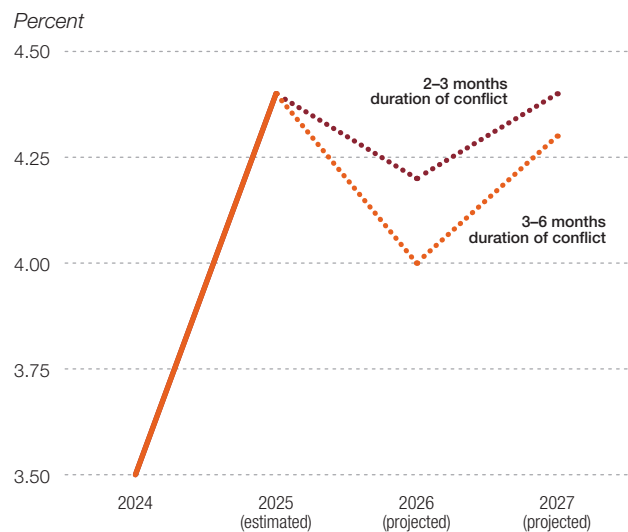
edition of Africa’s Macroeconomic Performance and Outlook (MEO). The 2025 growth outturn also represents an acceleration of 0.9 percentage point from 3.5 percent recorded in 2024, making the continent one of the world’s best-performing regions alongside Asia and ahead of Europe and Latin America and the Caribbean. Growth in 2025 was underpinned by improved agricultural output, supportive macroeconomic

FIGURE 1.5 Real GDP growth

a. Africa and other regions, 2021–27

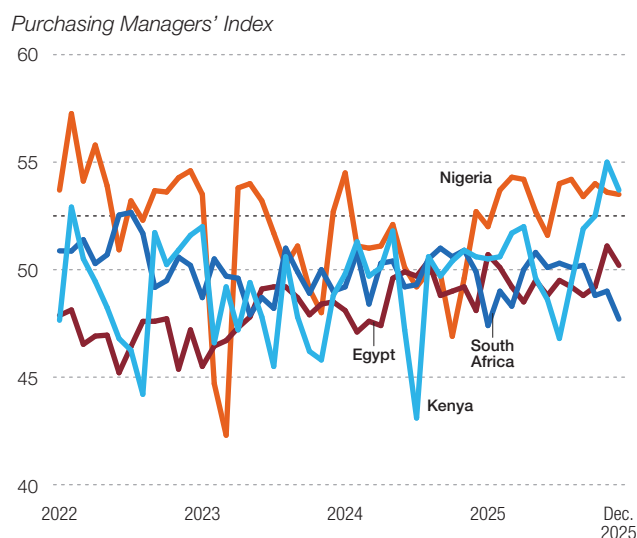


b. Africa’s growth scenario (short and prolonged conflict)



Source: African Development Bank statistics, March 2026, and *World Economic Outlook*, April 2026.

FIGURE 1.6 Purchasing Managers' Index in Africa, 2022–March 2026



Source: Haver Analytics and IHS Markit.

policies, and stronger mineral and metal prices. Coming against a backdrop of heightened trade tensions, the sustained growth underscored Africa's economic resilience to multiple and recurring shocks. This was further bolstered by a weaker US dollar in 2025, which helped alleviate the effects of aid reductions and trade policy tensions on African economies.

Overall, Africa's growth performance in 2025 was broad-based, with 36 out of the 54 countries posting higher rates than in 2024, 22 of them by more than 5 percent. Growth in 15 of these countries increased by more than one percentage point, led by the recovery in Libya, South Sudan, and Libya (increased oil revenue) and the sustained momentum in Ethiopia and Zimbabwe (improved agricultural yields, strong performance of manufacturing sector, and expanded production in the extractive sector).

Real GDP growth is projected to moderate to 4.2 percent in 2026, before recovering to 4.4 percent in 2027, the same rate as in 2025. The projected marginal decline in 2026 is mainly attributed to the expected effects of ongoing conflict in the Middle East. The impact of this shock on growth and macroeconomic stability will depend on the duration of the ongoing global supply chain disruptions and their effects on global energy and

fertilizer prices. Projections for 2026 and 2027 assume that the current global shock will last only for two to three months. This could lead to a 0.2 percentage point lower real output growth in 2026 compared with 2025 (figure 1.5) and 0.3 percentage point decline relative to the January 2026 MEO projections prior to the current shock. Under this scenario, Africa's projected growth could surpass that of Asia, with the continent poised to become the best-performing region in 2026–27. If the conflict lasts for 3–6 months, before a gradual de-escalation of tensions, real GDP growth is projected to decline by 0.4 percentage points to 4 percent in 2026.

The growth performance in 2025 mirrored improvements in the Purchasing Managers' Index (PMI). The benchmark PMI indicating that the health of an economy is 50. The PMI in three of Africa's leading economies with available data increased on average in 2025: Nigeria (2.8 points), Kenya (1.4 points), and Egypt (0.8 points) relative to 2024 (figure 1.6). Business conditions in Nigeria strengthened throughout the year, with the monthly PMI consistently above the 50-point mark. The sustained rise in the country's PMI was due to increased firms' purchasing activity and inventory holdings, in turn reflecting strong consumer demand. Similarly, Kenya's business conditions improved during the year, driven by buoyant demand and strong employment growth, leading the country's PMI value to an average of 51 percent. Strong PMI performance in both Kenya and Nigeria provides an opportunity to strengthen structural transformation if supported by targeted reforms. In Kenya, priority should be given to lowering credit costs, improving small and medium enterprise financing, and upgrading energy and transport infrastructure to boost productivity. In Nigeria, sustaining PMI gains requires continued implementation of macroeconomic stabilization policies—especially controlling inflation and improving foreign exchange market efficiency—alongside expanded access to credit, lower energy and logistics costs, and more predictable policies to strengthen investor confidence.

Although the PMI in Egypt moved closer to the 50-point mark, averaging 49.6, business conditions were generally subdued with the index

exceeding the benchmark in just four months of the year. Only South Africa recorded a decline in the PMI, with the average value falling to 49.3. The PMI developments in Egypt and South Africa point to weaknesses in the business environment, with negative implications for sustained growth and macroeconomic stability. In South Africa, the PMI below 50 indicates that key sectors such as manufacturing and services are either contracting or expanding at a very slow pace due to persistent structural constraints. In Egypt, PMI indices close to or below 50 point to growth that is not broad-based but dependent on public investment, energy-related activities, and external capital flows.

The near-term estimates show positive improvements as countries implement reforms to bolster consumer demand in Nigeria and improve the business environment in Kenya. In the PMI for the first quarter of 2026, South Africa improved to the 50.8-point mark while Nigeria (51) and Kenya (50) held firm. South Africa's improvement can be attributed to reforms outlined in "Business Licensing Bill 2025" to simplify regulations and enhance entrepreneurship and investment.

Global commodity market conditions remain fragile amid heightened uncertainty and supply chain shocks. Overall, commodity prices declined by 7 percent in 2025, due to the elevated trade

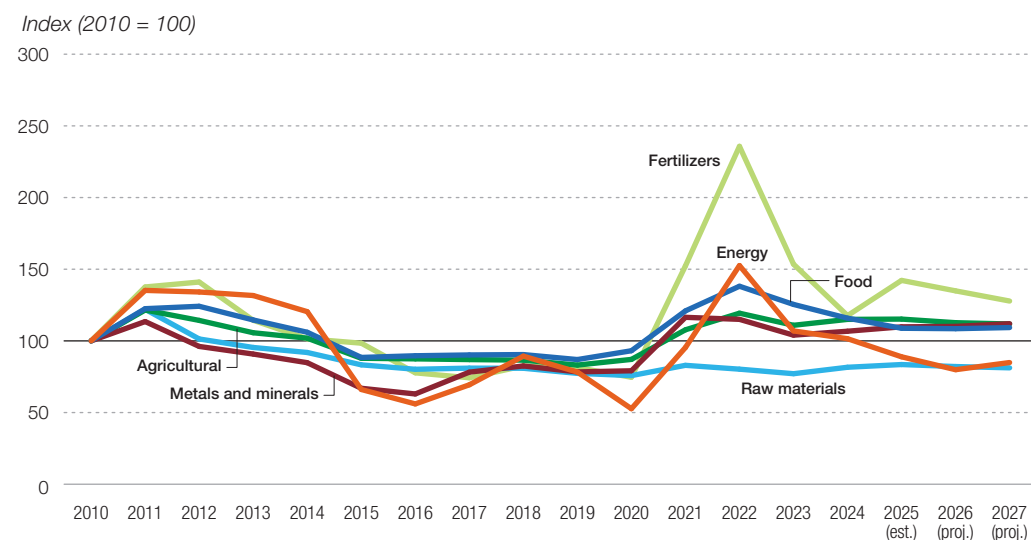
tensions and policy uncertainty (figure 1.7). Energy prices declined the most, by 12.4 percent in 2025, reflecting ample supply from the Organization of the Petroleum Exporting Countries and nonmember partners (OPEC+). The average Food Price Index in 2025 declined by 7.0 percent thanks to higher crop yields, with improved weather conditions coupled with increased use of smart agriculture practices. Innovative ways to scale up agriculture production—like the Twiga platforms and ujuziKilimo in Kenya, Esoko and Farmerline in Ghana, and Hello Tractor in Nigeria—have improved yields.⁶ These efforts are helping cushion the cost of living amid shocks that influence global food prices. The metals and minerals markets showed resilience in 2025, with gold prices surpassing \$4,000 per troy ounce for the first time in October 2025, driven by increased central bank reserve accumulation and demand for the metal as a safe-haven asset. Commodity prices rose in the first quarter of 2026 due to constrained global supply, with prices of crude oil, gas, and fertilizer up sharply.

Global commodity market conditions remain fragile amid heightened uncertainty and supply chain shocks

Implications of recurrent global shocks for Africa's long-run growth and global geopolitical fragmentation

Since the 1970s, the global economy has experienced major adverse shocks, including the 1973

FIGURE 1.7 Global commodity price indices, January 2010–December 2025



Source: African Development Bank staff calculations based on World Bank, Commodity database (2025).

Africa's recovery from the COVID-19 pandemic in 2021 was the slowest, with real GDP expanding by 4.1 percent

and 1979 oil crises, 1990–92 Gulf War, 1997 Asian financial crisis, 2008–09 global financial crisis, 2013–14 commodity price collapse, 2020 COVID-19 pandemic, and more recent conflicts in Eastern Europe and the Middle East. In addition to major global shocks, Africa continues to contend with internal civil strife and cross-border incursions. Collectively, these challenges have had a debilitating effect on the continent's macroeconomic stability and undermined its quest for economic transformation. For instance, during the 1990–92 Gulf War, global oil prices increased significantly, rising from about \$17 per barrel at the start of the conflict to nearly \$36 in late 1990, an increase of 112 percent. While this shock benefited net oil-exporting countries, the overall effect on the global economy was negative. Global inflation more than doubled from 16.9 percent at the onset of the war in 1990 to 39.2 percent in 1992 and stayed above the 30 percent level for two years, leading to a decline in consumer spending and a global economic slowdown. Specifically, global real GDP growth declined from 3.2 percent at the start of the war in 1990 to 2.2 percent in 1992 (figure 1.8).

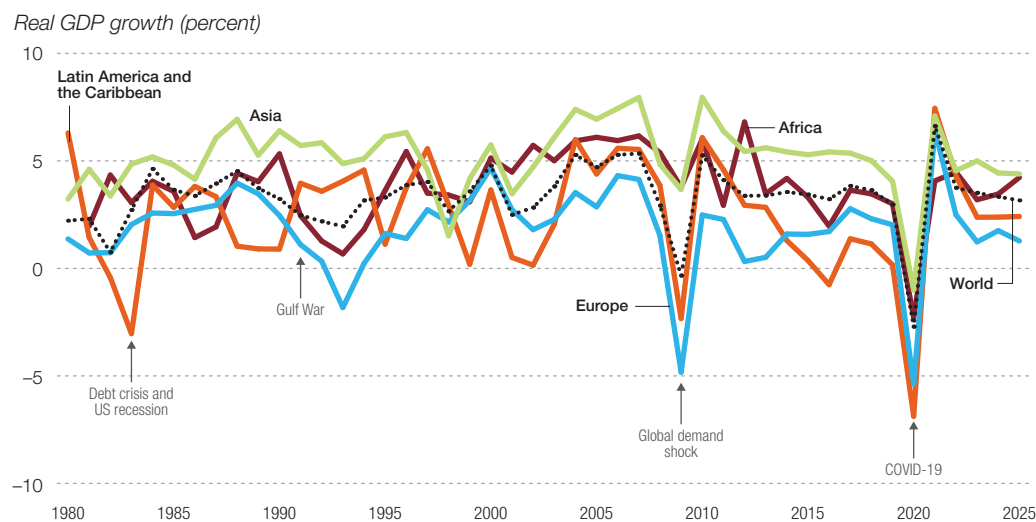
While global inflation soared, the increase was much lower in Africa, from 13.1 percent in 1990 to 20.9 percent in 1992. However, growth fell sharply from 5.3 percent to 1.3 percent in 1992, and to 0.7 percent in 1993. At the peak of the COVID-19 pandemic in 2020, economic output contracted

across all regions of the world. In Africa, real GDP contracted by 2.3 percent for the first time in two decades. However, Africa's subsequent recovery in 2021 was the slowest, with real GDP expanding by 4.1 percent compared with the fastest growth rate of 7.4 percent for Latin America and the Caribbean, whose economy had contracted the sharpest the previous year, by 6.1 percent (table 1.2). Relative to other global shocks, the impact of the pandemic was most severe in Africa, affecting all segments of the economy. This explains the continent's slow pace of recovery compared with other world regions.

Despite these growth disruptions, Africa has mostly avoided a recession. While it has recovered quickly after every major shock, the frequency of these shocks has meant that the continent has not enjoyed sustained periods of uninterrupted growth that could spur economic transformation. Every significant global shock has been accompanied by an extended period of low real GDP and real GDP per capita growth. In some instances, as between 1991 and 1994, real GDP per capita growth was negative for four straight years, a period coinciding with the Gulf War.

Similarly, the 1986–87 terms of trade shock driven by a collapse of commodity prices led to two successive years of negative real GDP per capita growth in Africa. This was also the case during the 2007–09 global financial crisis, when

FIGURE 1.8 GDP growth by region, 1980–2025



Source: African Development Bank statistics and International Monetary Fund database.

TABLE 1.2 Real GDP growth during major global shocks (percent per year)

Region	Gulf War		Global financial crisis		COVID-19 pandemic	
	1991	1992	2009	2010	2020	2021
Latin America and the Caribbean	4.0	3.6	-2.3	6.1	-6.9	7.5
Asia	5.7	5.8	3.6	8.0	-1.0	7.1
Africa	2.4	1.3	3.8	6.0	-2.3	4.1
Europe	1.1	0.3	-4.8	2.5	-5.4	6.5
World	2.5	2.2	-0.4	5.3	-2.7	6.7

Source: African Development Bank statistics and International Monetary Fund database.

real GDP growth more than halved from 3.5 percent in 2007 to 1.1 percent in 2009. The impact of multiple crises on African economies is more acute in fragile states, which have limited buffers to absorb the shocks. For this group of countries, the growth rebound typically dissipates within six years, after which it returns to crisis levels.⁷

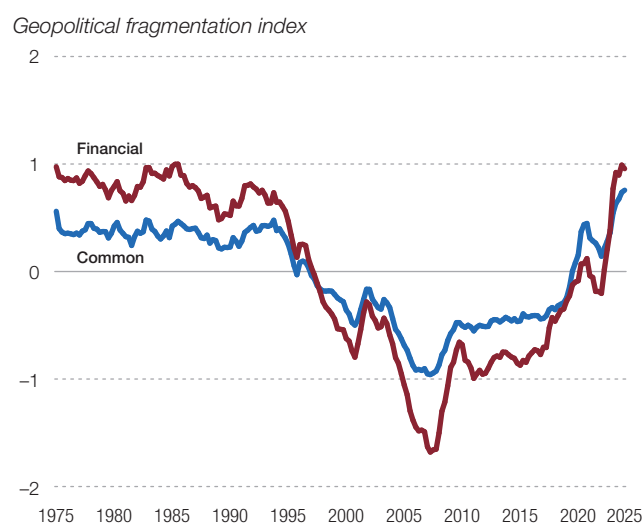
In contrast, non-resource-intensive diversified economies have tended to weather the impact of shocks and recover more strongly and faster, as in the aftermath of the COVID-19 pandemic and more recent multiple shocks. Growth in these economies averaged 6.3 percent in 2021, underscoring the benefits of economic diversification. Apart from the benefits of the commodity price super-cycle, Africa’s increasing resilience also reflects years of prudent macroeconomic policy and structural reforms since the early 2000s. These factors especially helped the continent to weather the adverse effects of global shocks during the first decade of the 21st Century, which led to the Africa Rising narrative.⁸ While several African economies continue to post robust growth performance amid regional and global shocks, the main challenge has been to turn episodic booms into sustained high and inclusive growth with expansion in real output translating into a corresponding and consistent increase in per capita income over many years.

Major global shocks precipitated by wars, conflicts, and trade tensions have strained international relations and heightened global geopolitical fragmentation. And increased geopolitical fragmentation continues to slow the global economy, with developing regions such as Africa the most affected. An index of global geopolitical fragmentation shows three distinct episodes of geopolitical

fragmentation (figure 1.9).⁹ The first episode lasting about 17 years from 1975 to 1991, reflects relative stability in geopolitical fragmentation. The second episode lasting about 15 years from 1992–2006 shows a sustained decline in geopolitical fragmentation, a period that commenced with the signing of the Maastricht treaty establishing the European Union in 1992 and the end of the Gulf War. The third episode of about 19 years commenced with the 2007–09 global financial crisis.

For Africa, policy shifts in advanced economies have translated into financial fragmentation and geopolitical fragmentation, resulting in significant

FIGURE 1.9 Geopolitical fragmentation index, 1975–2024



Note: *Common* is the overall measure of geopolitical fragmentation, while *financial* is the measure of financial fragmentation. Geopolitical fragmentation is an aggregate measure of 16 indicators that reflect disruptions in trade, finance, mobility, or political realignments.

Source: African Development Bank staff calculations based on data from Fernández-Villaverde et al. (2024).

volatility and declines of external sources of finance. So, the flow of development finance to Africa has fallen short of its financing needs. This undermines the foundation for economic transformation, presenting a strong case to scale up domestic capital mobilization to finance long-term growth and wealth creation on the continent (chapters 2 and 3). The lessons learned from past crises, including the need to strengthen domestic capacities to respond and coordinated support by development partners, are critical in addressing the impacts of the current global supply chain shock.

Real GDP per capita growth

Africa's strong growth performance in 2025 is also reflected in its real GDP per capita growth, which averaged 2.1 percent, nearly twice the 1.1 percent in 2024, and exceeding the performance of both Latin America and the Caribbean and Europe (figure 1.10). However, this rate was 2.1 percentage points below that of Asia, the top-performing region. Africa's real GDP per capita growth is projected to marginally decrease to 1.9 percent in 2026 before increasing to 2.2 percent in 2027. The decline in 2026 will be driven by the effects of geopolitical tensions affecting the cost of living. Despite the improving outlook in 2027, it remains below the

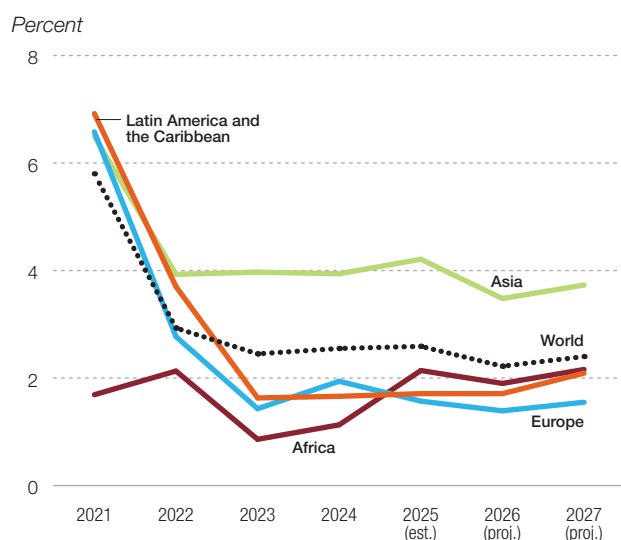
minimum 3.5 percent required to reduce poverty and inequality and to enhance inclusive growth.¹⁰

The divergence between Africa and Asia highlights the continent's slow progress in raising living standards of the citizens. Africa's high population growth, averaging about 2.3 percent per year compared with less than 1 percent in Asia, implies that expanding real GDP translates into modest improvements in income per person, slowing progress in poverty reduction. Inequality is also high, varying significantly across countries. The median Gini coefficient, estimated at 38.5, and ranges from 27.6 in Algeria to 63 in South Africa. Africa also faces a high income concentration, with the top 10 percent of the population accounting for 40–65 percent of total income, and the bottom 50 percent only 10–15 percent.¹¹

Africa's weak labor markets and large informal sector contribute to income inequality. While the aggregate unemployment rate was reported at around 6.7 percent in 2024, about 85 percent of employment is informal, with limited job security and access to social safeguards. In addition, about 29.3 percent of the people employed were categorized as working poor in 2024, earning less than \$2.15 per day.¹² Exogenous shocks, especially those that trigger oil and food price increases, tend to exacerbate inequalities by pushing more people into poverty. For example, 2022's surge in international energy and food prices pushed 15 million people in Africa and the COVID-19 pandemic 43 million people, triggering a cost-of-living crisis, as real household incomes fell drastically.^{13,14}

Low-skilled workers and those in vulnerable employment and informal jobs are especially prone to shocks, which tend to erode real incomes and heighten the poverty-reducing effects of economic growth. The overall impact disproportionately affects poorer households that spend 50–60 percent of their incomes on food.¹⁵ The poorest 10 percent of households spend on average 36.5 percent of their budget on food and 5.2 percent on energy.¹⁶ Such households are particularly vulnerable to prices in energy, transport, and food markets, large variations across income groups highlight wide inequalities across the continent. Food price inflation could lead to a loss of about 2.1 percent in real income per capita and surging energy prices to a loss of 1.6 percent.

FIGURE 1.10 Africa's Real GDP per capita growth, 2021–27



Source: African Development Bank statistics, March 2026, and *World Economic Outlook*, April 2026.

In contrast, for the richest 10 percent, who spend about 31.8 percent and 3.9 percent of their budget on food and energy, respectively, the losses could be only 1.6 percent and 1.2 percent.

Demand-side and sectoral decompositions of growth

Increased household spending was the main driver of real GDP growth on the demand side, while strong agricultural and industrial activity dominated on the supply side

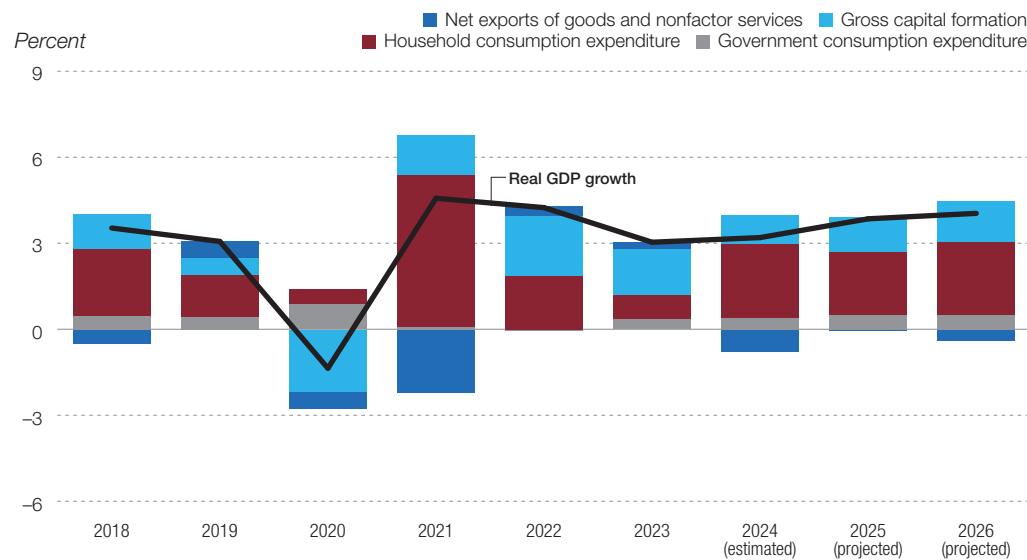
Africa's economic growth in 2025 was driven mainly by household spending on the demand side. The contribution of household spending to GDP growth increased to 4.0 percentage points in 2025 from 3.1 percentage points in 2024 (figure 1.11). This increase was largely underpinned by supportive macroeconomic policies, as inflationary pressures eased in many countries and domestic currencies appreciated against the U.S. dollar. These factors fostered a more favorable environment for consumer spending and contributed to an increase in growth in real national income. Looking ahead to 2026, the contribution of household spending is projected to decline to 2.9 percentage points, reflecting the anticipated impact of rising energy prices, depreciation pressures on national currencies, and tighter monetary conditions, all dampening consumer demand. In

2027, growth of household spending is projected to recover 3.3 percentage points as inflationary pressures abate. This pattern highlights the sensitivity of household spending to global shocks, including energy price shocks and changes in financial conditions, which affect aggregate consumer demand.

The impact of net exports on GDP growth improved to an estimated -0.2 percentage points in 2025 from -1.3 percentage points in 2024, due to better-than-expected performance in exports amid the United States tariff shock. Export growth increased to 1.7 percent in 2025 from 0.2 percent in 2024, while import growth was weak, expanding only by 1.9 percent in 2025 compared with 1.5 in 2024. Enhanced export growth reflected the diversified trade orientation and integration into global value chains, which helped cushion countries from the impact of higher tariffs. However, the net exports contribution to GDP growth is projected to decline marginally to -0.3 percentage point in 2026 and further to -0.5 percentage point in 2027, due to anticipated weakness in global trade activity. Although the extension of the African Growth and Opportunity Act (AGOA) to the end of 2026 provides an opportunity for increased market access for African countries to the United States, ongoing disruptions in global supply chains are expected to constrain trade, increase

Africa's economic growth in 2025 was driven mainly by household spending on the demand side

FIGURE 1.11 Demand-side decomposition of GDP growth, 2018–27



Source: African Development Bank statistics.

The agricultural and industrial sectors were the main drivers of real GDP growth expansion in 2025 on the supply side

business operating costs, and limit export growth in the coming years.

The contribution of investment to GDP growth more than halved to an estimated 0.6 percentage point in 2025 from 1.3 percentage points in 2024, reflecting the impact of elevated policy uncertainty and associated risk aversion by investors. Investment growth's contribution is expected to recover, with projections indicating increases to 1.1 percentage points in 2026 and 1.2 percentage points in 2027 as firms adjust to the trade policy uncertainty. But persistent policy uncertainty and inefficiencies in the public sector continue to limit both government and private sector capacity to fully leverage available investment opportunities (box 1.1 and annex 1.2). To enhance productivity and strengthen the contribution of investment to growth, policy measures aimed at improving public sector efficiency and encouraging greater private sector participation are essential.

The agricultural and industrial sectors were the main drivers of real GDP growth expansion in 2025 on the supply side, contributing 0.9 and 1.1 percentage points, respectively, compared with 0.5 and 0.6 percentage points in 2024 (figure 1.12). This increase was primarily attributed to the favorable weather conditions that supported agricultural output, as well as improved electricity supply that aided industrial activity. Looking ahead, the reduced growth rate in 2026 is expected to come from a slowdown in agricultural and services sector activity. The services sector's contribution to overall growth is projected to decrease slightly to 2.2 percentage points in 2026, from 2.3 percentage points in 2025, while that of agricultural activity is expected to decrease marginally to 0.8 percentage points in 2026. The anticipated marginal decline in 2026 is linked to increased geopolitical fragmentation and policy uncertainty, which may dampen private investments in services, and the increased prices of fertilizers that could affect agricultural output. The projected growth recovery in 2027 will mainly come from the services sector, with its contribution increasing to 2.4 percent in 2027 due to expected normalization of economic conditions.

The low contributions of agriculture and industry sectors constrain overall growth of the economy, limiting job creation and reflecting the show

pace of structural transformation across the continent. Although agriculture provides employment for about half of Africa's adult population, the sector is highly susceptible to shocks and is 60 percent less productive than the whole economy, leaving most African workers stuck in a low-productivity sector, unable to earn enough to escape poverty.¹⁷ This undermines the sector's potential to drive broader economic progress. Africa's limited development of value chains, weak linkages between sectors, and low productive capacity have perpetuated fragmentation of the continent's industrial sector, with formal and informal firms existing side-by-side, and negatively impacted its performance and productivity growth.¹⁸ These gaps are evident in Africa's low levels of export diversification and economic complexity. Based on the 2024 Productive Capacity Index, Africa scored 31.7 out of 100, below the global average of 47.3 and lags behind other regions such as Europe (60.2) and Asia (48.1).¹⁹ The underlying causes of Africa's low productive capacity scores include poor performance in key enabling sectors such as information and communication technology (ICT) where Africa scored only 7.3, transport (17.4), human capital (19.6), and energy (22.1). These sectors are critical to fostering industrial growth and structural transformation.

Growth performance and outlook across regions and countries

Despite the heightened tensions in global trade policies throughout 2025, African countries demonstrated remarkable resilience. Real GDP growth in 22 out of the 54 countries was at least 5 percent. In line with Africa's lower real GDP growth projection, the number of countries with growth rates of 5 percent or higher is expected to decline to 19 in 2026 but increase to 21 countries in 2027 as growth rebounds. Growth developments and the outlook for the medium term also display variations across regions (figure 1.13).

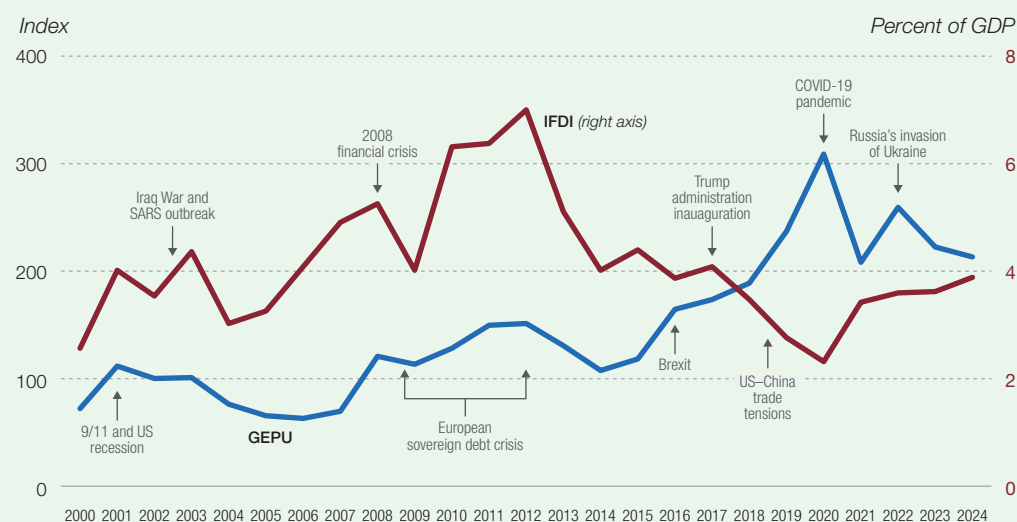
In **Central Africa**, where all the countries are either oil exporters or rich in minerals and metals, growth is projected to inch higher from an estimated 3.6 percent in 2025 to 3.8 percent in 2026 and accelerate to 4.1 percent in 2027. The expected higher growth will be reflected in three of the region's seven countries in 2026 and five

BOX 1.1 Impact of global economic policy uncertainty on foreign direct investment inflows in Africa

Foreign direct investment (FDI) has long been recognized as a vital catalyst for economic growth and development. Over the past two decades, many countries across the continent have implemented policies to attract increased FDI inflows, for several reasons. First, despite efforts to improve domestic resource mobilization, available resources remain insufficient to close the estimated financing gap of \$1.3 trillion a year required to drive inclusive growth and to achieve the Sustainable Development Goals (SDGs) by 2030. By augmenting domestic capital, FDI inflows can therefore help to unlock inclusive growth and drive sustainable development. Second, FDI inflows facilitate technology and knowledge transfers, improve managerial expertise, and enhance innovation and job creation, all of which help to strengthen competitiveness and boost productivity.¹

Analyses of long-term determinants of FDI inflows have largely focused on economic and structural reforms; spatial factors (market size, distance, and depth of industrialization); initial conditions (income levels, education level of the labor force); resource endowments and domestic policies (including investment spending and tax incentives), that inform investment decisions of foreign firms. However, increased geopolitical fragmentation and rising economic policy uncertainty—underscored by unforeseen changes in national laws, uncertain fiscal policy regimes, and inconsistent regulatory frameworks—can reduce FDI inflows and hinder technological diffusion and innovation, thwarting firms’ decisions about amounts, sectors, and timing (box figure 1.1.1).

BOX FIGURE 1.1.1 Net foreign direct investment inflows to Africa and Global Economic Policy Uncertainty Index, 2000–24



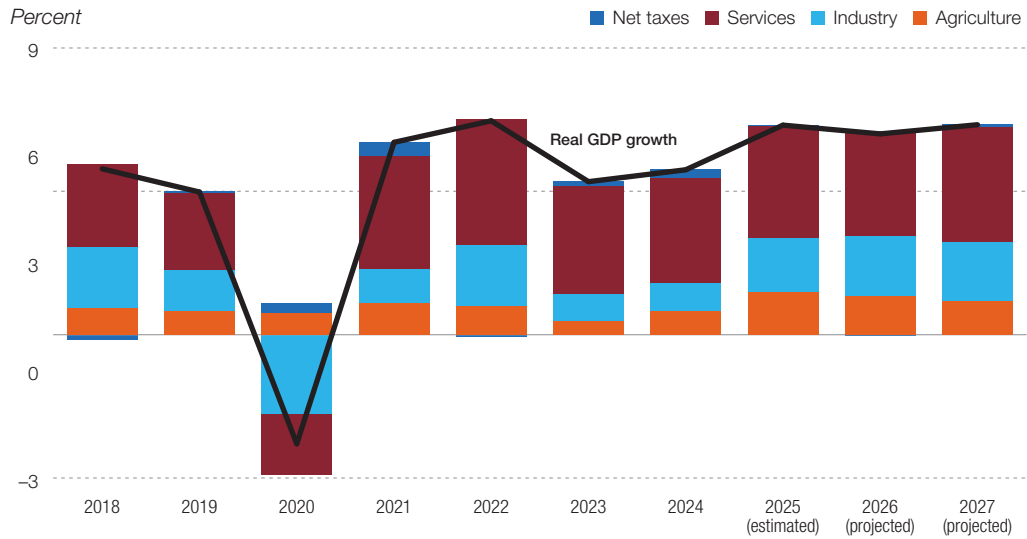
Note: GEPU denotes global economic policy index based on current-price GDP measures; IFDI denotes net inflows of FDI as a percentage of GDP.

Source: www.economicpolicyuncertainty.com; www.worlduncertaintyindex.com; UNCTAD.

in 2027. For the region’s five net oil-exporting countries, growth in the medium term will be bolstered by rising oil prices. The region’s growth will also benefit from increased infrastructure investments and high metal prices, which are expected to increase mining sector revenue. Despite the

favorable medium-term growth outlook, Central Africa will remain the second slowest growing region due to persistent structural bottlenecks and insecurity that will prevent it from benefiting optimally from its mineral wealth in an environment of high commodity prices. The Democratic Republic

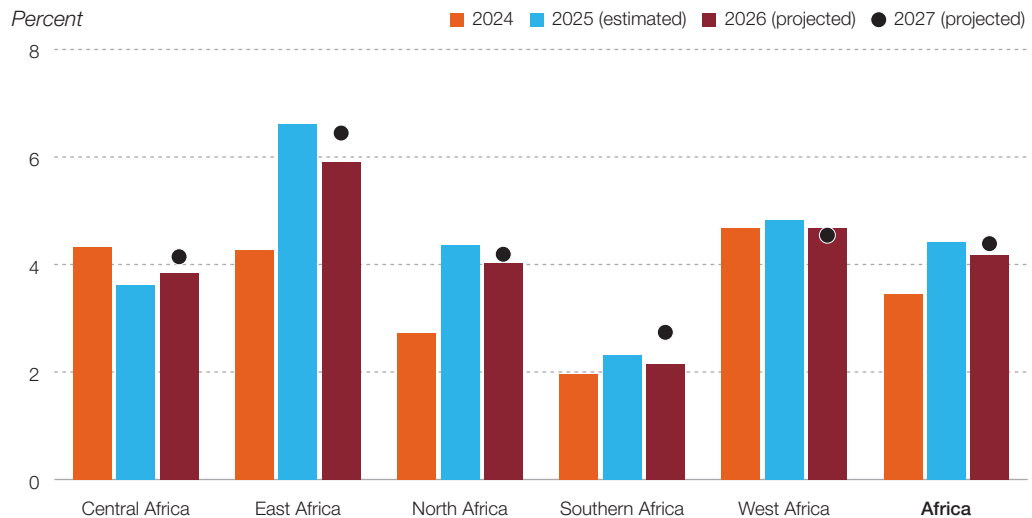
FIGURE 1.12 Sectoral decomposition of GDP growth, 2018–27



Source: African Development Bank statistics.

Real GDP growth in 22 out of the 54 African countries was at least 5 percent

FIGURE 1.13 Real GDP growth in Africa by region, 2024–27



Source: African Development Bank statistics.

of Congo is expected to retain its position as the region’s fastest-growing economy, at 5.0 percent in 2026 and 5.6 percent in 2027. Its growth will benefit from increased mining operations in existing and new mines and mega infrastructure projects, such as the Kinshasa urban hub expansion project, rehabilitation of the Congolese section of the Lobito Corridor, and the \$1 billion national digital plan. In Cameroon, growth is projected to increase from 3.7 percent in 2025 to 4.0 percent

in 2026 and further to 4.1 percent in 2027, supported by infrastructure investments, strong performance of the agriculture, services, and mining sectors, and improved electricity supply. The commencement of large-scale exports from the Minim Martap bauxite project and the expansion of LNG production are expected to improve fiscal revenue.

In **East Africa**, home to mostly net oil-importing countries, growth is projected to

decelerate from an estimated 6.6 percent in 2025 to 5.9 percent in 2026 due to the high energy and fertilizer prices. Over 75 percent of the region's refined petroleum products and at least 30 percent of fertilizer imports originate from the Gulf, making East Africa highly vulnerable to the current disruptions in supply chains and the price shock and reduced supply. Rising import bills from the surge in oil and fertilizer prices could increase food and transport costs, fueling inflation, hurting external performance, and ultimately slowing growth. The Gulf region is also home to many migrant workers from the East Africa region, and the ongoing disruptions in the Middle East would affect remittances and FDI flows. As the effects of the supply shock dissipate and policy responses gain traction, growth is projected to rebound to 6.4 percent in 2027. Six countries in the region—Djibouti, Ethiopia, Rwanda, South Sudan, Tanzania, and Uganda—are expected to post growth rates above 5.0 percent in both 2026 and 2027, driven by strong performance in agriculture, mining, services, and exports.

In 2025, estimated GDP growth in **North Africa** averaged 4.4 percent and is projected at 4.0 percent in 2026 and at 4.2 percent in 2027. The impact of the disruptions in supply chains along the Strait of Hormuz, a key trade route for the region, will affect growth in 2026. The disruptions, which have led to increased costs of agricultural and industrial inputs, could outweigh the benefits of increased oil prices in the region's net oil-exporting countries. Growth in Algeria, a net energy exporter, is expected to rise from an estimated 3.3 percent in 2025 to 4.1 percent in 2026 and to 4.2 percent in 2027, buoyed by higher energy prices, increased investment spending, diversification efforts, and investments to modernize oil and gas infrastructure. Similarly, Mauritania's growth is expected to increase from an estimated 4.0 percent in 2025 to 4.4 percent in 2026 and 4.7 percent in 2027, driven by expansion of LNG production from the Greater Tortue Ahmeyim project and investments in key iron ore plants. Growth in Libya is projected to decline from the estimated 12.4 percent in 2025 to 6.5 percent in 2026 and to 4.3 percent in 2027. The lower projected growth rate largely reflects base effects as oil production, at around 1.4 million barrels per day

in the first quarter of 2026, normalizes to near pre-2011 levels. In Morocco, growth is projected to decline from an estimated 4.7 percent in 2025 to 4.2 percent in 2026 but is projected at 4.3 percent in 2027, reflecting its significant energy importing intensity and associated dampening impact of higher prices. Slower projected growth will be reinforced by the effects of increased depreciation of the Dirham on the cost of imports and fiscal position. In Egypt, one of the countries highly exposed to the Gulf shock, growth is projected to decline from 4.4 percent in 2025 to 4 percent in 2026, but to recover to 4.3 percent in 2027. The projected decline in 2026 reflects austerity measures to mitigate the impacts of the current shock on public finances and inflation.

For **Southern Africa**, growth in 2025 was estimated at 2.3 percent, reflecting strong fourth-quarter performance of agricultural exports, household consumption, and mining revenue in many of the region's economies. Growth is projected to decline to 2.1 percent in 2026 as the spillover effects of economic shocks in the Gulf weigh on domestic activity in the region. In 2027, the region's growth is projected to recover strongly to 2.7 percent, benefiting from expected normalization of energy and fertilizer prices, high metal and mineral prices, and improved tourism activity. In Zambia, growth is projected at 5 percent in 2026 and 6.3 percent in 2027, compared with an estimated 5.2 percent in 2025, aided by a rebound in electricity generation, agricultural output and exports, and both output and price effects of copper exports. The government's targeted 3 million metric tons of copper production by 2031 remains on course, with output growth in 2025 estimated at about 8 percent. Electricity supply has also improved since the second half of 2025 due to increased investments in green energy sources and regional imports. These factors will help bolster growth in the medium term. In Zimbabwe, growth is projected to decline from an estimated 7.6 percent in 2025 to 4.3 percent in 2026, but to slightly recover to 4.5 percent in 2027. The projected growth slowdown in 2026 reflects the country's high exposure as a net energy importer, the moderating effect of increased freight and logistics costs on domestic economic activity, and softer external demand. In

Growth developments and the outlook for the medium term display variations across regions

Despite the increase in global oil prices, growth in oil-exporting countries is projected to stabilize at 4 percent in 2026 and remain largely unchanged at 3.9 percent in 2027

South Africa, growth was estimated at 1.1 percent in 2025 and is expected to increase to 1.2 percent in 2026 and 1.6 percent in 2027. The projected marginal improvement reflects the benefits of high prices of metals and minerals, public investments in infrastructure, structural reforms, and declining inflation. In Botswana, the economy is projected to recover from the contraction of 0.3 percent recorded in 2025 due to weak performance in the diamond sector and drought, with real GDP projected to grow by 1.2 percent in 2026 and more than double to 3.5 percent in 2027. This projected expansion will be underpinned by improvements in non-mining sector and beneficiation, increased electricity generation, and investments in agro-processing, digital technology, renewable energy sources, and tourism.

Growth in **West Africa** is projected to stabilize at 4.7 percent in 2026 and at 4.5 percent in 2027, compared with an estimated 4.8 percent in 2025. Projected growth in the region will be broad-based, with 10 of the region's 15 countries expected to grow by 5 percent or higher in 2026, ranking among the fastest-growing economies in Africa. In Guinea, growth is projected to accelerate from 6.9 percent in 2025 to 9.3 percent in 2026 and 9.8 percent in 2027, driven by increased bauxite production and exports, and public investments in mining infrastructure and electricity generation. Growth in Niger is projected at 6.6 percent in 2026 and at 6.4 percent in 2027, underpinned by increased oil production from new processing facilities, expanded pipeline infrastructure, and greenfield developments in uranium production. In Benin, growth is projected at 6.6 percent in 2026 and 7.1 percent in 2027, supported by rising agricultural output from improved farmers' access to inputs and extension services, investments in agro-processing and export value chains, and increased tourism receipts. Growth in Togo is projected at 5.9 percent in 2026 and 6.2 percent in 2027, driven by investments in logistics infrastructure and electricity generation. In Côte d'Ivoire, growth is projected at 6.2 percent in 2026 and at 6.5 percent in 2027 compared with 6.5 percent in 2025. The high growth is supported by public investments in energy and transport infrastructure, expansion in mining and hydro-carbon activities, household consumption, and

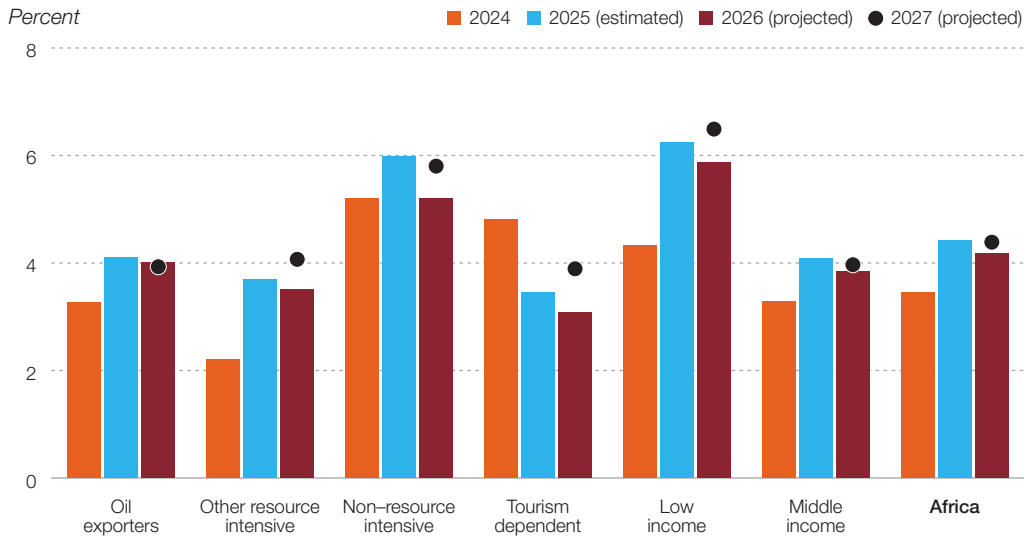
private investment spending. In Ghana, growth is projected at 5.0 percent in 2026 and 5.4 percent in 2027 compared with an estimated 5.8 percent in 2025. Medium-term projected growth will be driven by investments in oil and gas, transport, and household consumption spending. Growth in Nigeria, the region's largest economy, is projected to increase marginally from an estimated 4.0 percent in 2025 to 4.1 percent in 2026, supported by increasing oil prices and production, growth in the services sector, and increased public investment on electricity, transport, and logistics. In 2027, growth is projected to decelerate to 3.7 percent on account of the anticipated easing of global oil prices and thus reduced external revenue in flows.

Growth in **non-resource-intensive** countries is projected to decline from an estimated 6.0 percent in 2025 to 5.2 percent in 2026 but recover to 5.8 percent in 2027 (figure 1.14). The projected growth slowdown is due to the exposure of these economies to the spike in energy and fertilizer prices. Most non-resource-intensive economies are net oil importers and depend on agriculture for growth, employment, and livelihoods. So, higher oil prices will directly weigh on economic activity, while agricultural output could suffer from high fertilizer prices. Despite the projected growth slowdown, countries of this group have diversified economies, and the supply chain shock found several economies such as Ethiopia, Côte d'Ivoire, and Uganda in strong positions. This should help cushion the impact of the shock on their growth.

Despite the increase in global oil prices, growth in **oil-exporting countries** is projected to stabilize at 4 percent in 2026 and remain largely unchanged at 3.9 percent in 2027, compared with 4.1 percent estimated in 2025. This muted growth outlook reflects the prevalent structural bottlenecks—aging oil fields, underinvestments in infrastructure, and operational challenges, which will prevent most of these economies from reaping the full benefits of higher oil prices. Only Algeria, Egypt, Nigeria, and South Sudan are expected to record growth rates of 4 percent and above in 2026.

Average growth in **other resource-intensive countries** was estimated at 3.7 percent in 2025 and is projected at 3.9 percent in 2026 and 4.1 percent in 2027. More than half the countries

FIGURE 1.14 GDP growth in Africa by country grouping, 2024–27



Source: African Development Bank statistics.

in the group are projected to grow by 5 percent or more in 2026. Growth is underpinned by the high prices of minerals and metals and strong global demand for these commodities, fueled by expansion in electric-vehicle manufacturing, construction, and investments in energy transition infrastructure. To leverage the strong demand, the Democratic Republic of Congo, Guinea, and Zambia—producers of bauxite, iron ore, copper, and cobalt—are commissioning new mines and attracting fresh investments to scale up production capacity. For its part, Zimbabwe is expanding operations in lithium, a key mineral in the drive toward global energy transition. In Mali, the resumption of gold mining operations at the Loulo-Gounkoto complex and plans to resume operations at the Morila gold mine are expected to bolster the country’s economic growth.

In **tourism-dependent countries**, growth is projected to decelerate from an estimated 3.5 percent in 2025 to 3.1 percent in 2026, before recovering strongly to 3.9 percent in 2027. In 2025, Africa received an estimated 81.3 million visitors (7.8 percent increase from 2024) and emerged as the fastest-growing tourism region globally. This momentum was supported by improved air connectivity to different markets, targeted efforts to position local destinations as hubs for eco-tourism, and investments to modernize tourism

infrastructure. While this momentum can be sustained as tourists increasingly reroute travel away from the Middle East to other destinations including Africa, increased energy prices and diversions of flights outside key airline hubs in the Gulf region will likely subdue the tourism rebound in Africa. The decline in international tourist arrivals is unlikely to be compensated by domestic tourism receipts, as higher energy costs will raise local transport costs and erode real household incomes, thus constraining domestic travel demand.

RISKS TO THE OUTLOOK

The ongoing supply chain disruptions have introduced significant risks to Africa’s medium-term macroeconomic outlook. The conflict poses significant downside risks to Africa’s growth outlook, while tilting inflation risks firmly to the upside.

Downside risks

The current supply chain and energy disruptions have underscored the entrenchment of global shocks and uncertainty. The commodity price spike, neither new nor likely to be the last, has renewed the risks arising from global economic interconnectedness and the perils of cascading

In tourism-dependent countries, growth is projected to decelerate from an estimated 3.5 percent in 2025 to 3.1 percent in 2026, before recovering strongly to 3.9 percent in 2027

Higher inflation could draw African central banks into further tightening monetary policy. This could weaken growth by reducing bank lending to the private sector for investment

spillovers from shocks from far off regions to the rest of the world. The continued disruptions in the Strait of Hormuz and associated increase in global prices of fuels and fertilizers are expected to weigh on global economic activity and could affect Africa's growth outlook. Following multiple shocks in 2022, the Food Price Index rose by 15 percent, while fertilizer prices more than doubled at their peak, sharply exposing African economies dependent on imported agricultural commodities and inputs.²⁰ But the impact in Africa will be uneven—gains for net oil exporters through windfall revenue arising from higher oil prices but a majority of the continent's net oil importers could bear the brunt of higher prices. In addition, sustained higher oil prices will affect African economies indirectly through rising production costs and heightened risks of electricity outages in countries that rely on fuels to power their thermal plants. The net impact of the fuel and fertilizer price shock on Africa's medium-term growth is thus likely to be negative.

Elevated inflationary pressures pose significant risks to Africa's macroeconomic stability and growth prospects. A steep increase in energy and fertilizer prices has fueled strong inflationary pressures globally and in Africa. This pattern is consistent with the aftermath of geopolitical tensions and multiple shocks in 2022, when Africa's inflation rose from 12.8 percent in 2021 to 14.1 percent in 2022 and further to 17 percent in 2023, partly reflecting delayed pass-through effects of global food, energy, and fertilizer price shocks.²¹ Further price increases in these commodities would weigh on Africa's inflation outlook, especially in countries with already elevated inflation. Higher inflation could draw African central banks into further tightening monetary policy. This could weaken growth by reducing bank lending to the private sector for investment.

But higher fuel and fertilizer prices have implications beyond macroeconomic outcomes. For instance, in African countries where the planting season is between March and May, the fertilizer price shock may be more pronounced than the energy price shock. For such countries, higher fertilizer prices over an extended period could reduce agricultural output, triggering higher food prices. This could also raise the risk of food insecurity. The combination of rising inflation and weak growth

prospects raises the risk of stagflation, which could heighten the risks of social unrest. In 2022, more than 400 events of social unrest related to rising food and energy prices were recorded across Africa.²² Such incidents could be expected in a rising cost-of-living crisis, threatening peace and stability.

Financial market volatility and exchange rate depreciations amplify the risk of debt and fiscal vulnerabilities. Global macroeconomic imbalances triggered by the shock in the Gulf have heightened financial market volatility and are likely to exacerbate Africa's debt and fiscal vulnerabilities. Debt vulnerabilities could also increase due to the rise in sovereign bond yields in advanced economies. In addition, African currencies have depreciated, raising prospects of increased debt service and refinancing costs as well as fiscal vulnerabilities. If the shock persists, it could tighten global financial conditions, weaken fiscal balances, and put further pressure on foreign exchange reserves. As global energy prices and attendant inflation increase, central banks in advanced economies are likely to maintain higher interest rates for longer. This would raise borrowing costs for African countries and limit access to international capital markets. If the war is prolonged, global growth would slow down, dampening demand for commodities, particularly in Europe and Asian markets. This could compress export earnings, and higher import bills for energy and fertilizers could widen current account deficits. The resulting fiscal squeeze and external imbalances could constrain public investments and social spending and reinforce debt vulnerabilities.

Upside risks

A reform-led adjustment to high energy and fertilizer prices could help strengthen the growth outlook. Several countries are implementing a plethora of measures ranging from fiscal, monetary, and foreign exchange policy reforms to more administrative initiatives to protect their economies from the impact of the shock. For instance, Egypt has implemented a one-day remote work for public sector workers, and Ghana, Namibia, South Africa, Zambia, and Zimbabwe have temporarily reduced or suspended fuel taxes. Fiscal measures, if prolonged, could impair national budgets. For instance, the Zambian government has

projected that if the conflict is prolonged, it could maintain the suspension of fuel taxes throughout the year. It presents an opportunity for implementing policy reforms essential to lowering Africa's risk premiums, stabilizing currencies, and improving business environments. Improved policy frameworks can crowd in private capital, particularly in energy, infrastructure, and critical minerals. And increased investment in these sectors could trigger a virtuous circle of higher productivity and export diversification. This bodes well for Africa's future growth, employment, and wealth creation.

The shift in global production chains as countries seek to mitigate their exposure to the Middle East could enhance the growth outlook. The heightened instability in the Middle East that is affecting key supply routes is prompting firms to pivot to Africa as a more secure and strategic manufacturing alternative, particularly for energy, fertilizer, and industrial inputs. For example, driven by increased demand and reduced output in the Middle East, Morocco, holder of over 70 percent of global phosphate reserves, is accelerating plans to expand fertilizer production to 20 million tons by 2027. To support this expansion and reinforce self-sufficiency in domestic input supply chains, it is investing \$7 billion in a wind and solar-powered green ammonia plant—with planned output of 200,000 tonnes in 2026, increasing to 1 million tonnes by 2027 and 3 million tonnes by 2032. Similarly, Ethiopia has partnered with the Dangote Group to build a \$2.5 billion, 3 million metric tonne capacity urea fertilizer plant in the Gode region. Such investments amplify Africa's footprint in global value-added supply chains, providing a boost to economic growth and sustainable industrialization.

Enhanced regional integration and strategic partnerships could facilitate intra-Africa trade and accelerate growth. Africa can leverage experiences from the recent shocks to deepen regional integration and strengthen coordination of external engagements to cushion against current and future risks. By reducing nontariff barriers, improving customs efficiency, and investing in trade-related infrastructure, the AfCFTA could strengthen regional value chains and industrialization. Intra-Africa trade increased from 13.6 percent in 2022 to 14.9 percent in 2023. Projections show that by 2045 intra-Africa trade could increase to 35 percent, following

full AfCFTA implementation.²³ However, the overlapping regional economic communities and proliferation of bilateral and regional agreements reduce the potential of trade-led growth. Deepening intra-Africa trade and forging strategic partnerships will expand access and diversify export markets and help to reduce vulnerability to global shocks, attract investment, and strengthen Africa's participation in the global value chains. The extension of the US Africa Growth and Opportunity Act (AGOA) to December 2026 is expected to sustain Africa's exports to the US market in the medium to long term. All these factors have the potential to stimulate growth and stabilize economies.

Expanding Africa's energy mix to strengthen energy security is key to Africa's future growth. Harnessing Africa's renewable energy potential—abundant renewable energy (over 45 percent of global potential) potential, sunlight, vast green hydrogen resources, and oil and gas deposits—can help balance the energy mix, strengthen energy security, and create opportunities for exports in times of global shocks, stimulating the growth of its economies.

OTHER MACROECONOMIC DEVELOPMENTS, IMPLICATIONS, AND OUTLOOK

Exchange rate developments

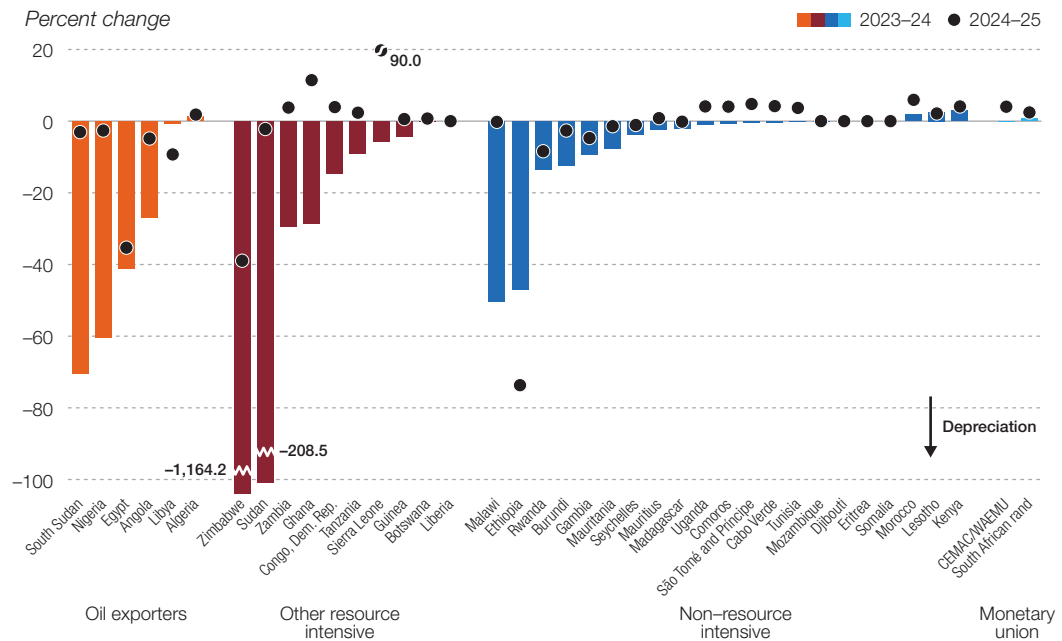
Most African currencies strengthened against the U.S. dollar in 2025, reflecting economic policy uncertainty in the U.S. and favorable domestic macroeconomic conditions

The currencies of 35 African countries appreciated against the US dollar in 2025 compared with 2024 (figure 1.15), driven by the depreciation of the dollar and improvements in macroeconomic policy management. Between January and December 2025, the dollar index fell by about 6.5 percent,²⁴ and as of March 2026, the Federal Reserve maintained its benchmark federal funds rate within the 3.50–3.75 percent range. The appreciation of many African currencies also reflects favorable country-specific macroeconomic fundamentals and improvements in the terms of trade.

In several countries, the pace of depreciation slowed in 2025 from 2024, notably in Zimbabwe

The heightened instability in the Middle East that is affecting key supply routes is prompting firms to pivot to Africa as a more secure and strategic manufacturing alternative, particularly for energy, fertilizer, and industrial inputs

FIGURE 1.15 Exchange rate changes, 2023–24 and 2024–25



Note: The values for Zimbabwe, Sudan, and Sierra Leone have been truncated for better visibility of other countries. Source: African Development Bank statistics.

(38.9 percent), Egypt (35.3 percent), Nigeria (2.6 percent), and Sudan (2.2 percent). Depreciations in their national currencies reflects one or a combination of depressed export earnings and foreign exchange reserves, weak external positions, structural weaknesses, supply-demand mismatches, and corrections attributed to shift to market-based exchange rate regime. Increased global uncertainty and the high crude oil prices could reverse currency gains across many African countries. By end of the first quarter of 2026, 29 currencies had depreciated against the dollar, fueled by rising investors' risk aversion triggered by effects of ongoing Middle East conflict. This is increasing the burden of external debt servicing and refinancing costs, especially in countries where a large share of public debt is denominated in foreign currencies.

Inflation dynamics and monetary policy stance

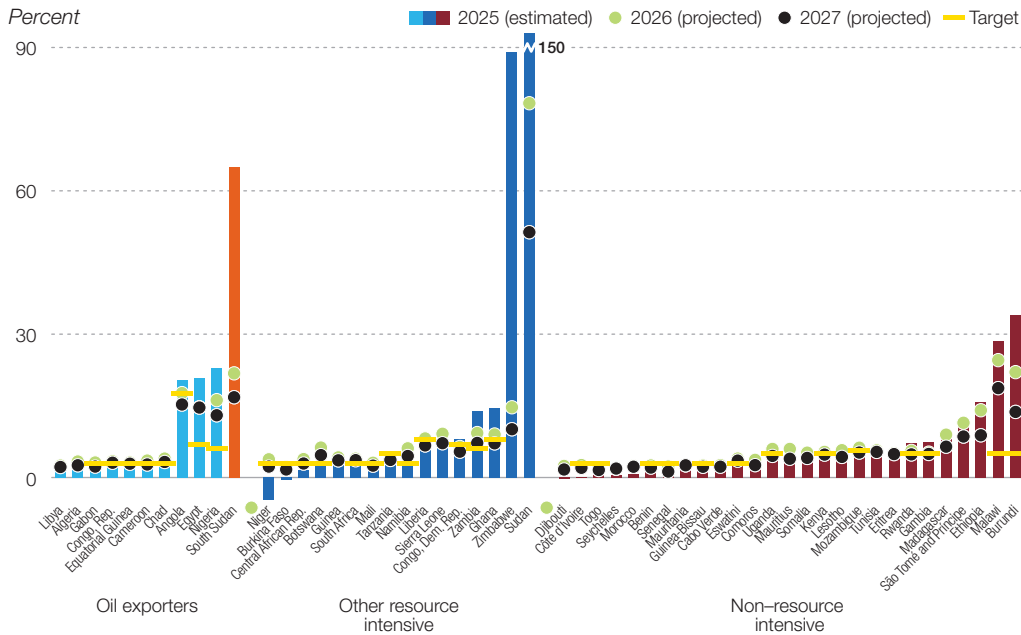
Inflation declined in 2025, but the recent spike in global energy and fertilizer prices reversed these gains, raising prospects for double-digit rates
Average inflation declined to 13.7 percent in 2025 from 21.8 in 2024, supported by strengthened

domestic currencies in many countries, lower energy prices, and easing food prices due to improved supply occasioned by better weather conditions. But the recent spike in global energy and fertilizer prices, combined with increased depreciation of multiple domestic currencies, are exerting inflationary pressures across the continent. Accordingly, the inflation outlook for 2026 has been revised to 10.4 percent, 0.9 percentage point higher than the January 2026 MEO projection before the energy and fertilizer price shock. As pressure on global prices of oil and fertilizer eases, average inflation is projected to decline to 8.9 percent in 2027. There are notable variations in projected inflation across countries and economic groupings (figure 1.16) and subregions (figure 1.17). Double-digit inflation is expected to persist in 10 countries in 2026,²⁵ but the number could fall to seven in 2027.

Inflation among oil exporters is expected to remain elevated at 12.9 percent in 2026 and 11.5 percent in 2027, down from 15.9 percent in 2025. The persistence of double-digit inflation rates in this group reflects the unfavorable inflation outlook in three of the largest economies: Angola

The inflation outlook for 2026 has been revised to 10.4 percent, 0.9 percentage point higher than the January 2026 MEO projection before the energy and fertilizer price shock

FIGURE 1.16 Consumer price inflation, 2025–27

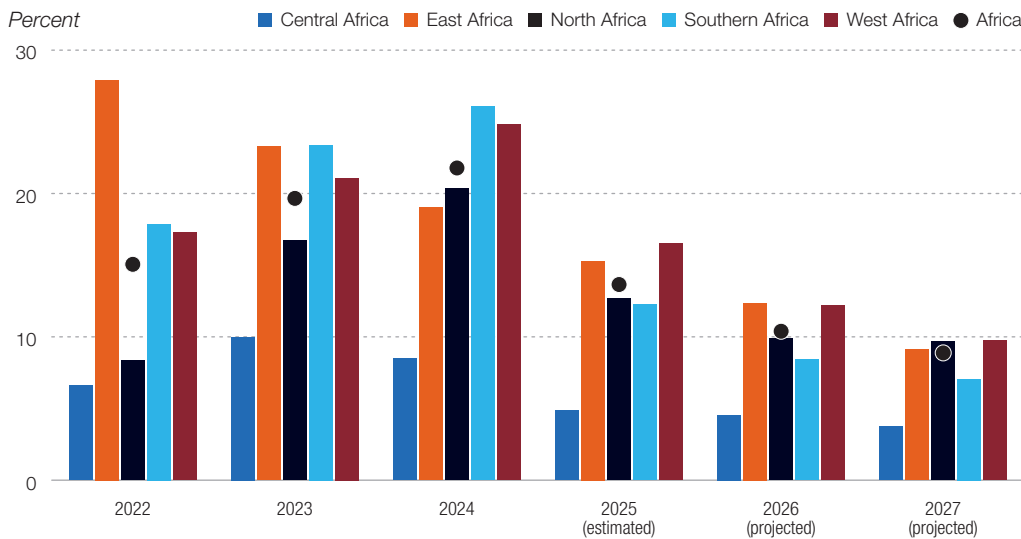


Note: The value for Sudan has been truncated for better visibility of other countries.

Source: African Development Bank statistics.

There are notable variations in projected inflation across countries and economic groupings and subregions

FIGURE 1.17 Inflation dynamics by African region, 2022–27



Source: African Development Bank statistics.

(17.7 percent in 2026 and 15.3 percent in 2027), Egypt (14.7 percent in 2026 and 14.6 percent in 2027), and Nigeria (16.2 percent in 2026 and 13.0 percent in 2027). The three economies represent almost 80 percent of the group's GDP, so

higher rates translate into an overall increase in the group's average inflation. The expected elevated inflation in these countries is mainly attributed to persistence in food prices and pressures of currency depreciations.

The cooling off inflationary pressures in 2025 provided impetus for interest rate cuts by African central banks

For other resource-intensive economies, inflation is expected to be in single digits, at 8.4 percent in 2026, down from 12.9 percent in 2025. This represents a 0.3 percentage point increase from the projected inflation in January 2026 and could further decline to 6.8 percent in 2027, unchanged from the earlier projection. Inflation is expected to be lowest in non-resource-intensive economies at 6.4 percent in 2026 and 4.8 percent in 2027 and tourist-dependent economies at 5.3 percent in 2026 and 3.6 percent in 2027.

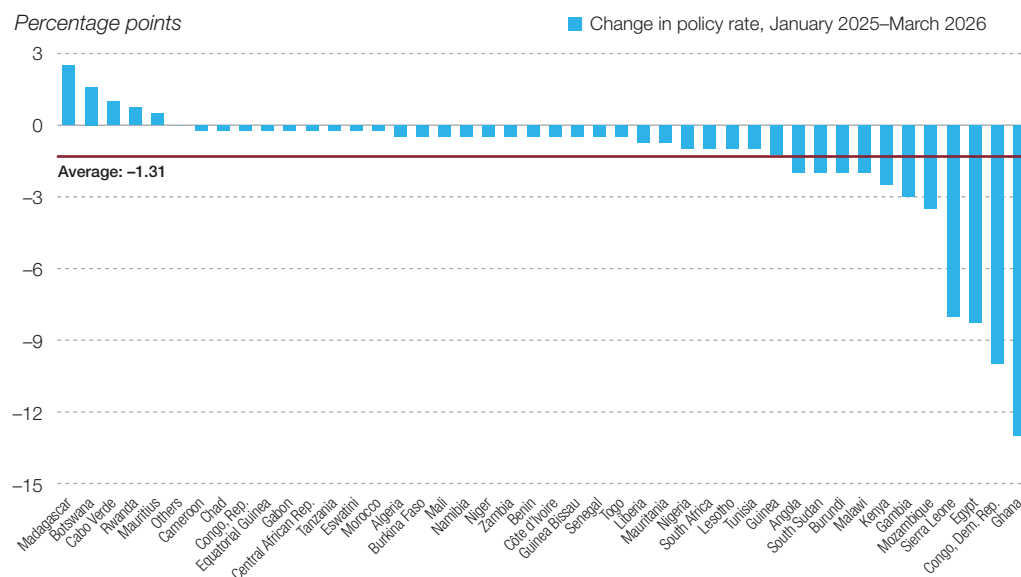
Across regions, projected inflation in 2026 in West Africa will remain in double digits, averaging 12.2 percent (0.5 percentage points higher than previously projected) and similarly for East Africa at 12.4 percent (1.2 percentage points higher than previously). The higher projection in East Africa reflects the region's exposure to oil and fertilizer price shocks. Inflation could reach single digits in 2027 at 9.8 percent and 9.1 percent in West Africa and East Africa, respectively.

In North Africa, inflation in 2026 and 2027 is expected to average 9.9 percent (1.4 percentage points higher than earlier projected) and 9.7 percent (2.0 percentage points higher than earlier projected), respectively. Although declining, inflation remains in double digits in Egypt due to a combination of the pass-through from currency

devaluation and a large fiscal deficit. Inflation in Central Africa is projected to decline from 4.8 percent in 2025 to 4.5 percent (0.1 percentage point lower than the January 2026 projections) in 2026 and 3.8 percent (0.5 percentage point lower than previously) in 2027. Improved agricultural production could help keep food prices in check, in Southern Africa, mitigating the effect of the oil price shock. Accordingly, inflation for the region is projected to decline to 8.4 percent in 2026 (0.4 percentage points higher than previously projected) and to 7.1 percent in 2027.

Monetary policy stances in 2025 were shaped by the dynamics of inflation across the continent. The cooling off inflationary pressures provided impetus for interest rate cuts by African central banks. In 2025 alone, policy rates were cut by an average of 0.98 percentage points. Including the first quarter of 2026, the average policy rate cut amounts to 1.33 percentage points. Encouraged by a rapid decline in inflation, four countries (Sierra Leone, Egypt, the Democratic Republic of Congo, and Ghana) reduced policy rates by eight percentage points or more (figure 1.18). In Egypt, the disinflation reflected previously tight monetary policy, foreign exchange stabilization, and improved agricultural output. Similarly, inflation fell in Nigeria, supported by tight monetary policy, exchange rate

FIGURE 1.18 Policy rate changes in African countries, January 2025–March 2026



Source: African Development Bank statistics.

stabilization, and good agricultural production (in addition to CPI rebasing).

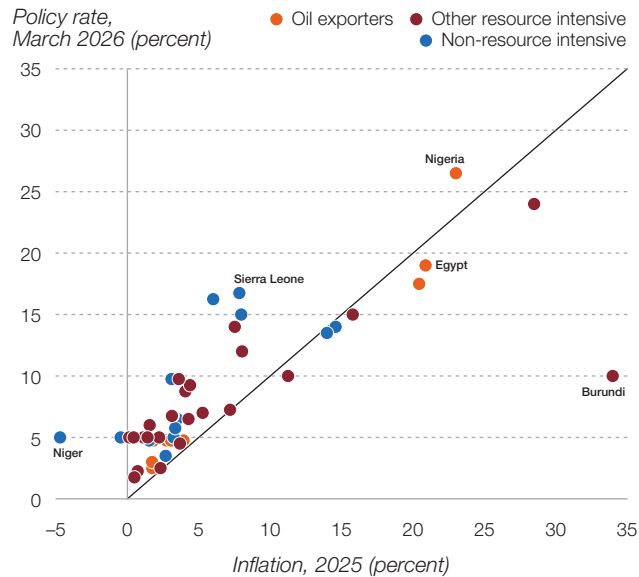
Inflation rates fell by more than the decline in policy rates. As a result, inflation-adjusted policy rates are well into positive territory, reaching an average of 2.8 percent in real terms (figure 1.19). Most African countries entered the current global supply chain shock with a restrictive monetary policy stance underpinned by elevated real policy rates. Renewed price pressures stemming from the current global supply chain and energy shock would thus require a more cautious monetary policy. While monetary policy cannot fix the source of inflation in a supply shock, it is important that it remains proactive and moderately restrictive to prevent second-round effects. Policy restraint could also help stabilize exchange rates and thus mitigate the impacts of imported inflation.

Fiscal policy developments and implications for growth

Fiscal positions remain under pressure despite consolidation efforts after the COVID-19 pandemic

In 2025, the average overall fiscal deficit increased to 4.9 percent from 4.8 percent of GDP in 2024 (figure 1.20), due to internal revenue administration

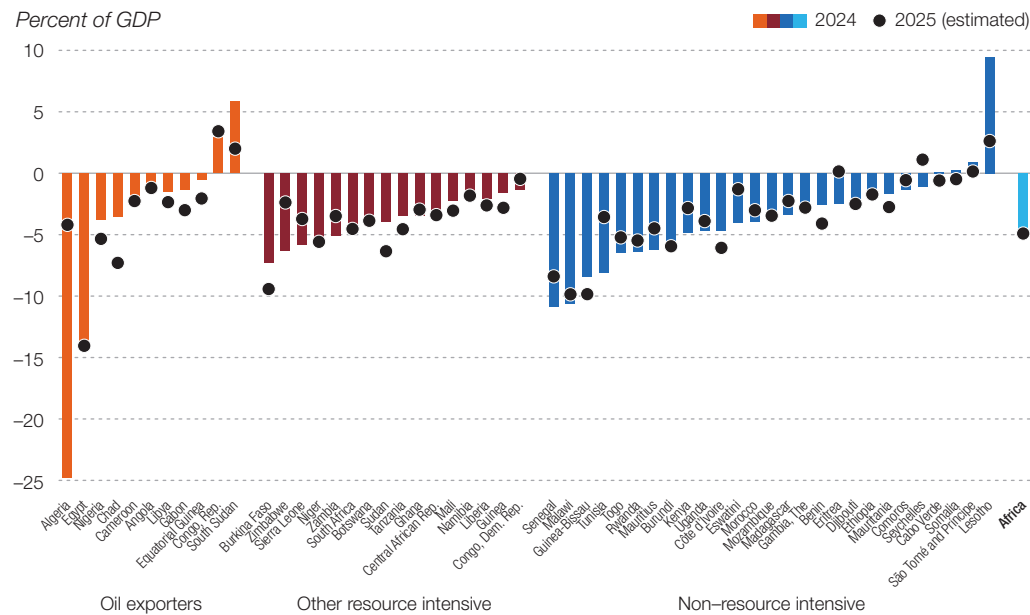
FIGURE 1.19 Monetary policy stance, by country groupings



Source: African Development Bank statistics.

weaknesses, high infrastructure and social spending, and an unfavorable international environment that weighed on both public revenue and spending. Domestic revenue collection in Africa remains low—it declined from around 23–30 percent of GDP in the 2000s to about 16.2 percent in 2024.

FIGURE 1.20 Overall fiscal balance by country, 2024–25



Source: African Development Bank statistics.

Fiscal deficits are estimated to have widened in 2025 in oil-exporting and tourism-dependent economies, stabilized in non-resource-intensive economies and narrowed in other resource-intensive economies

But spending pressures continue to rise as most countries face significant infrastructure and social service deficits, hence exerting fiscal pressures. Revenues of commodity-exporting countries, particularly oil exporters, were constrained by lower global oil prices, which fell by 14 percent in 2025. This was reinforced by the weak US dollar that reduced export earnings in domestic currencies. On the spending side, despite the overall easing of global financial conditions, borrowing costs remained generally high, resulting in an increase in the cost of debt servicing. Fiscal space constraints were exacerbated by the declining external aid flows and the need for governments to fill the resultant gaps in social spending. Estimates by the OECD show a decline of almost 17 percent in ODA flows in 2025. This has had adverse implications for Africa's low-income economies and fragile states, where external aid accounted for significant shares of their budgets.

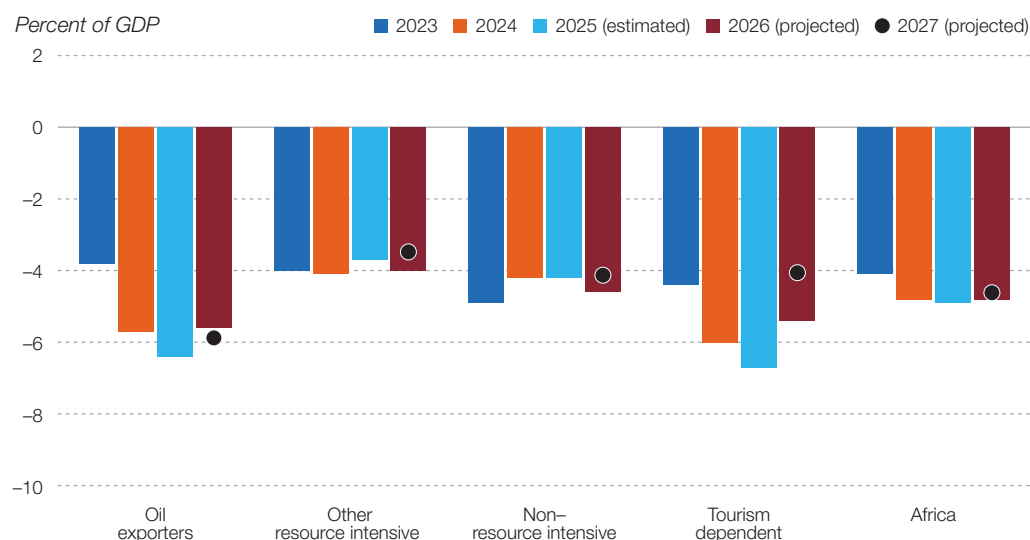
The average fiscal deficit is projected to improve slightly to 4.8 percent of GDP in 2026 and to 4.6 percent in 2027, mainly reflecting expected revenue gains among net oil exporters. However, trade tensions and energy price spikes could induce differentiated effects across the continent. For instance, net oil-importing countries could face a sharp rise in import bills, resulting

in weakening fiscal positions. This could limit the capacity of these countries to provide support to low-income households from higher energy costs.

Developments in fiscal positions varied across economic groups (figure 1.21), reflecting the evolution of key revenue sources and public investment spending. Fiscal deficits are estimated to have widened in 2025 in oil-exporting and tourism-dependent economies, stabilized in non-resource-intensive economies and narrowed in other resource-intensive economies. In oil-exporting countries, the average fiscal deficit widened to 6.4 percent of GDP in 2025, from 5.7 percent in 2024. Except for Republic of Congo and South Sudan, all countries recorded larger deficits. Fiscal deficits in two of the group's four largest economies, Algeria (14 percent of GDP) and Egypt (7.3 percent), widened due to high interest payments, declining hydrocarbon revenue and social sector spending. The fiscal deficit in tourism-dependent economies rose to 6.7 percent of GDP in 2025, from 5.7 percent in 2024. For this group, the fiscal deficit was the widest in Mauritius at 9.8 percent of GDP, up from 8.5 percent. This was due to lower revenue amid higher infrastructure and social security spending.

The average fiscal deficit in other resource-intensive economies narrowed to 3.7 percent of

FIGURE 1.21 Fiscal balance as a share of GDP by country grouping, 2023–27



Source: African Development Bank statistics.

GDP in 2025, from 4.1 percent in 2024 supported by high metal and mineral receipts coupled with fiscal consolidation efforts and strong nonmineral revenue. In non-resource-intensive economies, the deficit remained unchanged at 4.2 percent of GDP. In total, 17 of the 27 countries in the group managed to reduce their deficits, in some cases by more than 2 percentage points of GDP—notably Cabo Verde, Djibouti, The Gambia, Guinea-Bissau, Senegal, and Togo. This was supported by enhanced revenue mobilization and tighter spending management.

In oil-exporting countries, the fiscal deficit is projected to improve to 5.6 percent of GDP in 2026 and 5.9 percent in 2027, benefiting from increased oil prices. The fiscal deficit in other resource-intensive economies is expected to deteriorate to 4 percent of GDP in 2026 and 3.5 percent in 2027, reflecting increased government import costs and higher debt servicing costs on account of tight global financial conditions. Similarly, non-resource-intensive economies are expected to record a deterioration in the fiscal deficit in 2026 to 4.6 percent of GDP, followed by an improvement to 4.1 percent in 2027, reflecting the combined effects of rising energy import costs and higher public spending and debt servicing costs. In tourism-dependent economies, fiscal deficits are projected

to narrow to about 5.4 percent of GDP in 2026 and 4.1 percent in 2027, supported by the rebound in tourism receipts. However, these prospects remain vulnerable to geopolitical risks.

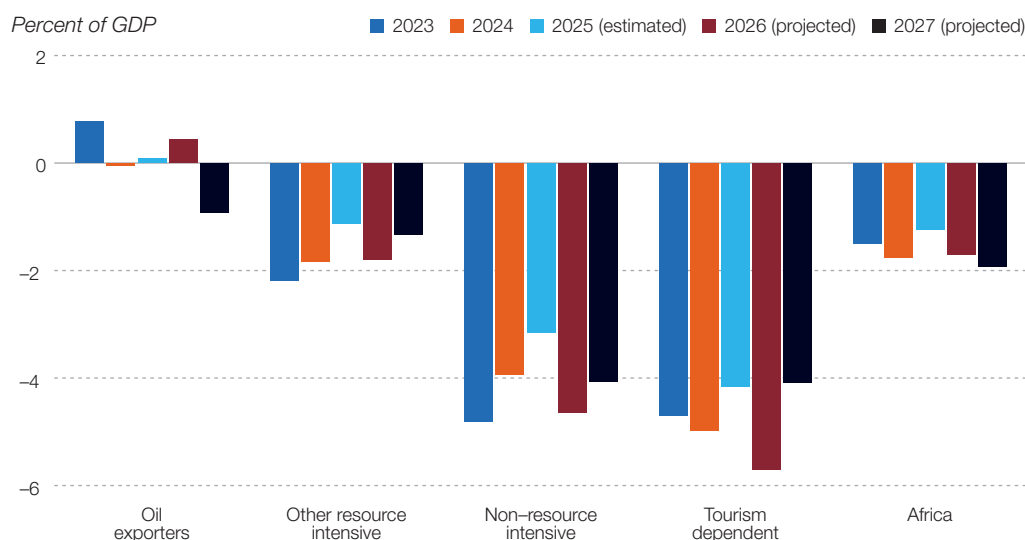
External position and current account balance: Developments, outlook, and implications

External balances are expected to stabilize in the short term but remain structurally fragile

Africa's external position has shown signs of short-term stabilization, but it remains structurally fragile. While recent improvements in external balances are evident, underlying vulnerabilities persist due to continued exposure to global shocks and trade imbalances. Africa's current account deficit narrowed to 1.2 percent of GDP in 2025, from 1.7 percent in 2024 (figure 1.22), reflecting easing in import bills, supported by a weaker US dollar. But the current account deficit is projected to widen to 1.7 percent of GDP in 2026 and further to 1.9 percent in 2027, as higher energy and fertilizer prices raise import costs and offset gains in export receipts. While elevated commodity prices, particularly of oil, support export earnings in some economies, they also increase import bills across much of the continent, leading to a net deterioration in the average current account balance.

While recent improvements in external balances are evident, underlying vulnerabilities persist due to continued exposure to global shocks and trade imbalances

FIGURE 1.22 Current account balance by country grouping, 2023–27



Source: African Development Bank statistics.

Tourism-dependent economies continue to face the largest external imbalances

Diverging trends across country groups reflect commodity dependence

External positions vary across country groupings, reflecting differences in export structures, import dependence, and exposure to global commodity price cycles. The current global supply chain shock has pushed up oil prices. This will improve the commodity terms of trade and strengthen foreign exchange earnings, supporting both external balances and growth. Net oil-exporting countries are therefore projected to post modest current account surplus of 0.4 percent of GDP in 2026. For oil-importing economies, however, higher oil prices will increase import costs. This may partially offset gains from higher export revenue for oil exporters. As a result, the aggregate current account balance is expected to widen even as some of the largest economies record improved external positions.

The pattern is similar among other resource-intensive economies, where strong mineral prices—particularly gold—support export revenue in countries such as Ghana, South Africa, Mali, and Burkina Faso. The average current account deficit in this group of countries is expected to narrow from about 1.8 percent of GDP in 2024 to around 1.3 percent by 2027. Nonetheless, external balances remain weak, underscoring continued structural vulnerabilities and exposure to commodity price cycles.

In contrast, tourism-dependent economies continue to face the largest external imbalances. For this group, current account deficits remain elevated at around 4.1–5.7 percent of GDP over 2026–2027. These economies are among the most externally vulnerable, with outcomes heavily influenced by developments in Mauritius, which accounts for about 70 percent of the group's GDP. Similarly, non-resource-intensive economies exhibit large and widening deficits, increasing from about 3.9 percent of GDP in 2025 to 4.6 percent by 2026. These imbalances reflect structural trade deficits, high import dependence, and limited export diversification.

These patterns highlight a persistent structural feature of Africa's external position: while commodity exporters benefit from favorable price movements, these gains are often offset by rising import costs and external pressures in

the rest of the continent. This results in a divergence between growth and external balances—where stronger performance in large-source-rich economies supports aggregate GDP growth. The continent's current account position weakens due to broad-based import pressures and structural constraints.

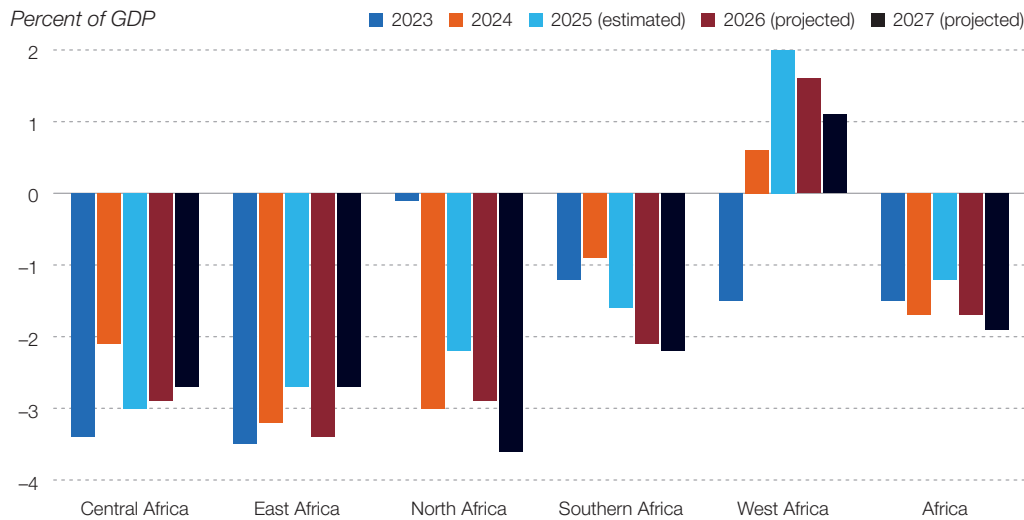
Regional dynamics highlight pockets of resilience but persistent imbalances

Regional patterns highlight the uneven nature of Africa's external positions (figure 1.23). West Africa was the only region with a current account surplus of 2 percent of GDP in 2025, underpinned by strong external positions among key commodity exporters, notably Ghana and Nigeria. The current account is expected to remain in surplus territory, albeit lower at 1.6 percent in 2026 and 1.1 percent in 2027. The current account deficit in Central Africa is expected to narrow from 3 percent of GDP in 2025 to 2.7 percent by 2027, reflecting increased earnings from commodity exports. In East Africa, the deficit is projected to increase from 2.7 percent in 2025 to 3.6 percent in 2026 but decline to 2.7 percent by 2027, supported by exports growth and moderating import demand. North Africa is expected to record a widening of the current account from 2.2 percent in 2025 to 2.9 percent in 2026 and to 3.6 percent of GDP by 2027, driven by continued import dependence and weaker export dynamics. In Southern Africa, the current account deficit is projected to increase from 1.6 percent of GDP in 2025 to 2.1 percent in 2026–27 due to slow growth of exports.

Decomposition points to trade deficits as the main driver of external imbalances

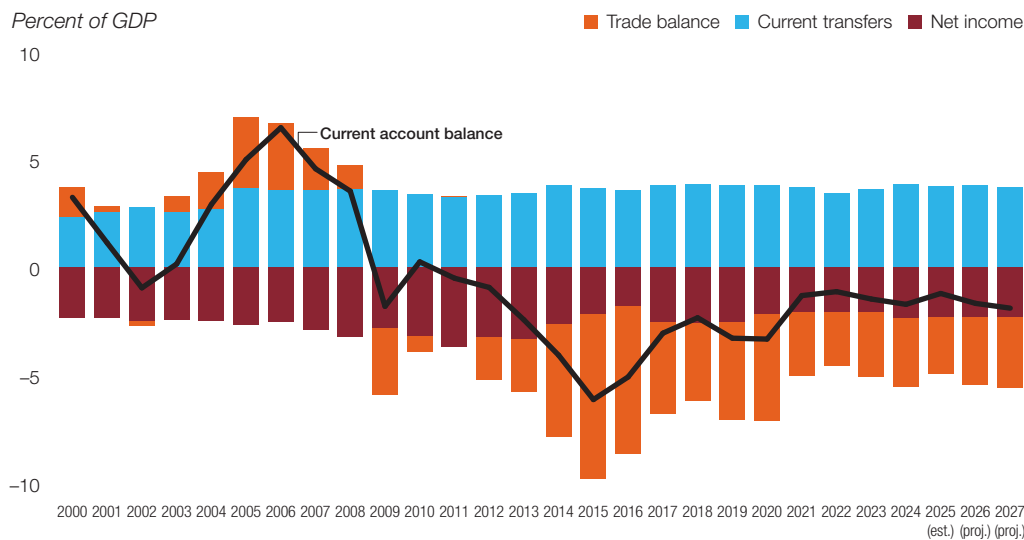
The projected widening of the current account deficit from 2.7 percent of GDP in 2025 to 3.2 percent over 2026–27 is driven by a deterioration in the trade balance (figure 1.24). By contrast, the net income deficit is expected to remain stable at 2.3 percent of GDP, because of outflows related to profit repatriation and external debt servicing. While current transfers, including remittances, provide a stabilizing buffer, their contribution is insufficient to offset the widening trade deficit. The expected 0.5 percentage point increase in the trade deficit in 2026 will thus offset the

FIGURE 1.23 Current account balance by region, 2023–27



Source: African Development Bank statistics.

FIGURE 1.24 Dynamics and decomposition of the current account in Africa, 2000–27



Source: African Development Bank statistics.

0.1 percentage point improvement in current transfers.

Geopolitical fragmentation adds new risks to Africa’s external outlook

Beyond the cyclical commodity price movements, Africa’s external position is increasingly shaped by geopolitical fragmentation and trade tensions, which increase volatility and downside risks. Disruptions in global trade routes, particularly in the

Middle East, affect African economies through four main channels (box 1.2). First, energy price shocks are expected to improve the external balances of oil-exporting economies but worsen the external balances of oil-importing economies. Rising prices of fertilizers and food could exacerbate the external position. Second, disruptions to trade flows, logistics, and supply chains raise import costs and reduce export competitiveness. The increasing costs of logistics, financing,

West Africa was the only region with a current account surplus of 2 percent of GDP in 2025, underpinned by strong external positions among key commodity exporters

shipping, insurance premiums, and delays will increase import bills and weaken current account balances. Third, reductions in capital and investment flows limit access to financing and result in foreign exchange shortages. Fourth, geopolitical fragmentation and security risks create an unstable environment that deters foreign investment and increase the costs of doing business.

Simulation results suggest that while a moderate increase in oil prices may temporarily improve Africa's trade balance, prolonged geopolitical shocks could deteriorate the current account by up to 0.8 percentage points of GDP, particularly for net oil-importing economies (box 1.2). The anticipated widening of current account deficits is likely to heighten exchange rate pressures,

BOX 1.2 Impact of geopolitical fragmentation and trade tensions on Africa's external balances

The resurgence of geopolitical tensions creates uncertainty for the global economy. Disruptions to strategic trade routes generate both direct and indirect effects on African economies, notably through energy, trade, and logistics transmission channels. Blockade of the Strait of Hormuz—through which nearly 20 percent of global oil trade transits—has led to a rise in risk premiums in oil markets and a surge in crude oil prices. While several international institutions, including the African Development Bank, had projected oil prices to range between \$60 and \$70 per barrel over 2026–27, recent tensions have triggered price volatility. Since the start of the war on 28 February 2026, disruptions to maritime traffic through the Strait of Hormuz has pushed Brent crude oil prices to above \$100 per barrel on several occasions with the average for March 2026 pegged at around \$103 against \$75 in 2025.

Beyond rising energy costs, current global supply chain shock is disrupting Africa's trade with the Middle East, which accounts for approximately 12.5 percent of Africa's total trade, representing nearly \$168.9 billion in 2024 (of which imports of manufactured goods and refined petroleum products were worth \$98 billion). Imports from the Middle East account for 48.1 percent of total imports for the Comoros, 36.7 percent for South Sudan, 32.9 percent for Djibouti, 32.5 percent for Sudan, and 31.3 percent for Seychelles. Prolonged disruptions in the Middle East would cause large gaps in the supplies of oil, fertilizers, and essential goods, which could lead to higher costs of living.

Logistical constraints constitute an additional transmission channel. The rerouting of maritime trade, leading to longer shipping times, higher insurance premiums, and port congestion, increase international trade costs. These raise the cost of imports, increase imported inflation, and reduce the competitiveness of African exports. They also contribute to the deterioration of current account balances.

To assess the effects of the exogenous shocks arising from the geopolitical and trade tensions on African countries' external balances, this analysis uses a structural panel Vector Autoregression (VAR) model (Dąbrowski et al., 2022; Valenti et al., 2023). A sample of 50 African countries with data for the period 1995–2024 is used. Simulations are calibrated to an exogenous shock equivalent to a 1 percentage increase in international oil prices, and results are presented through impulse response functions (box figure 1.2.1).

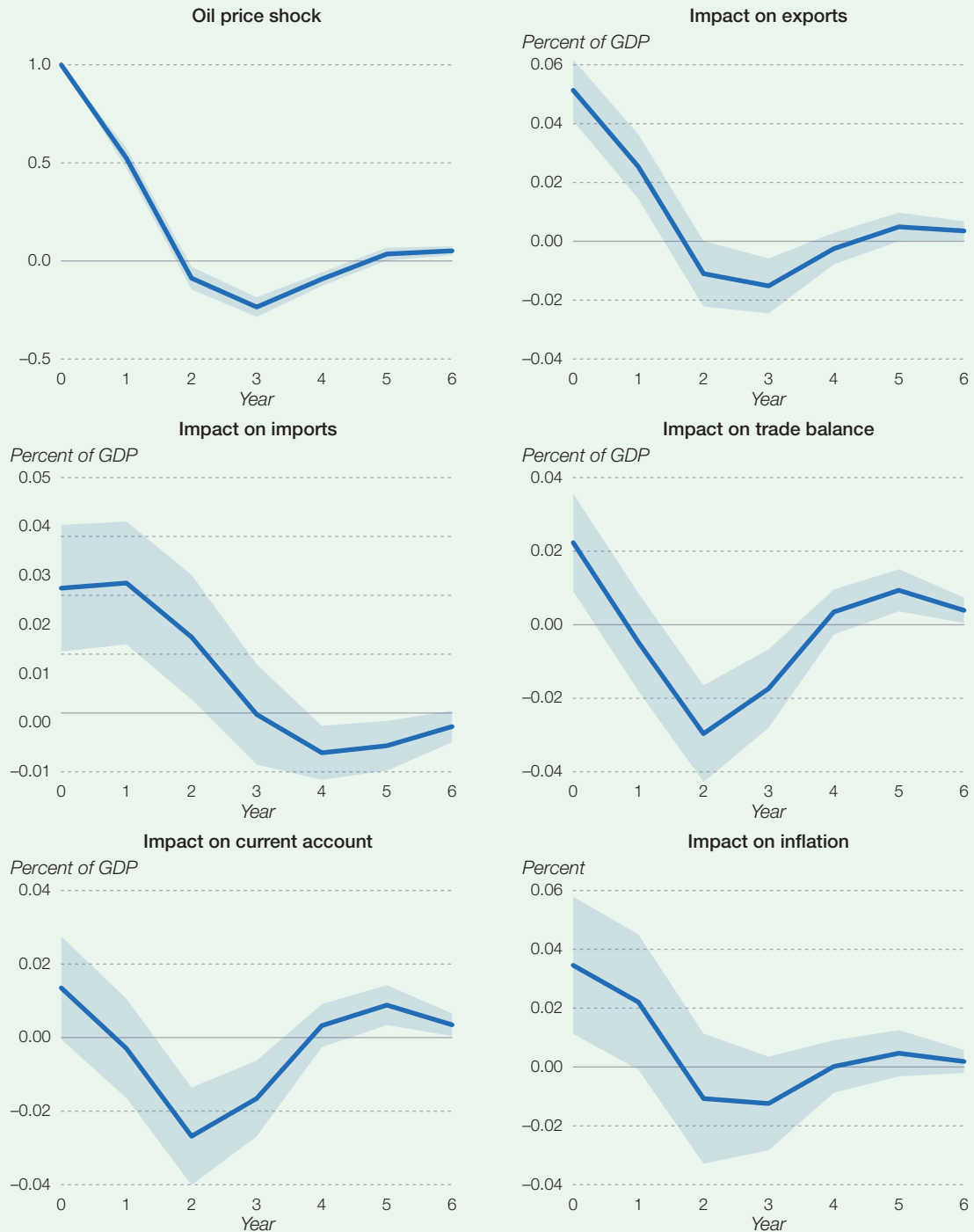
Estimates indicate that a 10 percent increase in oil prices would, in the short term, lead to an average rise in African exports of about 0.5 percentage point of GDP and in imports of about 0.3 percentage point of GDP. The net effect would be an improvement in the trade balance of 0.2 percentage point of GDP. The impact on the current account remains positive but more limited—about 0.15 percentage point of GDP—and statistically weaker. However, the persistence of high import bills combined with a possible subsequent decline in oil prices could reverse these effects and lead to a gradual deterioration of the current account. This negative effect could materialize as early as the second year following the shock. The oil price shock would also generate an immediate increase in the general price level of approximately 0.35 percent.

A scenario involving a prolonged global supply chain shock leading to oil prices above \$100 per barrel (an increase of about 54 percent relative to the African Development Bank's baseline projections) would result in a

(continued)

BOX 1.2 Impact of geopolitical fragmentation and trade tensions on Africa's external balances *(continued)*

BOX FIGURE 1.2.1 Impact of an oil price shock on external balance and inflation in Africa



Note: These results are obtained from a panel structural VAR estimation for a sample of 50 African countries over the period 1995–2024. Oil prices are expressed in logarithmic form. Exports, imports, the trade balance, and the current account are measured as percentages of GDP, while the inflation rate is expressed in percent. To ensure the stationarity of the series, the Hodrick-Prescott filter was applied to all variables to extract their cyclical components. Individual fixed effects are included, and the Cholesky identification method was used to identify (independent) structural shocks. The confidence intervals of the impulse response functions were obtained using 1,000 bootstrap replications, with a 95 percent confidence level.

Source: African Development Bank staff calculations.

(continued)

BOX 1.2 Impact of geopolitical fragmentation and trade tensions on Africa's external balances *(continued)*

deterioration of the trade balance by about 1.1 percentage points of GDP and of the current account by approximately 0.8 percentage point of GDP.

Further analysis reveals heterogeneity depending on countries' economic structures. Among net oil-exporting countries, a 10 percent increase in international oil prices improves the trade and current account balances, respectively, by about 1.7 and 1.5 percentage points of GDP. Conversely, among the net oil-importing countries, a similar shock would worsen the trade and the current account balances by about 0.15 and 0.21 percentage point of GDP, respectively, and increase inflation by around 0.5 percent. In these economies, higher energy import costs raise the total import bill and weaken external balances, and the resulting higher transport, production, and distribution costs lead to inflationary pressures.

Overall, these findings highlight the heightened vulnerability of African economies to geopolitical shocks and disruptions in international energy markets. The transmission of such shocks to external balances, domestic prices, and trade flows underscores the importance of strengthening Africa's resilience to rising geopolitical risks. Diversifying trade partners and energy supply sources will help to reduce exposure to regional disruptions. Increased investments in logistics and energy infrastructure, as well as improved production capacities will help mitigate structural vulnerabilities and strengthen resilience to shocks.

as countries face increased demand for foreign currency and may need to draw down foreign exchange reserves. This could weaken reserve adequacy and reduce the continent's capacity to absorb external shocks. The deteriorating external balances could compel governments to borrow from external sources and thus contribute to rising debt burdens. These dynamics can also increase sovereign risk premiums and borrowing costs.

External financial flows, implications, and outlook

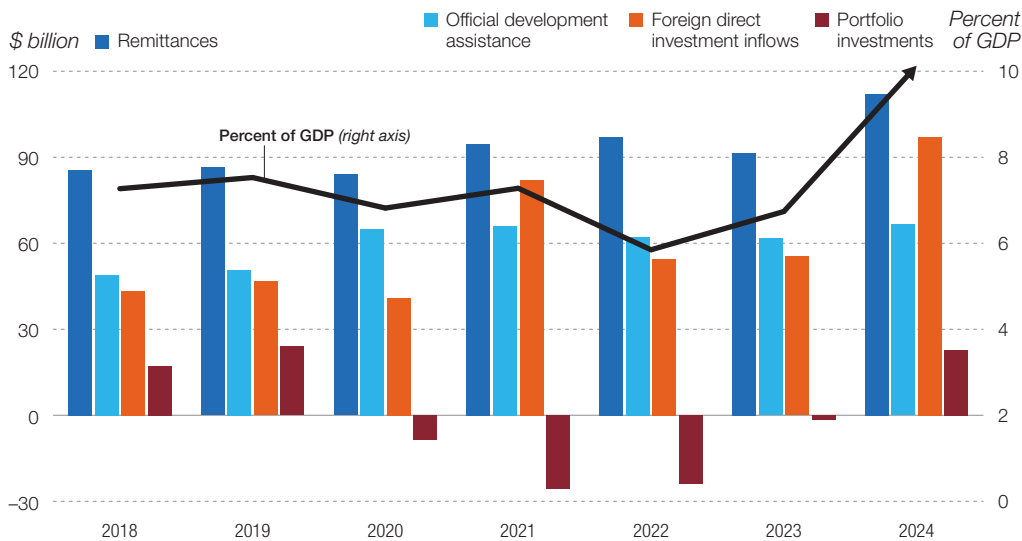
While increased flows from other external sources helped offset the decline in bilateral aid in 2024, rising geopolitical tensions pose risks to Africa's external financial flows in the near term

FDI inflows to Africa increased by more than 75 percent to more than \$97 billion in 2024 (figure 1.25), mostly driven by a significant increase in inflows to Egypt (\$46.6 billion), to finance the Ras El-Hekma Development Project.²⁶ Even when the large inflow to Egypt is excluded, the overall trend remained positive: 34 out of 52 countries with consistent data recorded higher inflows in 2024 compared with 2023, resulting in an estimated 10.7 percent increase in FDI in the rest of the continent.

However, the outlook for FDI is increasingly uncertain amid mounting geopolitical risks. Early estimates for 2025 point to a decline of about one-third in FDI inflows, reflecting both a return to normalization after the Ras El-Hekma project-induced spike and disinvestments in some countries. For example, in South Africa, a \$7.2 billion spin-off by Anglo American PLC contributed to negative net FDI inflows of approximately \$6 billion.²⁷ The geopolitical tensions could dampen investor sentiment and constrain FDI flows to the continent.²⁸ Sustaining the inflows and securing larger shares of global FDI for Africa call for improved infrastructure, regulatory frameworks, digital ecosystems, and strengthening Africa's absorption capacity, particularly in emerging sectors such as data centers that accounted for about one-fifth of global greenfield project values in 2025.²⁹

Portfolio flows to Africa rebounded sharply in 2024 to net inflows of \$22.9 billion from net outflows of \$1.6 billion in 2023. Increased inflows were supported by improved global financial conditions and prudent macroeconomic policies in host countries. This marked the end of a prolonged period of net outflows after the COVID-19 pandemic and subsequent global shocks, during which investors reallocated capital toward safe-haven markets. Declining global interest rates

FIGURE 1.25 External financial flows to Africa, 2018–24



Source: African Development Bank statistics.

improved the relative attractiveness of African financial assets, while the appreciation of several African currencies against the US dollar strengthened returns on local-currency investments.

However, the medium-term outlook for portfolio flows to Africa is uncertain. Structural weaknesses in domestic financial markets and limited financial instruments constrain Africa’s ability to sustain portfolio inflows, amid rising global uncertainty. Geopolitical tensions and rising oil prices have fueled inflationary pressures, elevated financial vulnerabilities, presenting potential risk of portfolio reversals. Preserving macroeconomic stability while deepening and broadening domestic financial markets (see chapter 3) will be essential to sustaining investor confidence.

Remittance flows to Africa increased by 14.1 percent to \$104.6 billion in 2024, emerging as the continent’s largest source of nondebt external financial flows. These inflows play a critical role in supporting household consumption and increasing the availability of foreign exchange and scope for development financing. The increase in remittances was driven by Egypt and Nigeria, which together accounted for nearly half of total receipts.

While remittances act as a buffer against shocks, often increasing during periods of economic stress in diaspora’s home countries, they

tend to decline when shocks affect the host countries of migrants. For example, remittance inflows to Africa declined by 3 percent in 2020 when the COVID-19 pandemic adversely impacted key diaspora destination countries. A similar risk is emerging in the context of the current global supply chain shock and its impact on Middle East countries, which in 2024 hosted about 6.5 million African diaspora (14.1 percent of total diaspora population). In this context, heightened instability in the Middle East could lead to job losses for African diaspora and reduce remittance flows to the continent. This would have large socioeconomic repercussions, especially in North and East Africa, regions with large diaspora populations in the Gulf countries. Egypt alone accounts for 61.8 percent of the diaspora population living in the Middle East.

ODA to Africa rose by 6.9 percent to \$65.9 billion in 2024, driven by a 15.3 percent increase from multilateral institutions amounting to \$34.6 billion. This expansion in multilateral aid more than offset a 1.1 percent decline in bilateral assistance. The decline in bilateral aid is likely to persist, as shifting geopolitical priorities prompts donor countries to reallocate resources toward domestic and strategic objectives. Preliminary estimates by the OECD indicate that ODA flows to Africa from Development Assistance Committee countries could have

Structural weaknesses in domestic financial markets and limited financial instruments constrain Africa’s ability to sustain portfolio inflows, amid rising global uncertainty

Strengthening Africa's capacity to mobilize both domestic and foreign capital at scale is imperative for building resilience and sustaining growth

declined by between 14 percent (under a lower-cut scenario) and 17 percent (higher-cut scenario) in 2025 relative to 2023 levels. Africa's four main donors—the United States, Germany, France, and the United Kingdom—reduced their ODA.³⁰ For example, surveys on donors' ODA budgets and official announcements point to estimated declines in ODA flows to Africa from the United Kingdom and France of 19 percent and 14 percent, respectively (figure 1.26). The termination of 82 percent of U.S. Agency for International Development programs by the United States in March 2025 left several programs with financing gaps, especially in the social sectors.³¹ In addition, reductions of bilateral contributions to multilateral institutions could constrain their financial capacity and support to developing countries.

In this context, strengthening Africa's capacity to mobilize both domestic and foreign capital at scale is imperative for building resilience and sustaining growth. This requires strengthening domestic revenue mobilization, leveraging diaspora savings and remittances, and deepening domestic financial markets to expand the pool of long-term capital (see chapter 2). This is also critical to unlocking the potential of the private sector, which faces several

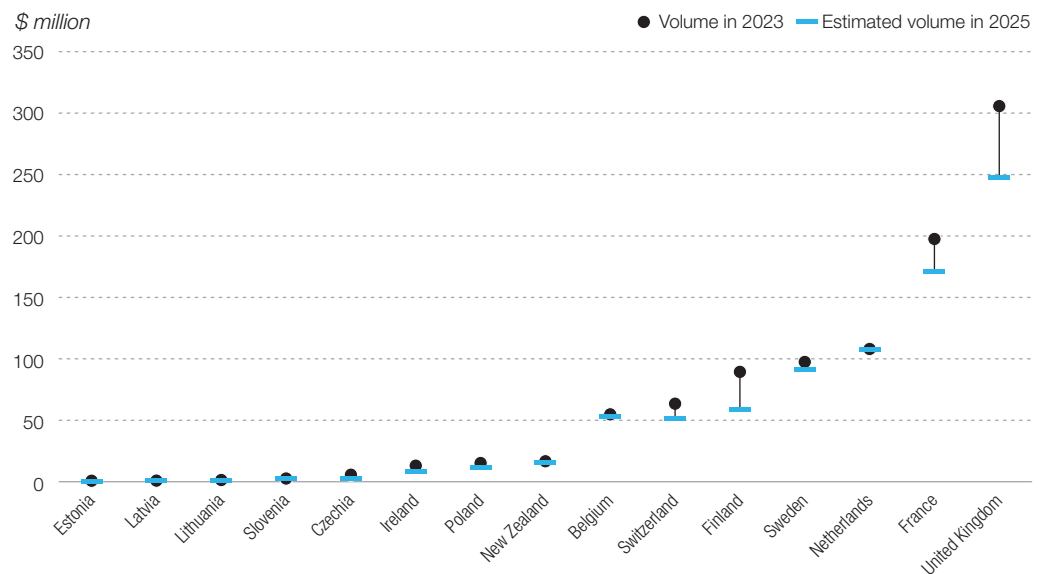
constraints that limit its contribution to growth. For example, inadequate transport, energy, and digital infrastructure as well as limited access to finance weigh heavily on firm performance and investment decisions.³² Africa's financial systems are bank-dominated, risk-averse, and not well equipped to provide long-term financing. Strengthening and consolidating Africa's financial systems are central to this agenda. A more cohesive and robust financial architecture will enhance Africa's financial agency—its ability to exert meaningful influence on the size, structure, and cost of its financing needs—and enable the continent to better position itself in global capital markets and exert greater influence over financing conditions (see chapter 3).

Debt dynamics in Africa and implications for development financing

Elevated debt pressures remain amid a complex development financing landscape

Between 2020 and 2024, Africa's public debt stock increased by about 4.4 percent per year to reach \$1.9 trillion in 2024 compared with \$1.6 trillion in 2020, driven by the large infrastructure financing needs and widening of fiscal deficits. On the positive side, the debt-to-GDP ratio declined

FIGURE 1.26 Estimated cuts of ODA to Africa by selected donors



Note: The figures (in 2023 prices) are projected ODA in 2025, compared with the volume in 2023, based on bilateral ODA plus imputed multilateral ODA.

Source: OECD 2025.

from an average of 63.9 percent in 2023–24 to 62 percent in 2025 and is projected at 61.4 percent in 2026. This slowdown in the growth of debt-to-GDP ratio reflects the rebound in economic growth and fiscal consolidation undertaken in several countries after the COVID-19 pandemic.

The structure and composition of public debt have shifted from concessional sources toward non-Paris Club creditors and commercial sources, including Eurobonds and commercial bank and syndicated loans (figure 1.27). This shift has driven up debt service costs. Commercial debt from private creditors increased from 12 percent of Africa’s total debt in 2010 to 16.3 percent in 2024,³³ as more countries gained access to international capital markets. In contrast, the share of traditional bilateral creditors in total debt declined from 13 percent in 2010 to 8 percent at the end of 2024, while the mix of bilateral lenders changed with new players such as China emerged. Despite the shifting composition of public debt toward private creditors, multilateral debt as share of total debt has remained stable at around 14.6 percent at the end of 2024. Commercial creditors are playing an increasingly important role in frontier market economies, but low-income countries still rely on concessional lending including from the African Development Fund (ADF) and the International Development Association (IDA) as well as the bilateral creditors.

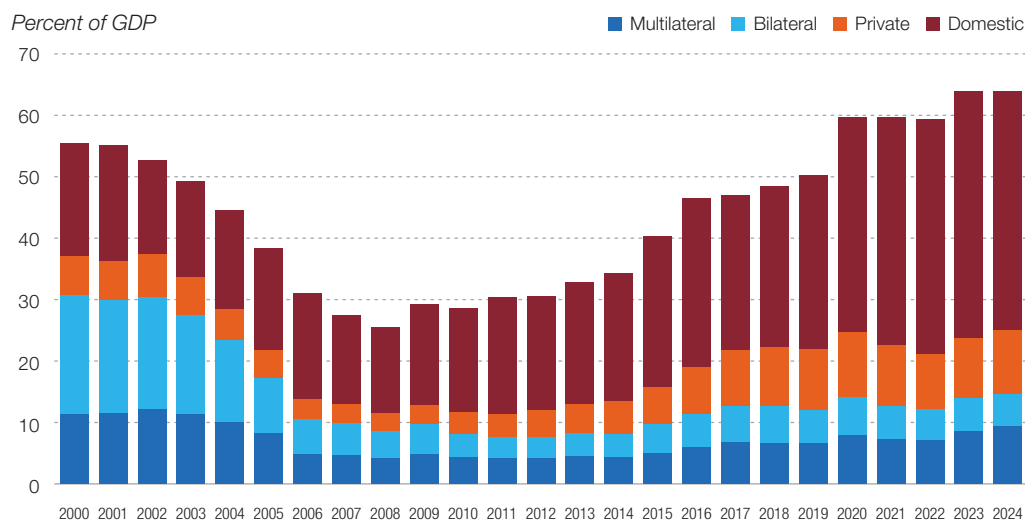
In 2024, Africa’s debt to IDA and the International Bank for Reconstruction and Development was about 57 percent of total multilateral debt compared with 62 percent in 2000. Africa’s debt to the AfDB declined from 23 percent of total multilateral debt in 2000 to 18 percent in 2024. The European Investment Bank, Islamic Development Bank, and the Arab Fund for Economic and Social Development respectively contributed 4.4 percent, 4 percent, and 3 percent of total multilateral debt to Africa in 2024. Other multilateral creditors accounted for 13 percent in 2022, up from 4 percent in 2000 (figure 1.28a).

There is a growing shift toward China as a leading bilateral lender to Africa, which accounted for 42 percent total bilateral debt in 2024 (from 2 percent in 2000), followed by France (10 percent), Saudi Arabia (8 percent), Kuwait (6.4 percent), Germany (6.2 percent), and Japan (5.6 percent), with other creditors accounting for 21 percent (figure 1.28b). The shares of Gulf countries such as Saudi Arabia and Kuwait in Africa’s bilateral debt increased to 8 percent and 6.4 percent in 2024, respectively, from 2 percent in 2000. However, the current global supply shock could negatively impact financial flows from the Gulf countries.

In response to the growing spending pressures amid low domestic revenue mobilization and declining international financing, several African countries have shifted toward domestic

Commercial creditors are playing an increasingly important role in frontier market economies, but low-income countries still rely on concessional lending

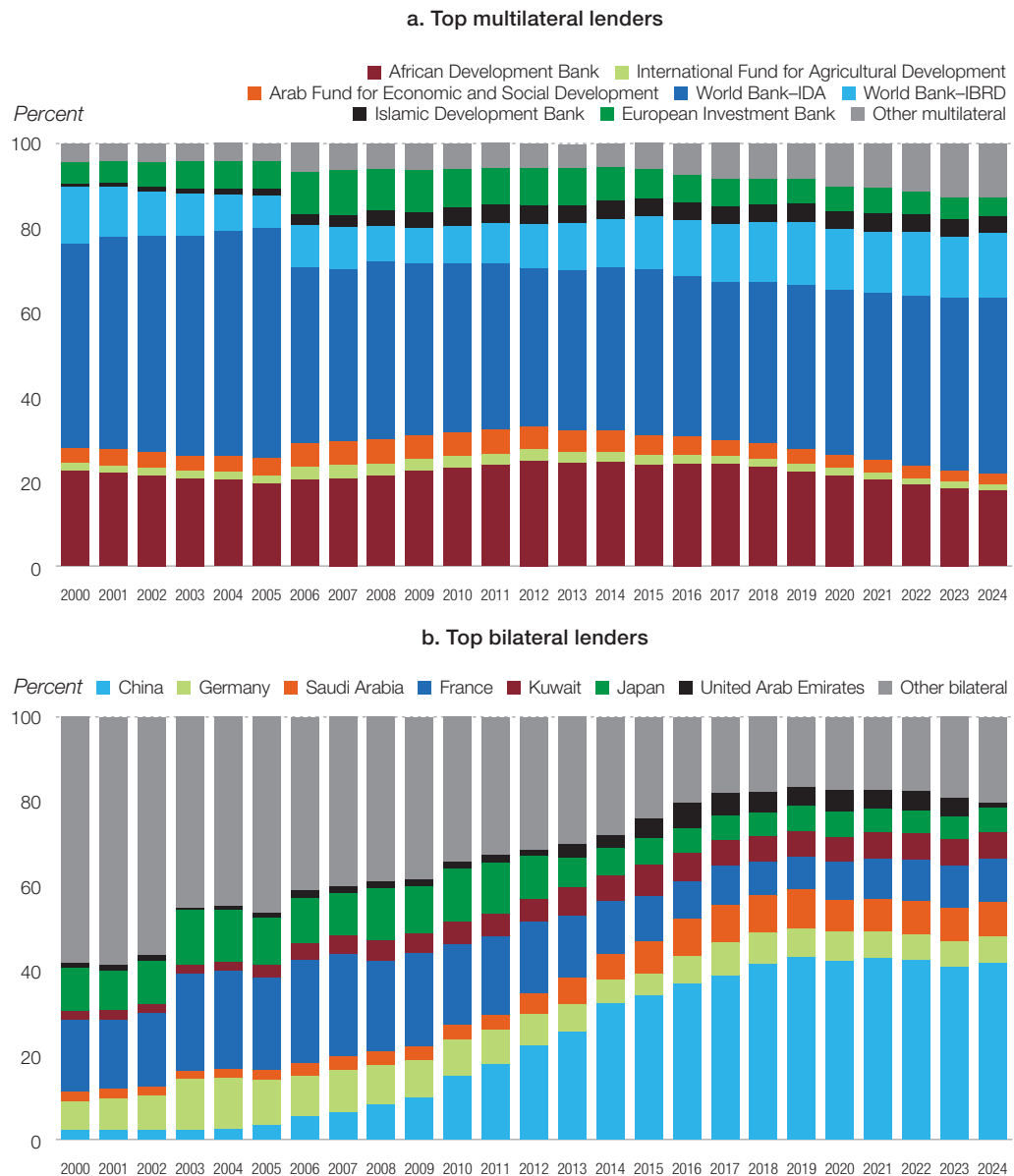
FIGURE 1.27 Gross debt and decomposition by creditor type, 2000–24 (% of GDP)



Source: African Development Bank staff calculations based on data from the World Bank, International Debt Statistics.

In response to the growing spending pressures amid low domestic revenue mobilization and declining international financing, several African countries have shifted toward domestic borrowing

FIGURE 1.28 Top creditors to African economies



Source: African Development Bank staff calculations based on data from the World Bank, International Debt Statistics.

borrowing. Domestic debt-GDP ratio increased to 40 percent in 2024 (representing 60 percent of total debt) from 17 percent in 2000.³⁴ In frontier market economies with deeper local bond markets, domestic debt could represent more than 60 percent of total public debt. This shift has several benefits. Domestic debt offers governments a stable and predictable source of financing, with scope to mobilize resources during shocks and periods of weak revenue mobilization, deploy

countercyclical policy responses, and reduce exchange rate risks. Because government bonds are deemed safe and liquid, they can also serve as collateral for market funding and as benchmarks for pricing financial assets over different maturities, and trading these assets in secondary markets could help to deepen domestic bond and capital markets. This can support the mobilization and allocation of affordable long-term capital. Regular issuance of domestic debt enhances

monetary policy operations, making it easier to manage inflation.

However, domestic debt creates new risks for the economy, particularly because of its short-term nature (figure 1.29). Shorter maturities expose countries to rollover risk because when old debt comes due, governments may have to pay higher interest rates or struggle to find new buyers. In addition, domestic debt tends to be issued at higher interest rates than concessional loans from international partners, and in some cases at rates higher than Eurobonds. In 2024, the median interest rate on domestic debt in Africa was 8.8 percent. But because inflation is also higher in many countries, the real cost of debt can be low, even negative in some cases.

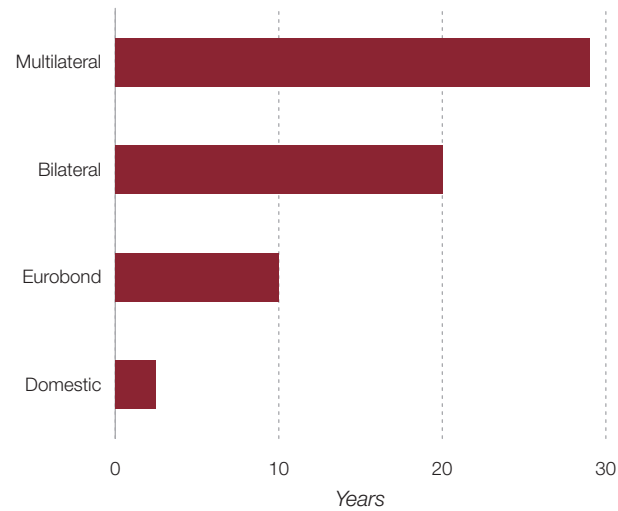
Debt vulnerabilities remain elevated

As governments increasingly turn to external commercial and domestic borrowing, debt vulnerabilities have increased. As of February 2026, 14 African countries were at high risk of, and seven were in, debt distress. In addition, the increasing debt service costs are constraining fiscal space. The share of government revenue devoted to external debt service increased from 23.7 percent in 2017 to 31 percent in 2024 (figure 1.30a). Interest payments on external debt accounted for 6.3 percent of government revenue in 2024 (figure 1.30b). In nominal terms, about \$87 billion in interest costs flowed out of the continent between 2022 and 2024, representing 19 percent of total debt service payments.

Between 2020 and 2023, debt service cost as a share of government revenue exceeded 20 percent in seven out of the 49 countries with data (figure 1.31). In 25 of these countries, the ratio was below 10 percent. Debt service-to-government revenue remained above the pre-COVID-19 pandemic levels in 34 of the 49 countries, declined to below pre-pandemic levels in 13, and stabilized at pre-pandemic levels in the other 2. Between 2021 and 2023, 25 of the 51 African countries with data spent more on interest payments than on healthcare (figure 1.32). This raises concern and calls for measures to increase debt productivity to spur growth (box 1.3).

Three African countries—Ethiopia, Ghana, and Zambia—have sought debt restructuring under

FIGURE 1.29 Distribution of debt maturity by instrument, 2015–24



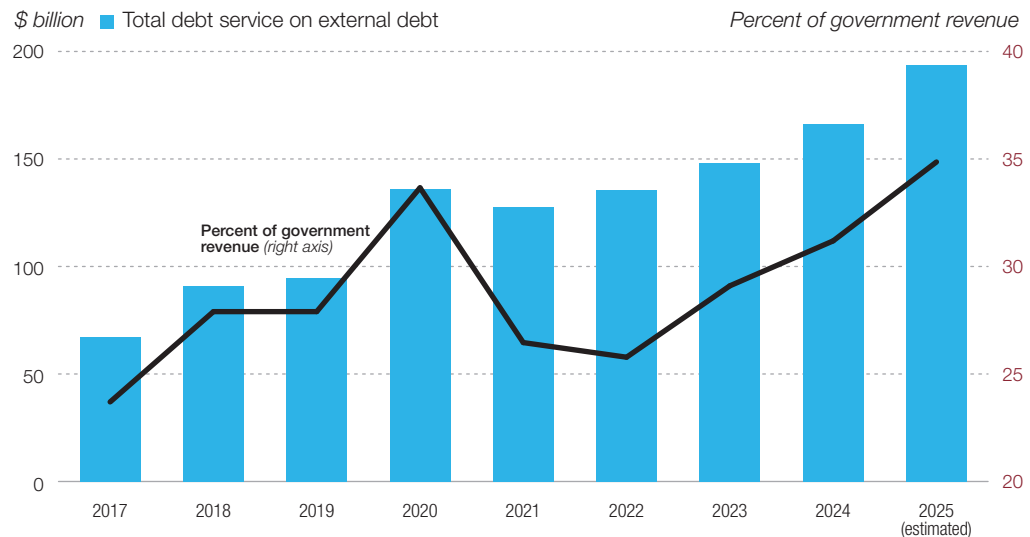
Source: Sy and Laws 2026.

the G20 Common Framework, with mixed outcomes.³⁵ On a positive note, debt restructuring helped Ghana transition from debt distress to high risk of debt distress. Delays in debt restructuring under the Common Framework are being addressed. For instance, the time lag between Official Creditors Committee assurances and agreement on the main terms of debt treatment has shortened from 12 months in Zambia's restructuring, to 6 months in Ghana's case. Ethiopia's debt restructuring discussions started in early 2021 but reached agreement in principle with the official bilateral creditors only in 2024.

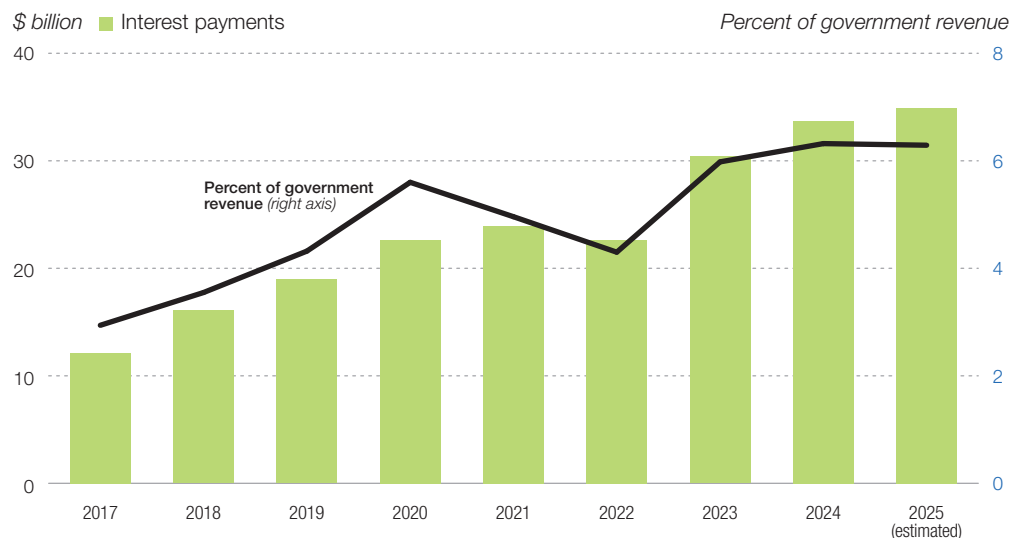
Debt service varies by country borrowing classification (ADF versus non-ADF) and creditor composition (figure 1.33).³⁶ For blend countries, the cumulative external debt service during 2025–30 is estimated at \$14.6 billion in, of which 39.5 percent will be due to private creditors, 33.3 percent to multilateral creditors and 27.2 percent to bilateral creditors. For ADF-only countries, the cumulative external debt service is projected at \$11.4 billion over the same period (44.5 percent to multilateral creditors, 40 percent to bilateral creditors, and 15.5 percent to private creditors). In ADF-gap countries, the cumulative external debt service is projected at \$3.8 billion (60.7 percent to private creditors, 22 percent to multilateral banks, and 17.2 percent to bilateral lenders).

FIGURE 1.30 Public external debt service and interest payments

a. Debt service (principal and interest)



b. Interest payments



Source: African Development Bank staff calculations based on data from the World Bank, International Debt Statistics.

Increased domestic borrowing has strengthened the sovereign-bank nexus with negative implications for financial stability risk

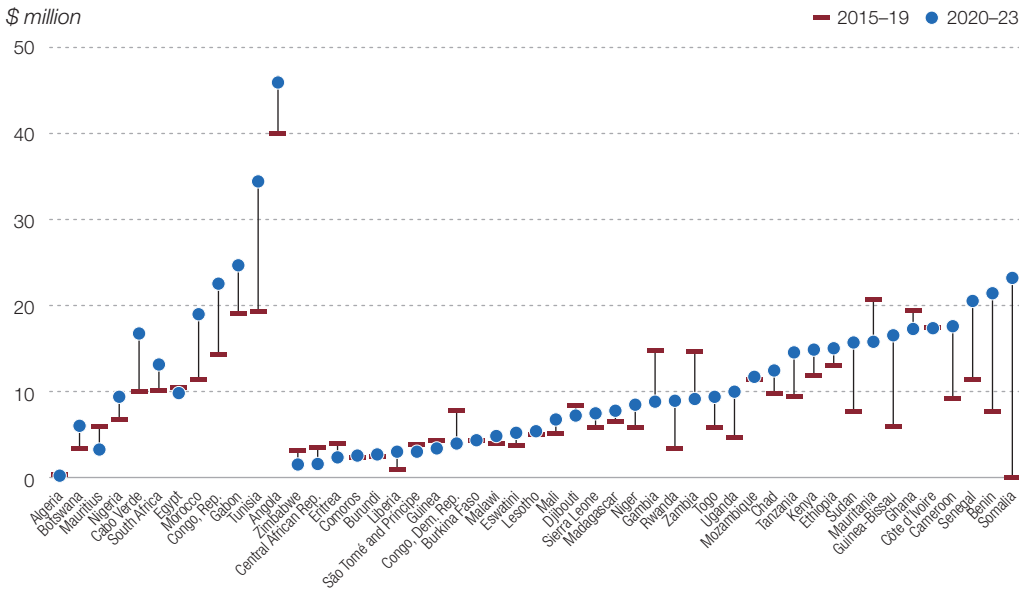
The sovereign-banking nexus has strengthened over recent years, mirroring increased domestic financing of fiscal deficits. Since 2017, central bank financing of fiscal deficits has been increasing, accentuated by shocks including the COVID-19 pandemic (figure 1.34a). The average central bank claims on government for the 18 African countries with data was negative between 2014

and 2016. This trend reversed in 2017, with central bank net claims on government as a share of total assets increasing from 0.5 percent to 43.5 percent in 2023 as governments increasingly resorted to central bank financing in the wake of tightened financial conditions which made borrowing from commercial banks more expensive.

Similarly, exposure of domestic commercial banks to the public sector has increased, illustrating the crowding-out effects of public sector borrowing from the domestic banking industry.

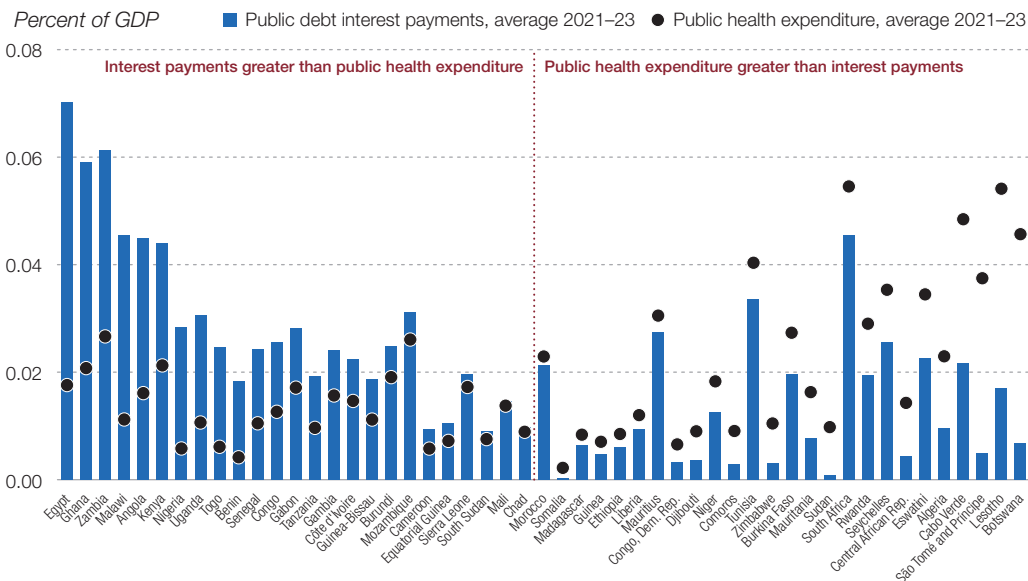
As of February 2026, 14 African countries were at high risk of, and seven were in, debt distress

FIGURE 1.31 Debt service on external debt, as percent of general government revenue



Source: African Development Bank staff calculations based on data from the World Bank, International Debt Statistics.

FIGURE 1.32 Interest payments on public debt and health spending



Source: UNCTAD, A World of Debt Database (2025).

While commercial banks' net claims on the government have remained stable since 2014, their net claims on the private sector declined from 66.3 percent of total assets to 53.6 percent in 2023 (figure 1.34b). The causality of risk along the sovereign-banking nexus runs in both directions: sovereign defaults imply asset losses on

the financial sector's balance sheet, with risks to depositors while banking crises can lead to sovereign defaults. Quasi-fiscal operations and government deficit financing by the central bank can distort domestic asset pricing and undermine price and financial system stability, especially when lending to government breaches statutory

Between 2021 and 2023, 25 of the 51 African countries with data spent more on interest payments than on healthcare

BOX 1.3 Public debt productivity in Africa: Drivers, evidence, and policy implications

Public debt plays an important role in providing resources to fund national development in the context of constrained fiscal scope. However, public debt comes with obligations for repayment, which requires that debt is used productively to generate economic and social values to self-refinance maturities and accrued interest.

How productive is public debt and how can it support Africa's development?

This box examines the productivity of public debt in African economies, by linking debt accumulation to key productivity outcomes. Box figure 1.3.1 illustrates the relationship between debt as a share of GDP with two indicators of productivity: output per worker and total factor productivity (TFP). Public debt is negatively correlated with both output per worker and TFP, suggesting that countries with higher public debt record lower levels of productivity. A 1 percent increase in public debt leads to a decline in labor productivity and TFP by 4.9 percent and 4.6 percent, respectively (annex 1.3). This suggests that increasing public debt does not automatically translate into gains in productivity but seems to hinder economic growth. This finding supports the hypothesis of low debt productivity in many developing and African economies, where debt-financed spending is constrained by low efficiency of public investment, governance constraints, and limited absorptive capacity.¹

BOX FIGURE 1.3.1 Debt to GDP and productivity relationship in Africa



Source: African Development Bank staff calculations based on data from Penn World Tables, the International Labour Organization, and World Economic Outlook.

Several factors explain the negative effect of public debt on productivity in Africa, where countries devote large portions of their budgets to interest payments. This constrains their capacity to finance public investment in key infrastructure, social services, and institutional development, all critical drivers of human capital accumulation and productive efficiency. Higher public debt can also crowd out private investment by raising the cost of credit and straining the fiscal space, thereby discouraging capital inflow, innovation, and technology adoption. This holds back both labor productivity and TFP.

Despite these challenges, public debt remains a critical instrument for development financing in Africa. When debt is managed efficiently, it can support productivity growth through several channels. Debt-financed investments in infrastructure can reduce transaction costs, improve connectivity, and facilitate trade integration. Improved transport and energy networks

(continued)

BOX 1.3 Public debt productivity in Africa: Drivers, evidence, and policy implications *(continued)*

increase firm productivity and economies of scale. Investments in human capital, including education, health, and skills development, can enhance labor productivity and support technological adoption. And public borrowing can accelerate digital transformation and innovation ecosystems, which are key to improving productivity growth. Public debt can support diversification and economic transformation and facilitate a transition from low-productivity sectors to higher value-added activities.

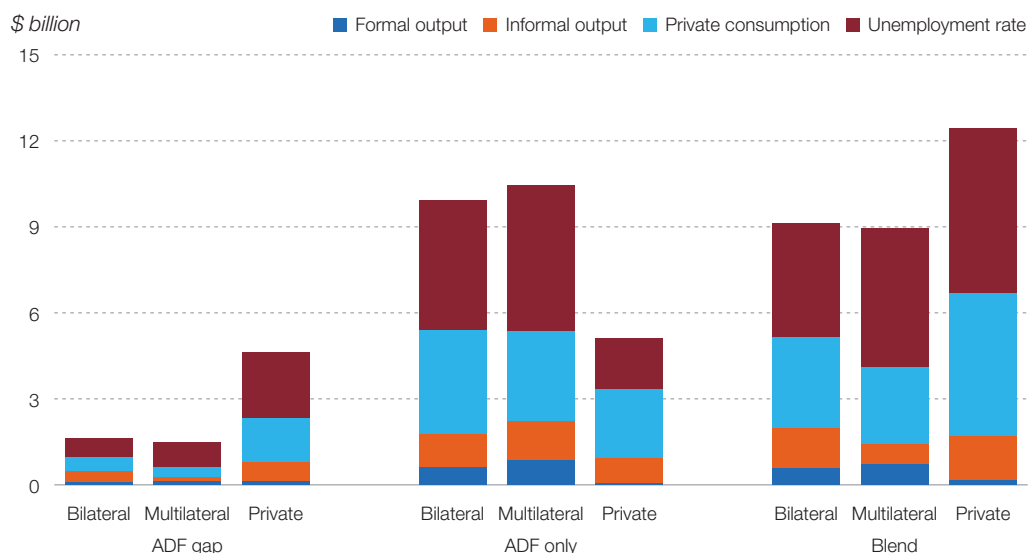
Improving the productivity of public debt requires a focus on the quality and management of debt. To achieve this, governments should strengthen public investment management to ensure that borrowed funds are allocated to high-return projects, in infrastructure, human capital, and innovation. Improving governance, transparency, and institutional effectiveness is key to reducing inefficiencies and maximizing the developmental impact of debt. Strategies should prioritize concessional and long-term financing while limiting reliance on short-term domestic borrowing that can crowd out private investment. Debt strategies should be integrated into the national development frameworks to support structural transformation, technology upgrading, and economic diversification.

Source: Traore et al. (2026, forthcoming).

Note

1. Presbitero 2012; Warner 2014.

FIGURE 1.33 Composition of debt service by creditor and ADF countries grouping



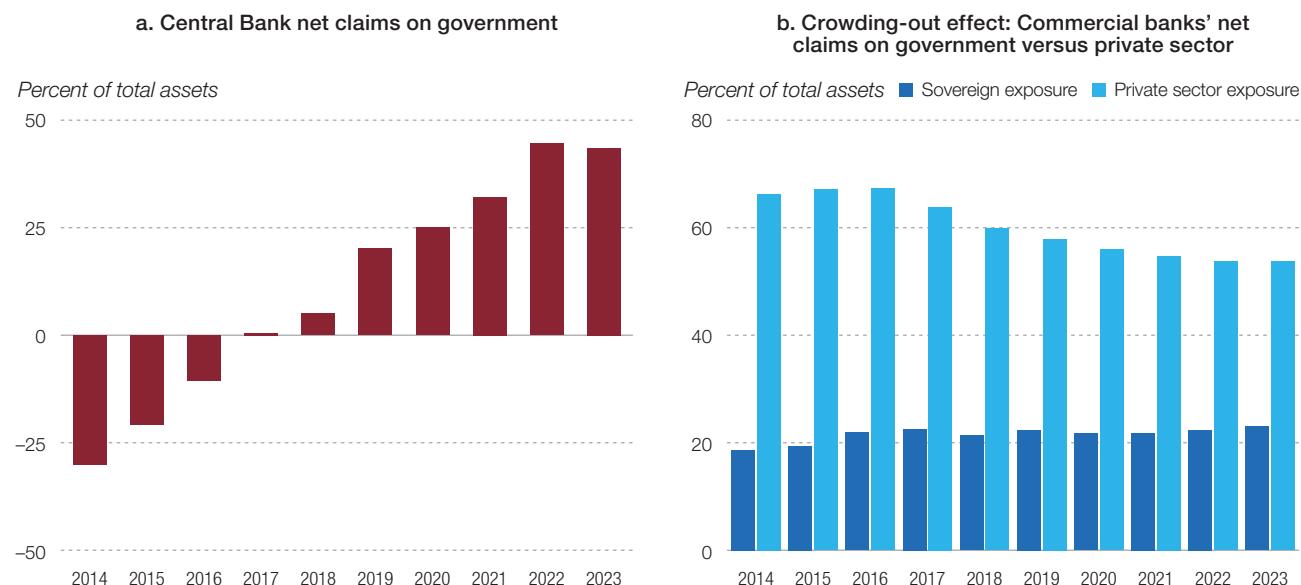
Source: African Development Bank staff calculations based on data from the World Bank, International Debt Statistics.

limits, often capped at a prescribed share of previous year revenue.³⁷ An increase in sovereign debt holdings constrains private sector credit, crowds out productive investment, and weakens growth and job creation opportunities. This can create a vicious cycle in which low lending to the private sector impairs economic growth which in turn

lowers government revenue, leading to an even larger fiscal deficit requiring more domestic borrowing. Commercial banks become even more exposed to the public sector, further increasing the risk of banking crises.

Accounting for domestic public debt service costs provides insights into its contribution to debt

FIGURE 1.34 Sovereign-bank balance sheet linkages



Note: The countries with data are Angola, Cameroon, Central African Republic, Chad, Congo, Equatorial Guinea, Eswatini, Gabon, Lesotho, Mauritania, Mauritius, Morocco, Nigeria, São Tomé and Príncipe, Seychelles, Sierra Leone, Somalia, and Tunisia.

Source: African Development Bank staff calculations based on IMF International Finance Statistics database.

vulnerabilities. Domestic debt comes at higher costs compared with external debt because of its short-tenor, high-cost instruments (treasury bills and short-term bonds) and limited investor base, dominated by commercial banks. Since 2014, domestic debt service obligations consistently surpassed those of external debt service. The median domestic debt service cost for Africa peaked at 4.7 percent of GDP in 2024, more than double the external debt service costs.³⁸ The short tenor and higher interest rates on domestic debt also expose countries to rollover and refinancing risks. Domestic debt is often excluded during debt restructuring processes to prevent a collapse of the financial system.

Several factors influence Africa's debt sustainability

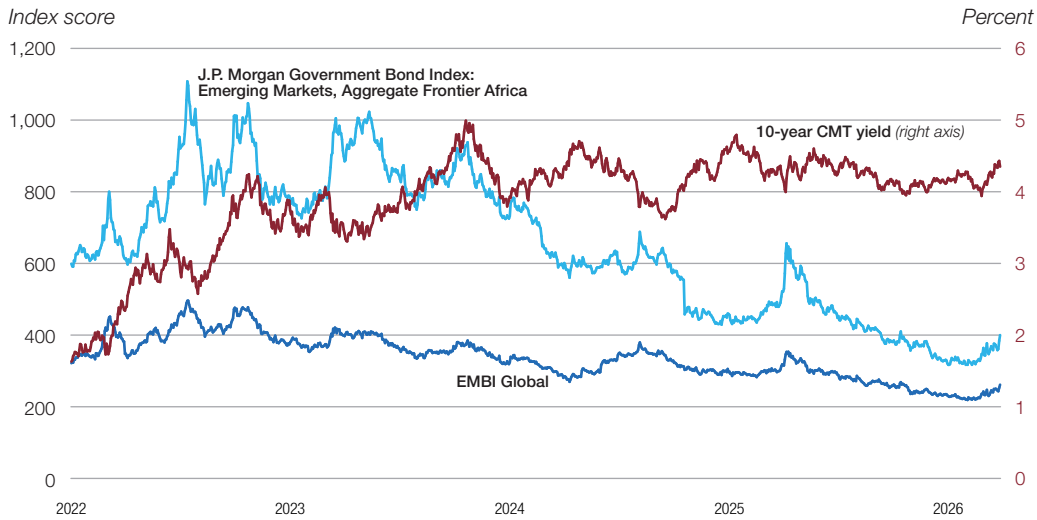
The cost of debt service has increased due to rising global interest rates, heightened sovereign risk perceptions, and currency depreciation, which amplify repayment burdens. While the recent monetary policy easing in advanced economies helped to narrow the sovereign yield spreads for frontier African economies, borrowing costs remain high (figure 1.35). Between January 2025 and April

2026, eight countries (Angola, Benin, Republic of Congo, Côte d'Ivoire, Kenya, Democratic Republic of Congo, Nigeria, and South Africa) participated in the international capital markets, raising a combined sum of almost \$13.9 billion.³⁹ But the bulk of the new debt is to refinance maturing Eurobonds, without new capital injection for investment. For instance, Côte d'Ivoire's issuance in March 2025 aimed to buy back Eurobonds maturing in 2028 and 2032. Likewise, Kenya's issuance in February 2026 and October 2025 aimed to amortize debt maturing in 2028 and in 2032. The ongoing shock has increased volatility in African sovereign debt markets, pushing up risk premiums. Indeed, while the yield spread was trending downward since the second quarter of 2025, it widened from 347 to 400 basis points between 1 and 26 March 2026 as the conflict in the Middle East intensified.

POLICY RECOMMENDATIONS

Addressing the adverse impacts of successive waves shocks and increasing geopolitical fragmentation on African countries requires a holistic approach, comprehensive policy and financing

FIGURE 1.35 Africa frontier economies sovereign yield spread



Note: The countries with data are Algeria, Angola, Cameroon, Côte d'Ivoire, Egypt, Ethiopia, Gabon, Ghana, Kenya, Morocco, Mozambique, Namibia, Nigeria, Senegal, South Africa, Tunisia, and Zambia.
 Source: African Development Bank staff calculations based on data from JP Morgan.

package, involving national governments, regional, and continental organizations and multilateral financial institutions.

Short-term policy recommendations

Implement strategic policies to build macroeconomic stability and entrench resilience and cushion vulnerable households from the impacts of external shocks.

Strategic monetary policy and foreign exchange policy management are required to mitigate the impact of multiple shocks.

African central banks need to implement prudent monetary and exchange rate policies tailored at anchoring long-term inflation expectations. In coordination with finance ministries, they should act decisively against a build-up of second-round effects of food and energy price hikes. This will help balance the price and exchange rate stability with national growth objectives. Market-clearing exchange rate policies will allow for orderly adjustment to reflect prevailing economic and structural fundamentals.

Implement prudent fiscal policies aimed at mitigating the effects of rising energy and food prices to lower business costs and alleviate

pressures on poor and vulnerable households.

Monetary policy stances must be strategically coordinated with fiscal policy measures in each country's context to ensure that governments can cushion the adverse effects of food and energy price hikes on the most vulnerable households and small-scale businesses, without resorting to expensive subsidies and blanket fuel tax holidays that will hurt economic resilience in the medium term. Where fiscal space permits, countries should deploy temporary and targeted social protection measures to protect the most vulnerable populations from the impact of the ongoing global shock. Such measures should be temporary and carefully calibrated within each country's context and strategically deployed to avoid broad-based price suppression and fiscal profligacy through expensive subsidies that could otherwise deepen long-term fiscal risks.

Use oil and gas windfall revenue prudently to cushion against shocks.

Despite the current global supply chain shock exerting significant pressure on Africa, it offers an avenue to oil and gas producing countries to benefit from rising global prices. These countries should channel windfall revenues from the price boom into sovereign wealth funds or other countercyclical buffers

African central banks need to implement prudent monetary and exchange rate policies tailored at anchoring long-term inflation expectations

Securing a larger share of global investment financing requires enough absorption capacity, particularly in emerging sectors, such as data centers and renewable energy

to help mitigate the impact of the expected post-war price correction. Countercyclical fiscal policy helps to manage crisis-induced disruptions and prevents costly macroeconomic instability in lean times. Countries with large energy potential (especially oil and gas) should develop appropriate capacity to strengthen their resilience to future shocks. This can be achieved through asset portfolio diversification as well as investing in human and physical capital while scaling up export diversification to leverage nonoil revenue.

Strengthen the capacity to attract and retain external financial flows. Securing a larger share of global investment financing requires enough absorption capacity, particularly in emerging sectors, such as data centers and renewable energy. Positioning African economies to attract investments in such sectors requires improvements in infrastructure as well as enacting stronger and stable regulatory frameworks, and digital ecosystems. Preserving macroeconomic stability while deepening and broadening domestic financial markets are key to sustaining investor confidence and anchoring portfolio investment flows over the medium term to avoid costly reversals. As remittance inflows come under pressure, African countries need to deploy targeted instruments such as diaspora bonds and reduce transfer costs.

Improve domestic resource mobilization to expand fiscal space and reduce vulnerability to external shocks. With crisis-prone growth, priority should be given to broadening the tax base and improving the efficiency of revenue collection. Notably, digitizing tax administration represents a key enabler for enhancing revenue collection, strengthening transparency, and reducing corruption risks associated with direct interactions between tax officials and taxpayers.

Strengthen the domestic fiscal social contract to improve voluntary tax compliance. In an environment marked by declining international aid flows, driven by evolving partner priorities and nationally oriented policy approaches to development, African countries need to rethink the foundations of their development financing. Strengthening fiscal and financial autonomy is essential to

better anchor development financing on domestic resources. This should be accompanied by a stronger fiscal social contract between the state and the citizens, grounded in the efficient, transparent, and equitable use of public resources, to engender voluntary compliance by citizens in meeting their tax obligations. To achieve this requires enhancing the fight against corruption while ensuring accountability in the use of public resources to win the support of taxpayers.

Deploy proactive crisis response measures. To mitigate the impacts of recurrent global shocks on African countries, proactive crisis response measures should be implemented at national, regional and continental scales. Countries need to implement contingency financing arrangements such as through preferred pooled fuel procurement and emergency food corridors. They should diversify sourcing of fuel, food and fertilizer, where logistically feasible. And they should provide temporary liquidity lines to distressed businesses when possible. Multilateral development banks (MDBs), Africa's development finance institutions, and other development partners need to promptly deploy countercyclical instruments such as emergency budget support, trade finance facilities to support critical import financing (food, fuel and fertilizers) for oil-importing countries, grants for eligible countries, and contingent credit lines for countries with IMF programs to provide a complementary liquidity buffer. Experience from previous global shocks such as COVID-19 pandemic show that timely deployment of crisis response measures helps provide fiscal buffers for countries in times of shocks and thus offset medium to longer term impacts and build economic resilience.

Strengthen Africa's sovereignty in global governance. Under the Africa Union framework, countries need to speak with one voice on geopolitical subjects—Universal Human Rights, Peace and Security, and International Law. The challenges facing the continent demand unity of purpose and strategic partnerships to strengthen Africa's political and economic agency in global governance.

Coordinate policy. Countries need to ensure seamless interagency coordination of both

monetary and fiscal policy measures, with implementation actions across relevant ministers and government agencies, including finance, agriculture, energy, and trade. In addition, development partners should provide coordinated technical assistance and policy advice to African countries to tailor their policy responses to country contexts to mitigate implementation challenges.

Medium-to-long-term policy recommendations

Strengthening economic resilience in a fragmented global environment requires African countries to address vulnerabilities using a combination of medium-term stabilization measures and structural reforms

Strengthen macroeconomic buffers and external resilience. African countries need to build adequate foreign exchange reserves, targeting at least 3–4 months of import cover, maintain prudent macroeconomic policies, and limit excessive reliance on external borrowing. This will help ease exchange rate pressures, contain risk premiums, and safeguard debt sustainability amid widening current account deficits and rising geoeconomic uncertainty.

Expand Africa’s energy mix and energy markets by accelerating investments in renewables and gas sectors to bolster national security. Increased domestic investment in renewable energy sources and transition fuels such as gas will help balance the energy mix, reduce the reliance on oil imports, and provide alternative green energy sources for the continent’s development. Africa should fast-track full implementation of energy projects identified under the Programme for Infrastructure Development in Africa (PIDA) to strengthen the continent’s energy security. This includes constructing hydroelectric dams such as the INGA dam, accelerating the implementation of key initiatives such as the Desert to Power Initiative and the Mission 300, and strengthening intra-Africa energy markets through regional oil refineries and LNG facilities. Investing in cross-border electricity transmission lines, large scale solar parks and gas pipelines will further bolster energy security for the continent.

Developing green energy technologies for urban public infrastructure such as e-vehicles can drive down costs of fuel imports.

Deepen regional integration and trade to cushion against recurrent global shocks. Targeted industrial policies—unification of customs regulations to enhance movement of people, goods, and services; full implementation of the AfCFTA, and strategic export promotion—can expand export diversification and value addition in all sectors and strengthen regional value chains and intra-African trade. Deepening collaboration with strategic bilateral and multilateral partners will help to diversify financing sources and expand external markets. This will reduce exposure to external vulnerabilities and improve access to global capital.

Reduce import dependence and enhance trade competitiveness: Africa should scale up domestic production and diversify energy and fertilizer supply sources through preferred procurement policies to strengthen regional and intra-regional trade in oil and gas and fertilizer to enhance resilience. Countries also should build strategic reserves to reduce reliance on extra-regional imports, particularly for energy, food, and key intermediate goods. In parallel, investing in trade logistics, transport corridors, improving port efficiency, and digital trade facilitation to reduce costs will improve competitiveness, and strengthen export capacity, especially for small businesses.

Deepen policy reforms to improve institutional efficiency and trade outcomes. In the medium- to long term, African countries need to broaden the base through tax-policy reform by gradually phasing out inefficient exemptions and introducing high-yield instruments where feasible aligned to administrative capacity. They need to align fiscal and customs frameworks with regional agendas via the harmonization of policies and procedures in line with AfCFTA to reduce multiple/double taxation. They need to institutionalize high-performance revenue administrations by investing for instance in leadership, human resource modernization, performance management, service culture, and accountability. They need to reduce

Deepening collaboration with strategic bilateral and multilateral partners will help to diversify financing sources and expand external markets

leakages by curbing illicit financial flows, corruption, risk mispricing, and investments in unproductive infrastructure, among others. And they need to ensure productive investment and use of public resources.

Strengthen and consolidate Africa’s financial systems to scale up domestic capital mobilization for Africa’s development and strengthen capacity to absorb shocks.

The African Development Bank Group should accelerate the implementation of the New African Financial Architecture for Development (NAFAD) to strengthen Africa’s agency in global financial market. Launched in Abidjan, Côte d’Ivoire in April 2026, it aims to build a more resilient, autonomous, and development-oriented financial system in Africa, to reduce dependence on external financing and better supporting sustainable economic growth. NAFAD will help in leveraging the more than \$4 trillion in assets under management in Africa’s financing ecosystems to support development financing in Africa.

Similarly, the African Union should expedite the full operationalization of the African Financing Stability Mechanism (AFSM) and the African Monetary Institute (AMI) toward the establishment of the African Central Bank and the Africa Credit Rating Agency (AfCRA) to address the heightening debt refinancing risks, enhance monetary stability, and address information bias in sovereign risk ratings in African countries, respectively.

The African Union and regional economic communities should strengthen early warning systems, intelligence sharing, maritime security cooperation to safeguard supply chains along critical trade corridors and strengthen peacebuilding for regional security. There can be no sustainable development without sustained peace and security in communities and countries. Collective action to maintain sustained peace and security in African communities is therefore a key aspect of economic development. In an increasingly fragmented world, deepening regional economic integration and trade, political unity, and peace are critical aspects of macroeconomic policy stability and resilience.

ANNEX 1.1 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

ANNEX 1.2 IMPACT OF GLOBAL ECONOMIC POLICY UNCERTAINTY ON FOREIGN DIRECT INVESTMENT INFLOWS IN AFRICA

To examine the impact of the Global Economic Policy Uncertainty Index on net FDI inflows to African countries,⁴⁰ the empirical relationship between policy uncertainty and FDI is assessed by estimating the following equation:

$$IFDI_{it} = \alpha_i + \sigma GEPU_t + \beta X_{it} + \varepsilon_{it}$$

where $IFDI_{it}$ denotes net inflows of FDI to country i in time t and $GEPU_t$ represents global economic policy uncertainty. For this variable, the analysis employs the EPU index constructed by Baker et al. (2016), which can track policy-related risks, predict economic downturns, and facilitate cross-country comparisons based on news-driven media.⁴¹ X_{it} denotes country-level control variables that capture the macroeconomic environment of recipient African countries. The set of macroeconomic variables includes key determinants of FDI flows: real GDP growth, per capita GDP, financial development, trade openness,

inflation rate, employment rate, and population size.⁴²

The study applies the system generalized method of moments (SYS-GMM) proposed by Blundell and Bond (1998) and an unbalanced panel dataset for 54 African countries over the period 2000–2024. The SYS-GMM estimator is widely used to address the problem of endogeneity in panel data estimation and provides consistent and unbiased results.⁴³ Before being used in the estimation, all variables are transformed into logarithmic form. Annex table A1.2.1 summarizes the regression results. Model 1 employs the GEPU Index based on current-price GDP, while model 2 is estimated using the GEPU Index based on PPP-adjusted GDP. The results confirm the adverse impact of EPU on net FDI inflows to Africa. Both models show that a 1 percent increase in global EPU leads to net FDI inflows to the continent declining by 1.2–1.3 percent.

ANNEX TABLE A1.2.1 Impact of global policy uncertainty on inward foreign direct investment

Variable	Dependent variable: Net FDI inflows (inward FDI)	
	Model 1 GEPU_C	Model 2 GEPU_P
Lagged IFDI	0.052 (0.77)	0.056 (0.77)
GEPU	-1.207*** (0.59)	-1.295*** (0.614)
GDP growth	0.082 (0.27)	0.12 (0.27)
GDP per capita	3.69 (8.91)	5.28 (8.93)
Inflation rate	-0.024 (0.11)	-0.017 (0.11)
Employment rate	1.309 (0.07)	0.646*** (0.06)
Financial development	5.94** (2.93)	4.89** (2.80)
Financial development * GEPU	-1.29** (0.63)	-1.07* (0.595)
Trade openness	0.29 (0.628)	0.29 (0.625)
Population	0.03 (0.104)	0.03 (0.103)
Observations	934	934
Year/FE	Yes	Yes

*** Significant at $p < .01$. ** Significant at $p < 0.05$. * Significant at $p < 0.1$

Note: Numbers in parentheses are robust standard errors. *GEPU_C* denotes global economic policy index based on current-price GDP measures; *GEPU_P* denotes global economic policy index based on PPP-adjusted GDP. *Financial Development*GEPU* is the interaction term of financial development and global economic policy uncertainty index. The results show that heightened global EPU serve as a shock that adversely impacts net FDI inflows. The findings reinforce the importance of financial development in facilitating FDI flows, which calls for measures to improve financial sector infrastructure and regulatory frameworks. Improvements in the payments and settlement systems and central securities depositories will enhance financial sector efficiency and ease processing of transactions for export dependent foreign investors. Technologies that lower barriers to entry and policy reforms aimed at strengthening investor protection will expand participation in the market. In an increasingly fragmented global economic environment where FDI has become more selective, African countries should mitigate the impact of EPU on FDI inflows by strengthening institutional quality, transparency, accountability, and the rule of law as a pathway for sustaining an enabling environment for investment, entrepreneurship, and innovation.

Source: African Development Bank staff analysis.

ANNEX 1.3 PRODUCTIVITY OF PUBLIC DEBT IN AFRICA

Dependent variable	1	2	3
	GDP per capita (log)	Output per worker (log)	Total factor productivity
Debt to GDP (log)	-0.038*** (0.009)	-0.049*** (0.010)	-0.046*** (0.009)
Natural resource rents	0.006*** (0.001)	0.006*** (0.001)	-0.003*** (0.001)
Trade	0.001** (0.000)	0.001** (0.000)	-0.000 (0.000)
Agriculture value added	-0.006*** (0.001)	-0.005*** (0.001)	-0.000 (0.001)
Gross fixed capital formation	0.003*** (0.001)	0.002** (0.001)	-0.007*** (0.001)
Population (log)	-0.031** (0.014)	-0.010 (0.016)	0.099*** (0.015)
Government effectiveness	0.159*** (0.019)	0.130*** (0.022)	0.051*** (0.015)
Political stability	0.053*** (0.009)	0.037*** (0.010)	-0.009 (0.008)
Constant	7.459*** (0.065)	8.470*** (0.074)	0.646*** (0.060)
Observations	775	752	483
R-squared	0.648	0.572	0.323
Number of countries	40	39	24
Year fixed effects	Yes	Yes	Yes

*** Significant at $p < 0.01$. ** Significant at $p < 0.05$. * Significant at $p < 0.1$.

Note: Numbers in parentheses are robust standard errors. Results were obtained using fixed effect estimation.

Source: African Development Bank staff analysis.

NOTES

1. AfDB et al. 2026.
2. <https://www.cma-cgm.com/news/5344/middle-east-situation-updates#Advisory%20#1>; <https://www.maersk.com/stay-ahead>; <https://www.hapag-lloyd.com/en/services-information/news/2026/02/imx-service-rerouted-via-cape-of-good-hope.html>.
3. The Freightos Baltic Index 13 (FBX13) tracks the spot freight rate for shipping a 40-foot container from China/East Asia to Mediterranean ports.
4. Afreximbank 2024.
5. The GCC comprises Bahrain, Kuwait, Oman, Qatar, Saudi Arabia, and the United Arab Emirates.
6. Africa Food Security 2025.
7. Collier and Reinikka 2001.
8. Young 2012.
9. Fernández-Villaverde et al. 2024.
10. AfDB et al. 2024.
11. Africa's income concentration is broadly comparable to Latin America and the Caribbean, and South and Southeast Asia, where the top 10 percent captures around 55–60 percent of national income and the bottom 50 percent receives about 10–12 percent. In East Asia, the top 10 percent receive around 43 percent and the bottom 50 percent about 15–17 percent. Europe remains the least unequal region, with the top 10 percent receiving around 36 percent and the bottom 50 percent receiving 18–22 percent. (World Inequality Database 2025).
12. Cilliers and Chipanda 2026.
13. AfDB 2023.
14. AfDB 2022.
15. AfDB et al. 2026.
16. Nzayiramy et al. 2025.
17. AfDB 2024.
18. AfDB 2024; Diao et al. 2021; Kruse et al. 2023.
19. UNCTAD 2025.
20. Compiled by the Food and Agriculture Organization of the United Nations.
21. AfDB 2023.
22. AfDB 2023.
23. Mene 2025.
24. Board of Governors of the Federal Reserve System (US) 2026.
25. The 10 countries are Angola, Burundi, Egypt, Ethiopia, Malawi, Nigeria, São Tomé and Príncipe, South Sudan, Sudan, and Zimbabwe.
26. AfDB 2026.
27. UNCTAD 2026.
28. For example, inflows declined by 12.2 percent in 2020 amid the COVID-19 pandemic, and by 33.6 percent in 2022 following the outbreak of the war in Ukraine.
29. UNCTAD 2026.
30. Between 2015 and 2023, they accounted for about 65 percent of ODA to Africa.
31. AfDB 2026.
32. AfDB et al. 2024.
33. Commercial debt was equivalent to 3.5 percent of GDP in 2010 but increased to 10.4 percent of GDP in 2024.
34. World Bank 2026.
35. UNDP 2025.
36. The African Development Fund (ADF) classifies 37 eligible African countries into three main categories based on income, creditworthiness, and debt sustainability to tailor financing, often focusing on fragile states. The classification determines country eligibility for either concessional resources (category A, or ADF-only countries), non-concessional resources (category C, or ADB countries), or a combination of both concessional and non-concessional resources (category B, or blend countries). Finally, a subcategory of ADF-only countries that have higher incomes but are not considered creditworthy for full non-concessional lending is classified under ADF-gap.
37. Jácome et al. 2012.
38. World Bank 2025.
39. In 2026, the Democratic Republic of Congo raised \$1.25 billion in April, Kenya raised \$2.25, Côte d'Ivoire \$1.3 billion and Republic of Congo \$700 million in February 2026, and Benin \$500 million Sukuk in January 2026, In 2025, Nigeria raised \$2.35 billion in November, Angola raised \$1.75 billion and Kenya \$1.5 billion in October, Côte d'Ivoire raised \$1.75 billion in March and Benin raised \$500 million in January.
40. Appiah-Otoo et al. 2023.
41. Choi et al. 2021.
42. Anyanwu 2011; Aromasodun 2022; Azzimonti 2019; Bénassy-Quéré et al. 2007; Choi et al. 2021; Hsieh et al. 2019.
43. Hsiao and Zhang 2015; Zhang et al. 2023.

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MOBILIZING CAPITAL AT SCALE FOR ACCELERATED AND RESILIENT GROWTH IN AFRICA

2

KEY MESSAGES

Africa enters this decade with renewed strategic agency and strong underlying fundamentals, following a solid recovery from the impact of COVID-19. The continent is one of the fastest-growing regions globally, with an average real GDP growth of 3.8 percent over the past two decades, an expanding youthful workforce, accelerating digital adoption in banking and finance, improving macroeconomic management, and implementing the African Continental Free Trade Agreement (AfCFTA). Sustained progress in domestic revenue mobilization, financial sector development, and public financial management is strengthening economic resilience. But persistent fragility, compounded by conflicts and climate shocks, continues to moderate growth.

These dynamics underscore the need for systematic resilience-building approaches, as economic stability remains critical for sustained investment, productivity gains, and financial deepening. In fragile and conflict-affected contexts, mobilizing capital at scale requires approaches that mitigate downside risks while crowding in long-term finance. Rising geopolitical tensions, trade policy uncertainty, global supply chain realignments, and declining aid and capital flows are reshaping global production patterns, trade, and finance, with disproportionate effects on the developing economies.

While these shifts introduce uncertainty, they also create opportunities. For example, the reorganization of global value chains opens space for Africa to industrialize and leverage its natural resource assets and abundant labor. To seize this potential, countries must deepen regional integration under the AfCFTA to expand intra-African trade and develop value chains. Strengthening South–South cooperation and partnerships with other regions will help diversify markets, expand financing sources, and accelerate technology transfers.

Against this backdrop of both opportunity and fragmentation, Africa's central development challenge is to mobilize capital at scale to support accelerated and resilient growth. Although growth has been relatively resilient, it remains below the 7–10 percent threshold historically associated with structural transformation, large-scale job creation, and rapid poverty reduction. Evidence from both international and African experiences shows that such acceleration is feasible, driven by sustained capital deepening, productivity gains, and human capital development. The priority, therefore, is to translate Africa's demographic dynamism, integration momentum, and expanding economic space into sustained growth. Achieving this requires a comprehensive financing strategy that mobilizes capital at scale from domestic, regional, and strategic external sources, while strengthening the efficiency, governance, and

developmental impact of resource allocation. If effectively implemented, this agenda could usher in a new phase of sustained transformation.

Growth accounting evidence reinforces the need for capital deepening and scaling up investment. Using a Solow-style growth framework, the analysis shows that increasing growth from roughly 4 percent to 7 percent per year requires a sharp acceleration in capital accumulation, supported by productivity and human capital spillovers. Incorporating these spillovers, Africa would need to more than double the growth rate of its capital stock from about 3.3 percent today to around 8.7 percent annually by 2030. Further projections for the decade from 2026 to 2035 imply an additional cumulative effective investment effort of approximately \$3.5 trillion. This acceleration would expand capital intensity, total factor productivity (TFP) growth, and human capital accumulation and improve the quality and sustainability of economic growth.

Mobilizing capital at scale requires unlocking Africa's domestic resource potential. Despite rising nominal revenue, the tax effort has declined in several countries. The continent could mobilize an additional \$469 billion annually (about 14.4 percent of GDP) by converging toward stronger-performing peers.¹ Strengthening value added tax (VAT) productivity, enhancing corporate and personal income taxation, expanding digital tax administration, and improving compliance management can transform latent revenue potential into durable fiscal capacity. The potential from domestic institutional investors—including pension funds, insurance assets, and sovereign wealth funds, which manage large and growing pools of capital—is significant, yet only a small share is directed toward long-term productive investment. In parallel, diaspora communities represent a large and often under-leveraged source of financing that could be mobilized through appropriately structured instruments such as diaspora bonds and collective investment vehicles. Unlocking these resources will require stronger project pipelines and standardized investable instruments capable of absorbing both institutional capital and diaspora savings

to support infrastructure, industrialization, and green transitions.

However, scale alone will not deliver transformation. Africa's binding constraint lies not only in the quantity of investment, but also in the quality of its execution. Public investment inefficiency, estimated at 41 percent (using updated 2023 data), means that a significant share of spending fails to translate into productive capital.² Absorptive capacity constraints further complicate rapid scaling. Once public investment approaches roughly 7–10 percent of GDP, cost pressures and implementation bottlenecks tend to intensify, particularly in low-efficiency environments.

To address Africa's development financing gap, a well-coordinated approach to mobilizing and efficiently deploying domestic capital at scale is needed. The recommendations outlined here describe measures to strengthen domestic resource mobilization, improve the efficiency of public financial management, leverage diaspora remittances, harness natural capital, and crowd in private investment. The heightened geopolitical fragmentation, declining external financial flows, and rising public debt vulnerabilities make this agenda urgent.

Mobilizing fiscal resources at scale and improving their use

Ensure proper sequencing of fiscal reforms for credibility and sustainable results. Fiscal reforms involve political trade-offs, capacity constraints, and time lags between policy adoption and revenue realization. A graduated approach to reform design and implementation allows governments to build institutional and absorptive capacity, and secure early gains to garner social and political support. For countries at the early stages of reforms, the first phase could focus on measures that raise revenues without major legal or policy overhauls and build momentum for additional reforms. The second phase would be to deepen and broaden revenue gains through policy and institutional reforms. This would include expansion of the tax base and rationalization of exemptions, restructuring of excise taxes, and

Africa's binding constraint lies not only in the quantity of investment, but also in the quality of its execution

rolling out property taxes. Strengthening large taxpayer offices, managing audits and risks, and integrating tax and customs data systems will improve enforcement and reduce leakages. The final phase would focus on sustaining revenue performance by strengthening institutional and social foundations of taxation, transparency, and dispute resolution to improve taxpayer trust and embed revenue reforms in medium-term fiscal frameworks.

Strengthen the fiscal and social contract between governments and citizens to improve and sustain revenue performance. Across many African countries, a large share of citizens express willingness to pay higher taxes when are linked to improved public services. Strengthening domestic resource mobilization requires a multi-dimensional strategy involving good tax policy and administration, service delivery, accountability, transparency, and fiscal governance.

Garner international cooperation and partner support to complement reforms to expand domestic revenue mobilization. Globalization, digitalization, and the growing mobility of capital have heightened cross-border tax challenges, including base erosion and profit shifting, aggressive tax planning, and transfer pricing. These require policy and administrative reforms, common standards, and sustained capacity building. Development partners need to support information exchange and asset recovery to reduce illicit financial outflows.

Strengthen PFM to effectively mobilize, retain, and productively deploy domestic capital. Effective public financial management systems will help ensure that mobilized resources translate into productive capital and improve service delivery. Improving project selection, procurement, maintenance, multiyear fiscal planning, and oversight are critical. In low-efficiency contexts with low absorptive capacity, governments could take a gradual approach in scaling up public investments to avoid cost overruns.

Enhance accountability and improve the effectiveness of public finance. Governments need to sustain improvements in budget credibility and

execution through increased public participation, timely publication of fiscal reports, and stronger supreme audit and parliamentary oversight. Digitizing fiscal systems, tightening procurement controls, and reducing leakages of public resources will ensure that mobilized resources are used effectively.

Efficiency reform is not only a governance priority but a critical financing strategy. By improving the conversion of spending into productive assets, countries can achieve higher growth returns within existing resource envelopes. Closing the efficiency gap could yield fiscal savings of about \$299 billion annually, resources that could be redeployed to ease financing constraints while amplifying the growth impact of scaled-up investment.

Make formalization progressive and economically attractive through incentives to encourage business registration. Governments should prioritize reducing the cost and complexity of formalization by simplifying tax regimes and streamlining business registration procedures. Formalization should be designed as a gradual integration process, supported by simplified presumptive tax systems, one-stop registration centers, digitalized procedures, and intermediate legal statuses. Lower registration and compliance costs will reduce the incentives to remain informal. Coordinating action among tax authorities and social service providers will help ensure sustainability.

Mobilizing long-term capital from regional and institutional investors and scaling up public-private partnerships and private capital participation

Fiscal strengthening and private capital mobilization are complements, not substitutes. Stronger domestic revenue mobilization (DRM) and public financial management (PFM) expand the fiscal space for project preparation and targeted risk mitigation, while credible governance lowers sovereign risk premiums and attracts investment. Well-designed public-private partnership (PPP) frameworks—anchored in transparency, value-for-money appraisal, and integrated

Strengthen the fiscal and social contract between governments and citizens to improve and sustain revenue performance

project pipelines—can crowd in long-term institutional capital. Countries such as Egypt, Mauritius, and South Africa demonstrate how stronger enabling environments support foreign direct investment (FDI), faster project execution, and deeper PPP pipelines.

Increase participation in asset-backed pensions to expand insurance uptake and the pool of resources. By focusing on informal workers who are generally excluded from institutional pension plans, insurance uptake can be increased through mandates or automatic enrollment. Kenya, Uganda, and Zambia have implemented micro pension programs and reforms to include informal sector workers, underscoring the opportunities for other countries to expand insurance coverage and pool of institutional funds while simultaneously reducing risk exposure among informal workers.

Mobilize institutional capital for infrastructure. Project bonds and infrastructure funds, supported by de-risking tools such as guarantees and blended finance, can help expand capital mobilization. Strengthening capital market regulations and disclosure standards will facilitate issuance of long-dated infrastructure securities. The collaboration between the Bourse Régionale des Valeurs Mobilières and Africa50 shows that coordinated reforms can attract pension fund capital and deepen domestic capital markets. In Morocco, long-term savings institutions that manage large pension and social security assets illustrate the role of institutional funds in supporting infrastructure investments.

Strengthen the broader institutional investor ecosystem, including capital markets, insurance companies, and asset managers, to expand capital mobilization. Large private companies should be encouraged to list on the stock exchange through targeted tax incentives and streamlined procedures for initial public offers, partial privatization of SOEs, and secondary share offerings by listed firms. Authorities can support insurance market growth through financial literacy programs to create awareness for different insurance products and develop new distribution channels.

Introduce de-risking mechanisms and partial credit guarantees from MDBs to attract private investments. Stronger partnerships between the private sector, NDBs, and MDBs can leverage available de-risking tools. Including partial credit guarantees, political risk insurance, first-loss tranches, viability gap funding, and currency risk mitigation will enhance the risk–return profile of projects and align them with institutional investor preferences. But deepening de-risking frameworks requires improvements in project quality, market depth, and risk mitigation.

Improve the quality and bankability of infrastructure projects to attract funding from national pension funds and SWFs. Governments need to sustain efforts to improve project preparation, standardize PPP frameworks, and strengthen the legal and procurement frameworks to crowd in private capital and institutional investors. Improving market depth and liquidity by increasing tradable instruments, developing secondary markets, and broadening the institutional investor base will help improve price discovery, reduce transaction costs, and increase risk-adjusted returns.

Leveraging diaspora capital

Integrate diaspora capital mobilization into national development financing strategies. For countries with high potential to mobilize capital from the diaspora, national diaspora financial markets and investment funds with clear regulatory frameworks to ensure regular issuance, investor protection and capital transferability are keys to increasing remittances. Countries with high remittances should increasingly shift a share of the funds received from family support to investment. Financial institutions could design products that allow for auto-channeling of a share of remittances into savings and investments through opt-out partial allocation. And municipal or community diaspora bonds to finance local infrastructure will attract the diaspora population to invest back home.

Sequence the strategy to promote diaspora capital inflows. In the short term, the focus should be on reducing transfer costs, strengthening the reliability of formal remittance channels,

Increase participation in asset-backed pensions to expand insurance uptake and the pool of resources

and introducing new savings instruments. In the medium term, it should be on structuring the remittances through specialized investment funds, diaspora bonds and public–diaspora co-financing mechanisms, supported by targeted tax incentives and partial guarantees to deepen trust and participation. In the long term, it should build a diaspora financial ecosystem that allows for capital transferability and integration of diaspora instruments into national development strategies.

Harnessing Africa's natural resource assets

Promote value creation and asset management-driven growth for a transition toward natural capital-based development. This calls for a strategic approach to invest in infrastructure, technology, measurement, and capacity building to harness the natural wealth for sustainable returns. The first step is to adequately measure the value of natural capital and integrate them into GDP calculations. Second is to protect the asset base through improved resource planning, enforcement, and restoration programs. Third is to monetize natural capital values by harnessing environmental, carbon, and biodiversity markets. Governments should strengthen carbon registries, biodiversity verification, and blue finance frameworks, supported by development partners and private sector participation.

Crowding-in global private capital in a fragmented world

Strengthen project preparation to increase the share of pipeline projects that reach financial close. To attract global private capital flows at scale, governments need to ensure predictable sector frameworks, enforceable contracts, transparent procurement and tariff systems that improve competitiveness and make project revenues more predictable. Private firms need to strengthen their capacities for project preparation, calling for better transaction support, standardized documents, and bundling smaller projects into larger bankable portfolios. MDBs and DFIs can support national authorities through risk guarantees and other financial instruments to reduce information gaps.

Increase the number and scale of investment pipelines in manufacturing, agro-processing, transport and business services to expand job creation and export diversification. Where viable projects face maturity constraints, credit enhancement, refinancing, and capital-recycling structures can help extend tenors, improve risk allocation, and attract domestic institutional capital. Stronger partnerships between MDBs, pan-African banks, and regional DFIs will help mobilize global private capital through co-financing and guarantees.

INTRODUCTION

Africa stands at a pivotal moment in its development trajectory. Over the past two decades, the continent has recorded an average annual GDP growth of about 3.8 percent. This performance was supported by improved macroeconomic management, structural reforms initiated in the 1990s, debt relief in the mid-to-late 2000s, and the 2003–08 super-cycles of commodity prices. By global standards, economic growth has been relatively solid, but it is yet to translate into structural transformation. Africa remains the least industrialized region globally and could fall short of achieving the sustained 7–10 percent growth required to realize the aspirations of the African Union's Agenda 2063 and deliver broad-based prosperity.³ Job creation, productivity growth, economic and export diversification, and value addition have lagged output expansion. An estimated 46 percent of the population was living in poverty in 2024. Without corrective action, Africa will by 2030 be home to about 9 of 10 poor people in the world.⁴ Infrastructure deficits remain large; intraregional trade is the lowest among major world regions, and climate vulnerability is intensifying. At the core of these challenges lies the widening annual development financing gap of \$1.3 trillion to achieve the Sustainable Development Goals by 2030.⁵ Mobilizing capital at scale calls for increasing the volume of financing, improving efficiency, strengthening institutions, and ensuring that Africa's vast resources drive long-term structural transformation.

The urgency of this agenda is heightened by tightening fiscal constraints. Rising debt service

Mobilizing capital at scale calls for increasing the volume of financing, improving efficiency, strengthening institutions, and ensuring that Africa's vast resources drive long-term structural transformation

Global fragmentation
and the emergence
of multipolarity
are reshaping the
financial landscape

burdens, declining concessional financing, and mounting spending pressures related to climate adaptation, energy transitions, social protection, and demographic expansion are compressing the fiscal space across much of the continent. Debt service as a share of government revenue was estimated at more than 31 percent in 2024, exceeding spending on health or education in many countries and limiting the capacity to finance growth-enhancing investments. Access to international capital markets has also become more costly and volatile amid tighter global liquidity, heightened risk aversion, and a persistent sovereign risk premium. These pressures underscore the limits of relying on external financing and highlight the imperative of strengthening DRM, improving PFM, and unlocking sustainable sources of financing.

At the same time, global fragmentation and the emergence of multipolarity are reshaping the financial landscape. Rising trade policy uncertainty, supply chain realignments, fragmented aid and capital flows, and escalating geopolitical tensions, along with increased defense spending in advanced economies, are altering global patterns of production, trade, and finance. Trade tensions have disrupted supply chains, raised import costs, and reduced FDI. While Africa has shown resilience and recorded improved exports in 2024 and 2025, partly supported by nearshoring and friendshoring strategies, uncertainties around FDI inflows, declining official development assistance, and tighter global liquidity conditions pose risks to the external financing outlook. Within Africa, pockets of social and political fragility have reemerged and threatened to undo the gains made over the past decades.

This shifting environment also creates new opportunities. The reconfiguration of global supply chains, rising demand for green and critical minerals, expansion of carbon and biodiversity credit markets, and growth of global institutional capital—including African pension funds and sovereign wealth funds—offer alternative financing avenues. Innovations in blended finance, diaspora financing, de-risking instruments such as guarantee mechanisms, and infrastructure asset recycling can help reduce financing costs and crowd in private capital. Harnessing these opportunities, however, requires strong institutions, deep and

well-regulated financial systems, and strategic policy frameworks that enhance Africa's financial agency in a fragmented world.

Africa's financing constraints are not solely external; they also reflect structural weaknesses in mobilizing, retaining, and productively deploying domestic capital. The continent possesses immense natural wealth, a young and rapidly growing population, and expanding, though still shallow, financial systems. However, Africa is estimated to lose up to \$587 billion annually through illicit financial flows, corruption, profit shifting, and unfair risk premiums. This figure exceeds the \$578 billion in total fiscal revenue mobilized in 2023.⁶ In parallel, inefficiencies in public spending, weak public investment management, and governance gaps further reduce the developmental impact of mobilized resources. Addressing these leakages and improving efficiency could unlock up to \$1.43 trillion annually in additional financing and transform Africa's development trajectory.

Strengthening PFM is central to Africa's resource mobilization agenda. Improving budget credibility and accountability, along with effective public investment management and reducing leakages, is essential for expanding fiscal space, lowering borrowing costs, and boosting investor confidence. Effective PFM ensures that mobilized resources are converted into productive capital and improved service delivery to facilitate inclusive and sustainable growth.

Building on the diagnostic foundations of the 2025 *African Economic Outlook*, this chapter shifts the focus from identifying financing gaps to operationalizing solutions for mobilizing capital at scale in a fragmented global environment.⁷ In this era of tighter global financial conditions and geopolitical fragmentation, Africa's ability to mobilize and deploy its own capital effectively is critical to shaping its economic future. The chapter proposes a comprehensive and action-oriented agenda anchored on six mutually reinforcing pillars: strengthening DRM, mobilizing long-term capital from institutional investors, scaling up well-structured PPPs, leveraging diaspora savings and investment flows, enhancing PFM and public investment efficiency, and unlocking new financing frontiers such as natural capital markets, digital finance, and carbon and biodiversity credits.

QUANTIFYING AFRICA'S DEVELOPMENT FINANCING NEEDS

Mobilizing capital at scale is a growth and transformation imperative

Africa's macroeconomic performance has been resilient in a challenging global environment, yet its growth rate remains below what is required to achieve large-scale job creation, sustained poverty reduction, and structural transformation. With an average real GDP growth hovering around 3.8 percent in the past two decades, Africa remains below the growth range typically associated with durable improvements in living standards, often cited as 7–10 percent for sustained takeoff episodes.⁸ Sustained high growth has historically been driven primarily by capital accumulation, reinforced by human capital and productivity gains, as illustrated by the Asian Tigers.^{9,10} Improving education attainment contributed materially to growth in effective labor inputs and amplified the returns to investment. For Africa, this means that a strategy to mobilize capital at scale must be accompanied by efforts to raise the productivity of capital through skill development, technology adoption, and more efficient public investment. Indeed, better service and public sector performance means lower risk perception, likely leading to more private capital inflows and ultimately scalable financing.¹¹

Recent growth accelerations confirm that sustained capital deepening is central to rapid growth. Over the past 25 years, the world's best-performing economies combined high and stable GDP growth with sustained growth in the capital stock above 7 percent (often above 10 percent).¹² This group includes both emerging Asian economies and Africa's consistently high performers, such as Ethiopia¹³ and Rwanda,¹⁴ underscoring the foundational role of investment-led growth and stronger institutional alignment. Sustained capital deepening is generally the dominant factor behind large cross-country growth differences, while employment and human capital growth are supportive (table 2.1).

To translate these lessons into Africa's financing needs, a standard Solow-style growth accounting framework is applied (annex 2.1). In this framework, output is determined by capital accumulation, labor, human capital, and TFP. The framework links the growth objective to the required capital deepening and the resulting investment flows. Empirical estimates show that increases in real capital stock per capita are associated with large productivity and human capital spillovers in Africa: the elasticity of TFP with respect to capital per capita is about 0.04, while the elasticity of human capital with respect to capital per capita is larger, ranging from 0.09 to 0.14 (table 2.2). These spillovers imply that scaling up investment can

Sustained capital deepening is generally the dominant factor behind large cross-country growth differences

TABLE 2.1 Top 10 best-performing economies in the world, 2000–24 (percent)

Country	Real GDP growth	Physical capital growth	Employment growth	Human capital growth
Ethiopia	8.6	10.2	3.2	1.1
China	8.2	11.0	0.2	0.8
Tajikistan	7.6	-1.0	1.9	0.0
Rwanda	7.5	10.0	2.6	1.4
Cambodia	7.1	11.4	2.5	1.3
Uzbekistan	6.5	9.7	1.9	—
Vietnam	6.4	10.5	1.8	1.5
India	6.4	7.2	2.2	1.1
Tanzania	6.3	8.2	3.1	0.7
Uganda	6.2	8.8	3.8	2.0
Africa	3.8	3.0	2.8	1.1

Source: AfDB staff calculations based on data from the IMF and Penn World Table.

Note: The data are period averages calculated over 2000–24.

TABLE 2.2 Elasticity of TFP, labor productivity, and human capital to the capital stock per capita

Variable	TFP, log			Human capital, log		
	1980–2023	1980–1999	2000–2023	1980–2023	1980–1999	2000–2023
Real capital stock per capita, log	0.040*** (0.007)	0.040*** (0.013)	0.035*** (0.006)	0.124*** (0.004)	0.089*** (0.005)	0.138*** (0.005)
Constant	-0.385*** (0.067)	-0.411*** (0.119)	-0.316*** (0.061)	-0.652*** (0.040)	-0.442*** (0.046)	-0.688*** (0.050)
Observations	1,320	600	720	1,804	820	984
R-squared	0.033	0.022	0.047	0.301	0.246	0.378

Note: The year 2000 marked the beginning of a new century and was accompanied by a cycle of rising and highly volatile commodity prices. The estimates are made using the ordinary least squares estimator on 50 African countries. Source: AfDB staff calculations based on data from the IMF and Penn World Table.

Achieving Africa's growth aspirations will require a more ambitious but attainable investment trajectory through improved investment efficiency

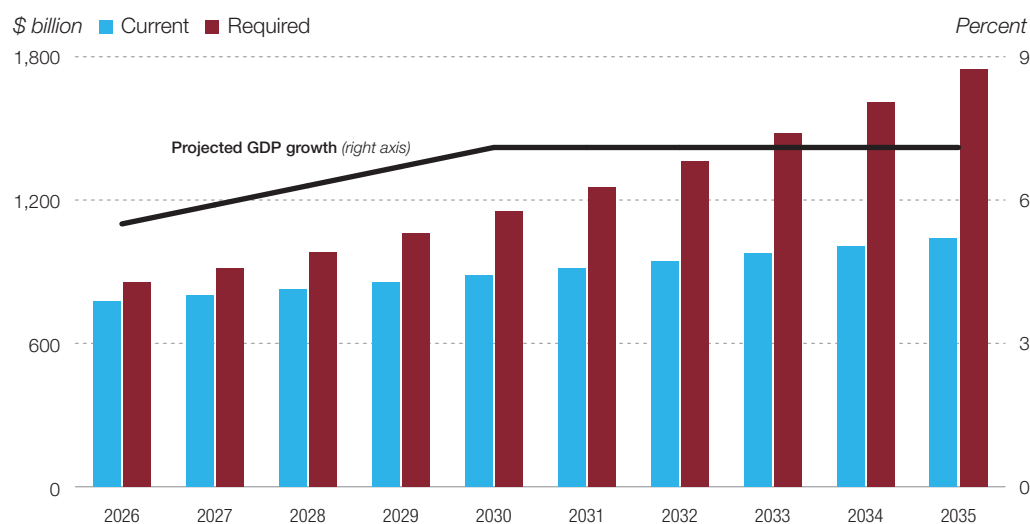
strengthen growth both directly (via more capital) and indirectly (via higher productivity and higher skills)—and contribute to structural transformation.

The simulations suggest that achieving Africa's growth aspirations will require a more ambitious but attainable investment trajectory through improved investment efficiency. Using the average growth performance observed during 2010–23 as a baseline and incorporating spillover effects to TFP and human capital, achieving a sustained economic growth rate of about 7 percent from 2030 onward would require capital stock growth to accelerate from the current level of approximately 3.3 percent to about 8.7 percent per year by 2030. Over 2026–35, this would translate into

an additional \$3.4 trillion in cumulative effective investment in nominal terms relative to current investment trends. As a result, total cumulative investment in new capital would increase from about \$9 trillion to approximately \$12.4 trillion during the decade (figure 2.1), equivalent to an additional \$6,500 in capital per person by 2035. Under this scenario, TFP growth would rise from about 0.13 percent to around 0.35 percent, while human capital per worker growth would increase from roughly 1.1 percent to 1.9 percent (figure 2.2).

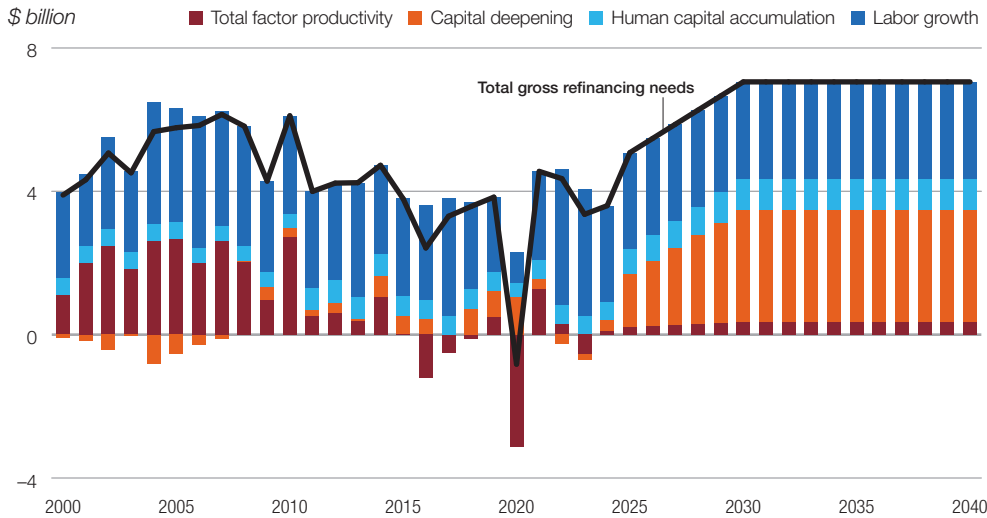
The estimated financing needs are lower bound, reflecting inefficiencies in public investment spending. Africa's development challenge is compounded by the fact that a large share of

FIGURE 2.1 Additional capital injection required to reach the minimum of 7 percent growth by 2030



Source: AfDB staff calculations based on data from the Penn World Table.

FIGURE 2.2 Decomposition of Africa's GDP growth: factor accumulation and productivity

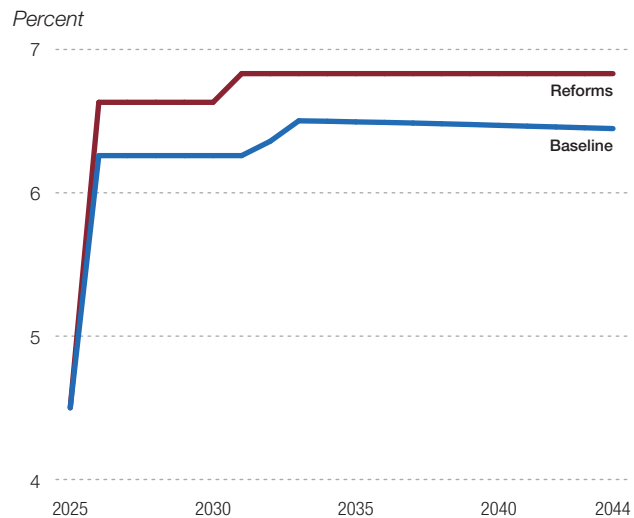


Source: AfDB staff calculations based on data from the Penn World Table.

public investment does not translate into productive capital due to weak public sector investment efficiency.¹⁵ In many countries, inefficiencies stem from misappropriation of public funds, corruption, poor project selection, bureaucratic delays in project approval and execution, inadequate technical and institutional capacity, and weak implementation and monitoring systems. As a result, a large portion of public spending fails to generate durable infrastructure or growth-enhancing capital. Based on 2023 estimates, with 41 percent of public investment failing to translate into productive capital, gross financing needs are significantly higher than they would be under more effective investment (see the section below on mobilizing long-term capital from regional and institutional investors and annex 2.2).

Conversely, improving public investment efficiency would allow countries to achieve higher growth outcomes without proportionately increasing spending. Closing the efficiency gap could raise long-term output by an additional 0.4 percentage points, bringing growth closer to the 7 percent minimum threshold needed for sustained structural transformation (figure 2.3). This underscores a critical policy implication: strengthening public investment management systems, including project appraisal, procurement, execution, and monitoring, can reduce financing needs while simultaneously accelerating growth, making

FIGURE 2.3 Impact of closing the public investment efficiency gap on real GDP growth

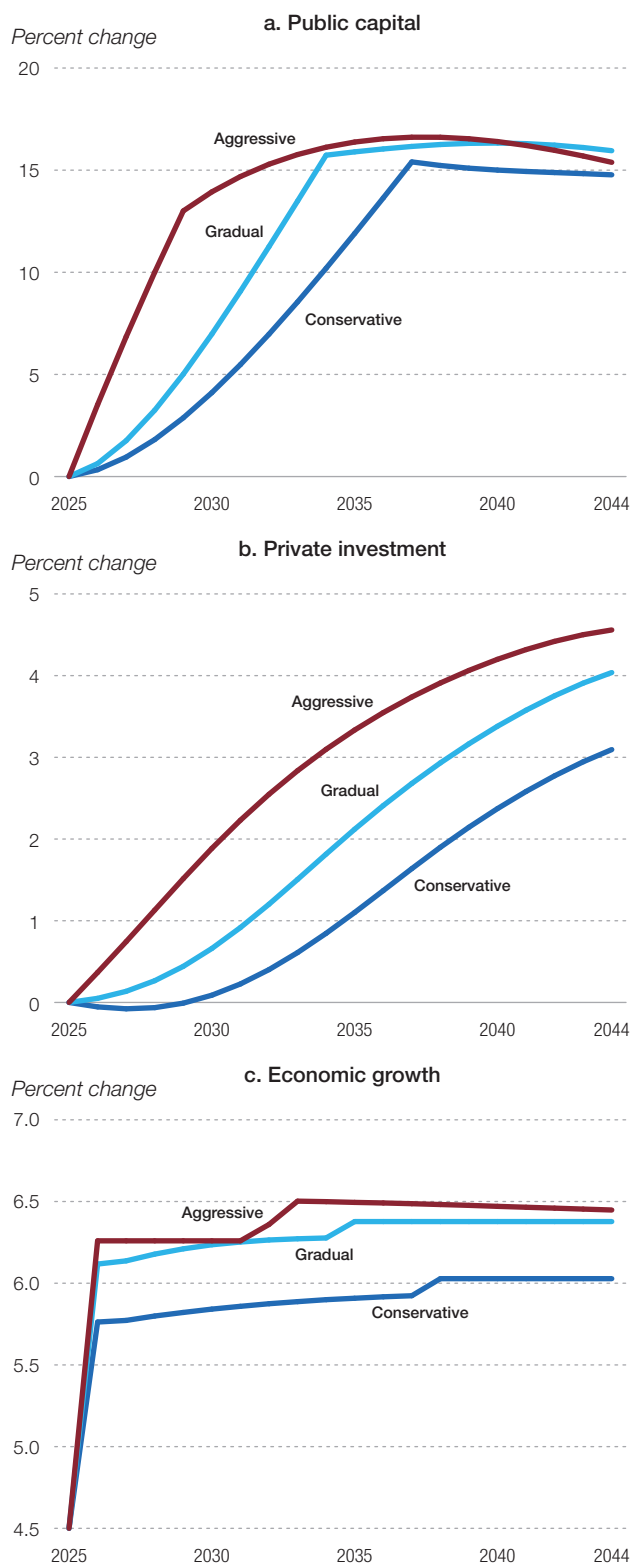


Source: AfDB staff calculations.

efficiency gains a central pillar of Africa's development financing strategy.

A second prerequisite for higher economic growth is the absorptive capacity for additional resources. Absorptive capacity determines how effectively additional public investment translates into productive capital and sustained growth. When investment is scaled up too rapidly, administrative, technical, and institutional systems can become overstretched, leading to cost-push

FIGURE 2.4 Effects of alternative public-investment-scaling-up scenarios on public capital, private investment, and economic growth



Source: AfDB staff estimates.

inflation, weaker project execution, and declining efficiency.¹⁶ Project-level evidence shows that unit costs tend to rise sharply once public investment approaches about 10 percent of GDP, which declines to around 7 percent for countries with weaker public investment management.¹⁷ Historical evidence confirms that rapid investment surges have often led to higher public debt without commensurate long-term growth gains, underscoring the risks of scaling up too quickly without strengthening institutional capacity.¹⁸

Simulation results reinforce these findings by highlighting the trade-offs between speed and sustainability. Aggressive frontloading of public investment delivers the fastest economic gains. Indeed, aggressively scaling up public investment in infrastructure yields the fastest and strongest increases in public capital (figure 2.4a). This leads to the strongest crowding-in effect, with private investment increasing faster (figure 2.4b). Ultimately, this raises growth to about 6.5 percent by the mid-2030s (figure 2.4c), although these gains plateau and decline thereafter, reflecting diminishing returns and emerging capacity constraints that overwhelm the ability of the state to maintain the pace of an aggressive investment path. By contrast, a gradual and well-sequenced investment path achieves slightly lower peak growth, around 6.4 percent, but delivers more stable and sustained improvements over time, reflecting stronger efficiency and implementation quality. The conservative scenario yields more modest gains, with growth reaching about 6.0 percent in the long term, reflecting slower capital accumulation and delayed productivity effects. These results suggest that a phased increase in public investment combined with stronger project selection, procurement, and implementation systems offers an effective pathway to achieving sustained growth close to the 7 percent target.

This framing provides the analytical bridge linking Africa's financing needs to the core drivers of growth, capital accumulation, and productivity. Mobilizing capital at scale requires expanding fiscal capacity through stronger DRM and improving PFM to enhance efficiency, credibility, and investment outcomes. It also requires mobilizing long-term capital from regional and institutional investors, including pension funds and sovereign wealth

funds, to deepen domestic capital markets and reduce reliance on volatile external financing. Harnessing Africa's demographic assets, particularly the diaspora, can unlock new savings, entrepreneurship, and financing to support investment and structural transformation. Leveraging Africa's natural resource wealth and emerging carbon and biodiversity credit markets offers additional pathways to mobilize sustainable financing while strengthening climate resilience. Crowding in global private capital requires strong institutions and catalytic instruments such as PPPs, viability gap funding, asset recycling, and securitization to enhance Africa's financial agency and access to global capital.

MOBILIZING FISCAL RESOURCES AT SCALE

Fiscal policy provides the foundation for development financing, with African countries primarily mobilizing their domestic resources through taxation

Amid tightening fiscal space, rising debt service burdens, and shrinking external financing in the face of spending pressures, stronger DRM becomes essential. However, higher DRM without corresponding improvements in public service delivery imposes large implicit tax burdens on households and firms, which undermines the legitimacy and effectiveness of taxation and leads to a breakdown in the social contract. Under such conditions, households and firms incur high out-of-pocket costs to secure services that would typically be publicly provided. These range from electricity (such as generators or off-grid systems) to water (boreholes), security, and logistics.

These costs act as parallel levies on incomes and profits that reduce disposable income, erode firm profitability, and encourage informality. Enterprise surveys highlight the scale of these burdens: electricity outage losses amount to 3 percent of annual sales in Nigeria and 10 percent in Mali and Chad, and because of this, generator reliance is widespread, with 70.7 percent of firms in Nigeria, 63.3 percent in South Africa, and 38.7 percent in Tanzania owning or sharing generators.¹⁹ The widespread private provision of essential services reflects persistent gaps in public infrastructure and

service delivery. Evidence from the Public Sector Delivery Index shows that improvements in the delivery of essential services—particularly reliability and quality of electricity, education, healthcare, safe water and sanitation, and administrative efficiency of public services—are strongly associated with higher levels of citizen trust in government.²⁰ By reducing the need for households and firms to self-provide these services (an implicit form of taxation), strengthening performance in these priority areas can enhance taxpayer trust, improve voluntary compliance, broaden the formal tax base, and reinforce the fiscal social contract.

Africa's domestic revenue paradox: Rising revenue but declining tax effort

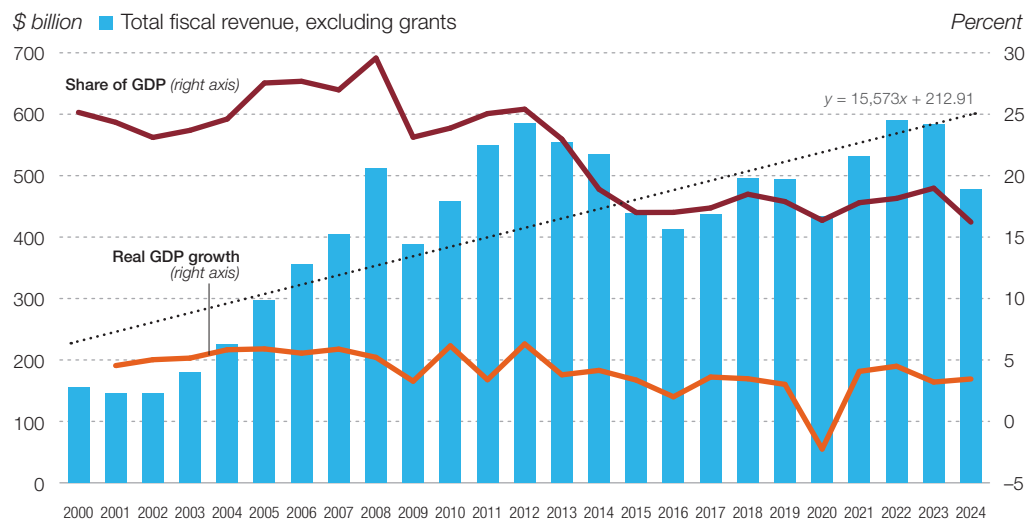
Four interrelated dynamics shape DRM in Africa (figure 2.5). First, Africa has recorded strong growth in nominal fiscal revenue, but this has not translated into sustained improvements in revenue mobilization efforts. In nominal terms, total domestic fiscal revenue more than tripled, rising from about \$154 billion in the early 2000s to nearly \$589 billion at its peak in the early 2020s. However, this expansion has largely reflected economic growth, commodity price cycles, inflation, and exchange-rate effects, rather than durable improvements in tax productivity.²¹

Second, despite this nominal growth, domestic revenue as a share of GDP has followed a persistent downward trend. The revenue-to-GDP ratio declined from around 23–30 percent in the 2000s to about 16.2 percent by 2024 (see figure 2.5). This divergence between nominal revenue growth and revenue effort indicates that revenue collection has not increased proportionately with economic expansion, reflecting deep structural constraints, including narrow tax bases, extensive exemptions, weak compliance, and limited taxpayer coverage. It also points to the underperformance of key tax instruments, particularly VAT, relative to their potential, due to administrative inefficiencies and compliance gaps.

Third, the decline in revenue effort underscores Africa's continued vulnerability to shocks and pronounced revenue cyclicality. In nominal terms, domestic fiscal revenue declined by more than 20 percent during the 2009 global financial crisis, dropping from about 29.6 percent of GDP in

The widespread private provision of essential services reflects persistent gaps in public infrastructure and service delivery

FIGURE 2.5 Trends in Africa's total fiscal revenue (excluding grants), 2000–24



Source: African Development Bank statistics.

In several countries, reliance on value added taxes has intensified over the past decade

2008 to 23.1 percent in 2009. Fiscal revenue also declined by 10 percent during the 2014–16 commodity price downturn, from 23 percent in 2013 to 17 percent in 2016, and by 12 percent in 2020 following the COVID-19 shock, reaching 16.4 percent of GDP, the lowest level since 2000. These disruptions reflect continued dependence on commodity-linked revenue, trade taxes, and other volatile revenue sources, rather than on more resilient domestic taxation anchored in broad-based income, consumption, and property taxes.

Fourth, the post-pandemic recovery in revenue remains incomplete from a structural perspective. Although nominal revenue rebounded strongly after 2020, revenue-to-GDP ratios have not returned to pre-2010 levels. This confirms that recent gains have been driven largely by cyclical factors rather than sustained improvements in tax efficiency, compliance, and institutional capacity. Strengthening DRM requires deeper structural reforms to ensure that future economic growth translates into sustained fiscal capacity and stronger revenue.

Africa's tax structure and revenue administration: Patterns, gaps, and challenges

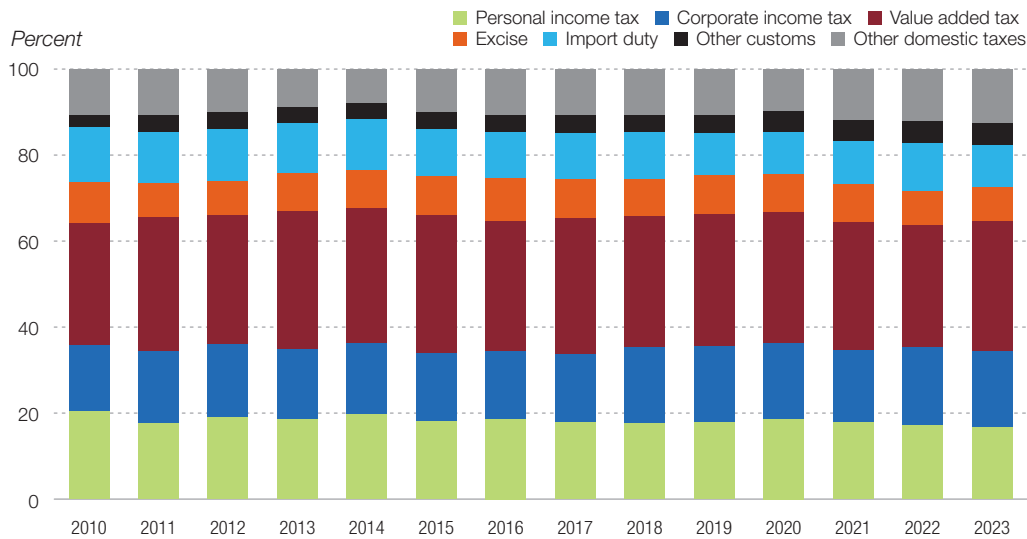
Revenue administration systems in Africa are heterogeneous, ranging from relatively advanced semi-autonomous revenue authorities to nascent

administrations, characterized by manual processes, fragmented taxpayer registers, and weak audit capacities. Diagnostic evidence, including assessments using the Tax Administration Diagnostic Assessment Tool (TADAT), points to improvements in some core functions, such as taxpayer registration and filing compliance. But overall performance remains uneven across countries, reflecting persistent institutional and capacity constraints.

These administrative weaknesses are reflected in Africa's tax structure. VAT is the backbone of revenue mobilization across the continent (figure 2.6). Between 2010 and 2023, VAT accounted for roughly 28–33 percent of total tax collections, making it the single largest source of tax revenue. Its share has remained broadly stable over time, underscoring its role as a reliable and scalable tax instrument in economies characterized by large informal sectors and limited administrative reach.

In several countries, reliance on VAT has intensified over the past decade. The VAT share of total revenue increased markedly in Gabon (from 49 to 72 percent), Zambia (48 to 61 percent), and Lesotho (48 to 52 percent), among others. While the expansion and consolidation of VAT systems have strengthened revenue performance, they have also reinforced Africa's dependence on consumption-based taxation. Reflecting this pattern, indirect taxes—which include VAT,

FIGURE 2.6 Evolution of Africa’s tax structure by revenue source, 2010–23



Source: AfDB staff calculations based on data from the African Tax Administration Forum.

excise duties, import duties, and other customs and transaction taxes—continue to dominate the tax mix. In 2023, indirect taxes accounted for 59.9 percent of total tax revenue, up slightly from 59.2 percent in 2022, with nearly 80 percent of African countries mobilizing more than half of their domestic revenue from these sources.

By contrast, direct taxes, personal income tax (PIT), and corporate income tax (CIT) contribute smaller but more stable shares of total revenue. Over 2010–23, each of these tax types accounted for about 15–20 percent of total tax collections, with no clear upward trend. Although statutory PIT rates vary considerably across countries, the average headline rate in the continent (31.3 percent) remains significantly below the Euro area average (41.3 percent) (figure 2.7). While a few countries, such as Senegal and South Africa, apply relatively high PIT rates (above 40 percent), rates in many other countries are clustered between 25 percent and 35 percent, with some as low as 10–20 percent. This heterogeneity in rates, combined with narrow personal income tax bases and the limited size of formal employment, constrains the contribution of PIT to revenue mobilization. In practice, the modest PIT share in most countries reflects structural labor-market characteristics—limited wage employment and high informality. Conversely, CIT plays a more prominent role in

several resource-rich economies, where profits from extractive industries form a significant part of the tax base. In countries such as Botswana, the Democratic Republic of Congo, and Nigeria, CIT contributes a larger share of total tax revenue, underscoring the uneven and commodity-linked nature of direct taxation across the continent.

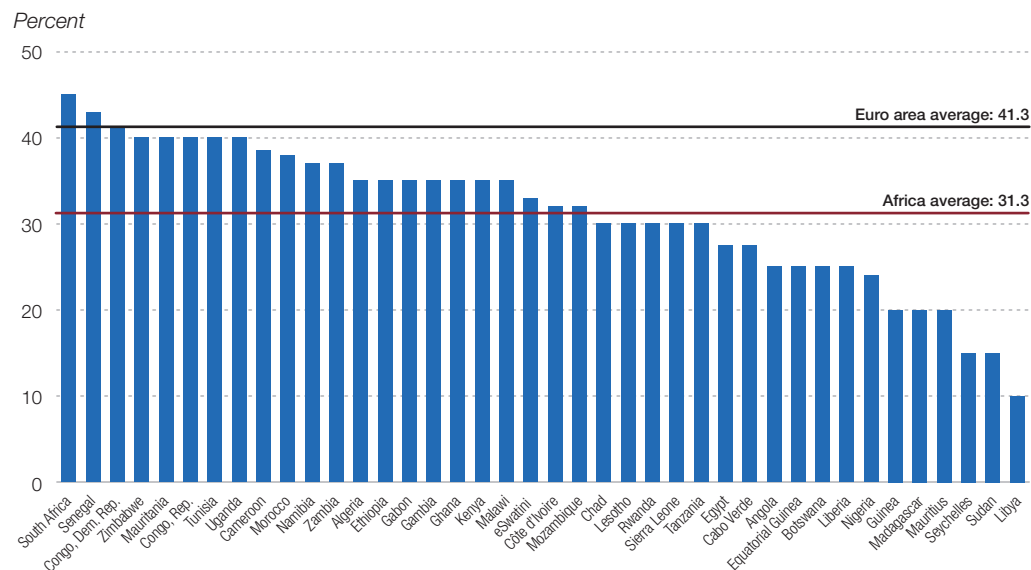
Trade-related taxes, including excise and import duties, account for around 15–20 percent of total tax revenue, though trends differ across components. Excise revenue has remained broadly stable, while the share of import duties has declined gradually, reflecting trade liberalization and deeper regional integration. Despite this shift, customs revenue remains a critical pillar of public finance in trade-dependent economies, accounting for more than half of total tax revenue in countries such as Cape Verde, The Gambia, and Togo. This continued reliance underscores the slow expansion of domestic, nontrade tax bases.

These outcomes are rooted in persistent institutional and administrative constraints. Fragmentation across customs, domestic tax administrations, and sub-national revenue authorities weakens compliance and enforcement, while limited integration with land, business, civil, and financial registries constrain effective taxpayer identification and the detection of evasion. As a

The continued reliance on customs revenue in trade-dependent economies underscores the slow expansion of domestic, nontrade tax bases

Tax revenue buoyancy remains modest and uneven across African countries

FIGURE 2.7 Headline personal income tax rates in Africa compared with the Euro area



Source: PricewaterhouseCoopers (PwC).

Note: The headline PIT rate is generally the highest statutory PIT rate, inclusive of surtaxes but exclusive of local taxes.

result, corporate tax bases are eroded through transfer mispricing and treaty shopping; VAT systems face persistent compliance gaps and refund arrears; property taxation remains underutilized; and the PIT captures only a narrow segment of potential taxpayers due to high informality, incomplete taxpayer registries, and weak third-party reporting systems. Overall, the evidence highlights two key features: the persistent dominance of VAT and other indirect taxes and the structural constraints limiting the expansion of direct tax revenue, particularly the PIT, in many African economies. Improving the productivity of the PIT and the CIT, closing VAT compliance gaps, integrating customs and domestic tax systems, and leveraging digitalization and data integration will help address these imbalances and facilitate equitable and growth-supporting revenue systems to finance Africa's development priorities.

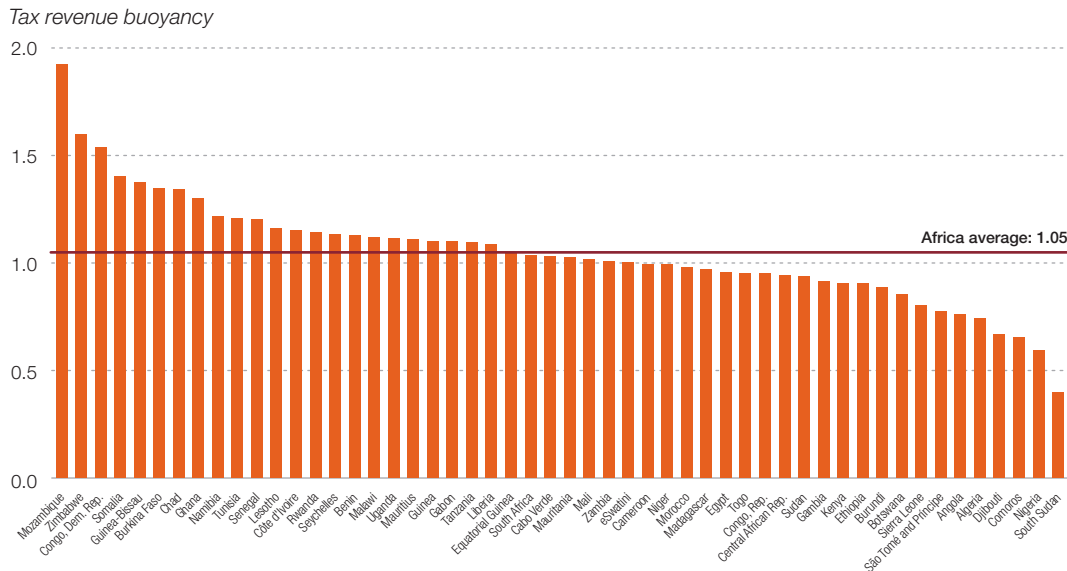
Tax efficiency, buoyancy, and structural revenue gaps

As noted, Africa's domestic resource mobilization challenge is structural rather than cyclical, reflecting weak responsiveness of revenue to economic growth and low tax efficiency. Tax revenue buoyancy remains modest and uneven across African

countries (figure 2.8). While some countries, such as Mozambique (1.9), Zimbabwe (1.6), and the Democratic Republic of the Congo (1.5) recorded buoyancy well above one, indicating revenue growing faster than GDP, many countries posted buoyancy values of close to or below one. This is because tax revenue has grown more slowly than economic activity. The average buoyancy of about 1.1 confirms that Africa's tax systems are modestly responsive to growth, limiting the extent to which governments can automatically expand fiscal space during economic upswings. This average is broadly comparable to estimates for developing Asia, where long-run buoyancy is around 1.10–1.11, and is close to the global central tendency reported for emerging and low-income country groups.²² However, regional short-run estimates suggest that Africa's automatic revenue response is often weaker than in East Asia and Pacific and Latin America and the Caribbean, underscoring the importance of reforms that strengthen compliance, broaden tax bases, and reduce collection inefficiencies.²³

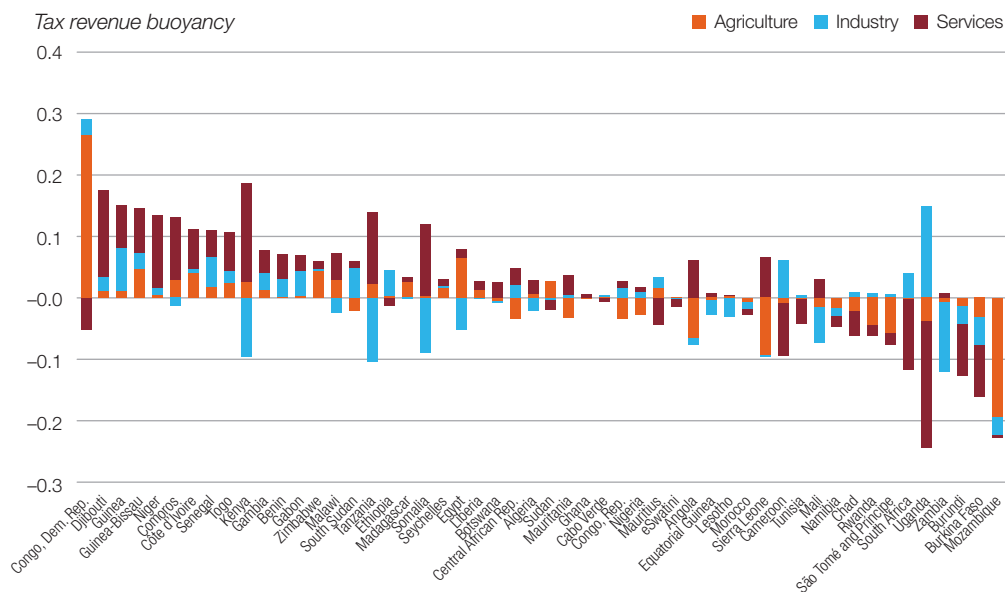
Sectoral buoyancy patterns further underscore these structural weaknesses (figure 2.9). Despite the large cross-country heterogeneity, the aggregate picture shows a weak alignment between tax

FIGURE 2.8 Tax revenue buoyancy



Source: AfDB staff estimates based on data from African Development Bank statistics.

FIGURE 2.9 Africa's sectoral tax buoyancy



Source: AfDB staff estimates based on data from African Development Bank statistics.

systems and the structure of economic activity. On average, the services sector exhibits higher and more stable buoyancy than agriculture and industry, reflecting its growing share in GDP and relatively stronger tax capture where formalization and compliance are higher. By contrast, industrial buoyancy is highly volatile, with several countries

recording negative values, which is indicative of narrow tax bases, extensive tax incentives, and exposure to commodity cycles. Agriculture consistently records the weakest, and often negative buoyancy, highlighting challenges in taxing predominantly subsistence and informal agricultural activities. These patterns indicate that Africa's tax

Industrial tax revenue buoyancy is highly volatile, with several countries recording negative values, which is indicative of narrow tax bases, extensive tax incentives, and exposure to commodity cycles

Consistent with weak buoyancy, value added tax consumption efficiency remains low and highly uneven across countries

systems remain poorly aligned with the sectors driving economic growth, constraining revenue responsiveness and durability.

Consistent with weak buoyancy, VAT consumption efficiency (C-efficiency) remains low and highly uneven across countries (figure 2.10). This is despite VAT being the dominant source of tax revenue in Africa. In 2023, only a few countries, including Seychelles, Cape Verde, Mauritius, and Zambia, achieved relatively high VAT C-efficiency ratios (above 60 percent). By contrast, most countries recorded C-efficiency below 50 percent and, in some instances, below 25 percent. The continental average of around 36 percent implies that close to two-thirds of potential VAT revenue remains uncollected.

Low C-efficiency reflects a combination of policy gaps, including extensive exemptions, zero-rating, and preferential treatments, and administrative weaknesses, such as incomplete taxpayer registration, weak invoicing practices, compliance gaps, refund arrears, and limited audit capacity. In countries at the lower end of the distribution, VAT systems struggle to effectively capture value added along production and distribution chains, particularly in economies with

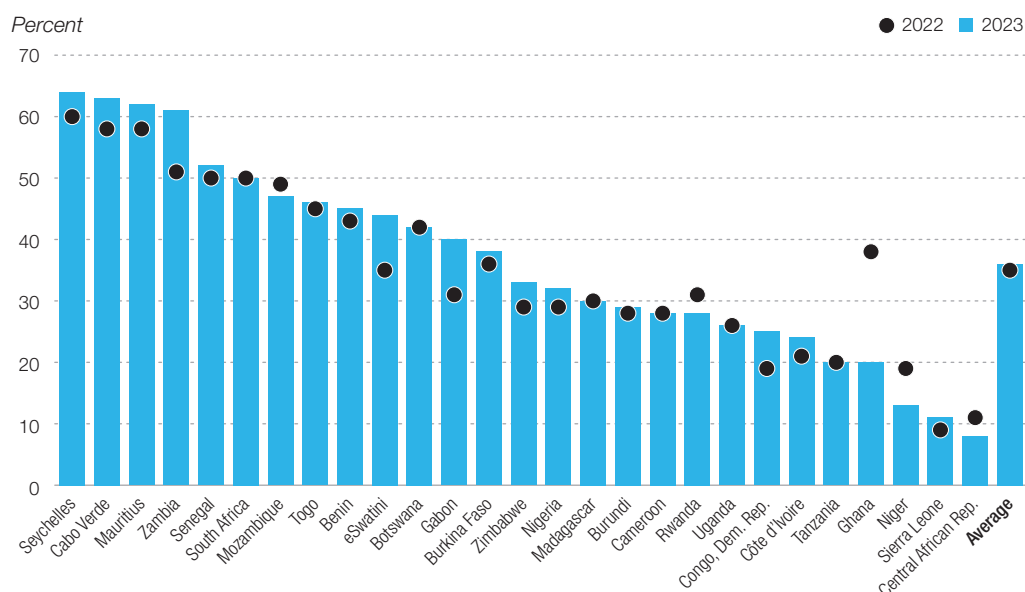
large informal sectors and fragmented taxpayer information.

These findings reinforce the evidence that Africa's heavy reliance on VAT has not translated into commensurate revenue productivity.²⁴ The dominance of VAT in the tax mix, combined with low C-efficiency, implies that governments are relying on a tax instrument that is underperforming relative to its potential, thus constraining the fiscal space. Importantly, the wide variation across countries with similar economic structures indicates that VAT efficiency is linked to administrative practices, enforcement capacity, and system design. Improving VAT C-efficiency could yield one of the largest and least distortionary sources of additional revenue available to African governments.

Operationalizing Africa's untapped revenue potential

Estimates suggest that the continent could mobilize an additional \$469 billion annually (about 14.4 percent of GDP) by converging toward Latin America's revenue performance levels, largely through efficiency improvements rather than an increase in statutory tax rates.²⁵ These potential

FIGURE 2.10 VAT consumption-efficiency by country, 2022–23



Source: AfDB staff calculations based on data from the African Tax Administration Forum.

Note: The figure includes only countries for which comparable data are available for both time periods covered; countries with missing data in either period are excluded

gains stem from addressing structural weaknesses in tax policy, compliance, and administration rather than raising tax rates. Key opportunities include strengthening VAT compliance, improving excise and arrears management, expanding property taxation, and enhancing CIT enforcement, particularly in extractive industries and the growing digital economy. VAT accounts for the largest source of additional revenue potential, approximately \$140.8 billion (figure 2.11). Importantly, this estimated gain exceeds the total VAT revenue collected across the continent in 2024, implying that realizing this potential would effectively require Africa to more than double its current VAT collections. This highlights the depth of existing compliance and policy gaps, as well as the scale of the reform opportunity. VAT reform stands out as the most significant, and least distortionary, pathway for scaling up revenue, especially through broadening the base, reducing exemptions, and strengthening compliance and enforcement.

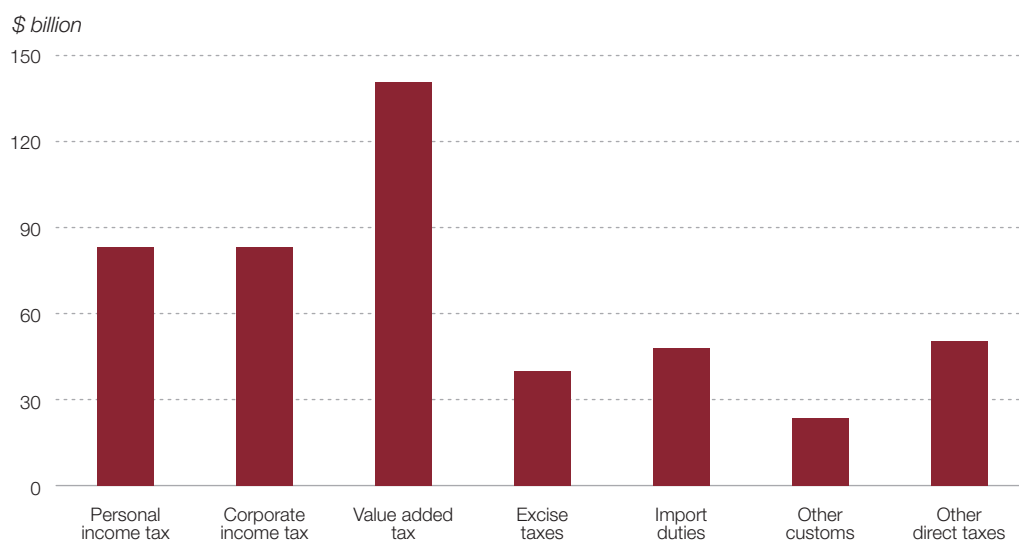
Direct taxes also offer considerable scope for gains, with estimated additional yields of about \$83.3 billion each from CIT and PIT. These improvements would require narrowing compliance gaps, addressing base erosion and profit shifting, and strengthening the taxation of high-income entities (including high net worth

individuals and large corporations). In addition, complementary gains could be realized from trade and consumption-related taxes, including import duties (\$48.1 billion) and excise taxes (\$39.9 billion), as well as from other domestic taxes (\$50.5 billion) and other customs revenue (\$23.5 billion). These figures underscore the need for a broad-based and balanced revenue strategy—one that simultaneously strengthens indirect taxation, enhances direct tax performance, and improves overall tax administration efficiency.

Translating revenue potential into sustained fiscal capacity requires a coherent set of policy instruments implemented in a sequenced and institutionally grounded manner. Table 2.3 presents a stylized framework for effective revenue mobilization, organized around two mutually reinforcing pillars—tax instruments and nontax instruments—supported by cross-cutting equity safeguards to protect vulnerable populations. Tax instruments include reforms to VAT, excise taxes, corporate income taxation, and property taxation—alongside measures to expand taxation of the digital economy and telecommunications sectors, and to modernize customs and domestic tax administration. Nontax instruments focus on increasing dividends from state-owned enterprises (SOEs), improving royalty regimes,

Africa could mobilize an additional \$469 billion annually (about 14.4 percent of GDP) by converging toward Latin America's revenue performance levels, largely through efficiency improvements rather than an increase in statutory tax rates

FIGURE 2.11 Potential tax revenue gains by major tax instrument, 2026–29



Source: AfDB staff calculations based on data from the African Tax Administration Forum and African Development Bank statistics.

TABLE 2.3 Policy instruments for effective revenue mobilization

<p style="text-align: center;">Pillar 1: Tax instruments</p> <ul style="list-style-type: none"> • VAT, excise taxes, CIT, property taxes • Digital economy and telecommunications taxation • Customs and domestic tax modernization 	<p style="text-align: center;">Pillar 2: Nontax instruments</p> <ul style="list-style-type: none"> • SOE dividends and royalties • User fees and service pricing • Natural resource revenue
<p style="text-align: center;">Cross-cutting</p> <p style="text-align: center;">Equity safeguards (targeted subsidies, social protection)</p>	

Source: AfDB staff.

Over the past two decades, Africa's total tax revenue more than quadrupled, but tax revenue as a share of GDP declined

streamlining user fees and service pricing, and enhancing the management of natural resource revenue. Across both pillars, equity safeguards, such as targeted subsidies and social protection mechanisms, help ensure that revenue mobilization reforms remain socially sustainable and politically acceptable while supporting inclusive growth.

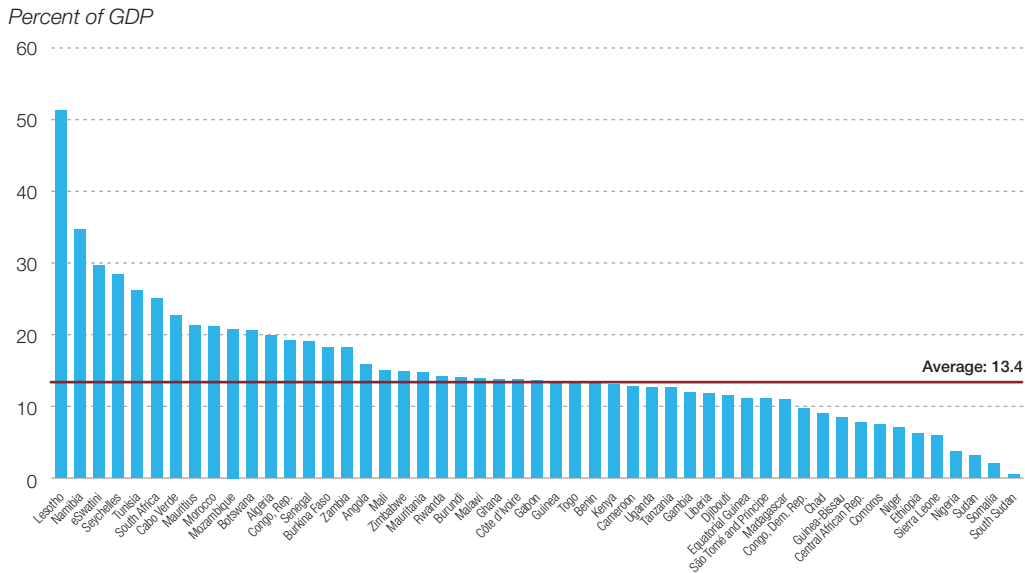
Over the past two decades, Africa's total tax revenue more than quadrupled from about \$100 billion in the early 2000s to nearly \$450 billion in the early 2020s. But this strong growth in nominal revenue has not translated into sustained improvement in tax efforts. Tax revenue as a share of GDP declined over the same period, from around 18–20 percent in the early 2000s to about 13.4 percent by 2024 (figure 2.12). This divergence suggests that tax systems have not kept pace with economic activity and emerging sources of growth. Persistent tax exemptions and incentives, narrow tax bases, weak compliance, large informal sectors, and administrative inefficiencies constrain revenue performance.

Cross-country evidence reinforces these findings. In 2024, only 11 countries achieved tax-to-GDP ratios above 20 percent, while nearly half recorded ratios below the continental average. Importantly, virtually all countries, except Lesotho, remain below the OECD average of nearly 34 percent. The wide dispersion in tax-to-GDP ratios among countries with comparable income levels and economic structures suggests that low revenue mobilization reflects differences in policy design, institutional capacity, compliance enforcement, and administrative effectiveness. In effect, Africa is collecting significantly less tax revenue than its economic potential suggests.

Broadening the tax base is critical and could include reducing inefficient and poorly targeted exemptions, strengthening VAT design, and expanding coverage to emerging activities such as the digital economy.²⁶ Reforms to “sin” taxes on alcohol and tobacco, as well as on excise taxation, particularly on fuel, offer further scope for revenue gains in Africa while supporting public health and environmental objectives. Excise duties play a critical role in revenue mobilization. Notably, collections from fuels account for 40.2 percent, followed by alcoholic beverages (29.6 percent) and tobacco products (15.8 percent). In several countries—including Angola (99.8 percent), Gabon (86.7 percent), and Togo (74.9 percent)—fuel excises dominate excise revenue while alcohol excises are the main source in Eswatini (94.5 percent), Namibia (93.0 percent), and Kenya (69.2 percent), and tobacco excises prevail in Cape Verde (100 percent), Madagascar (45.1 percent), and Morocco (41.8 percent).

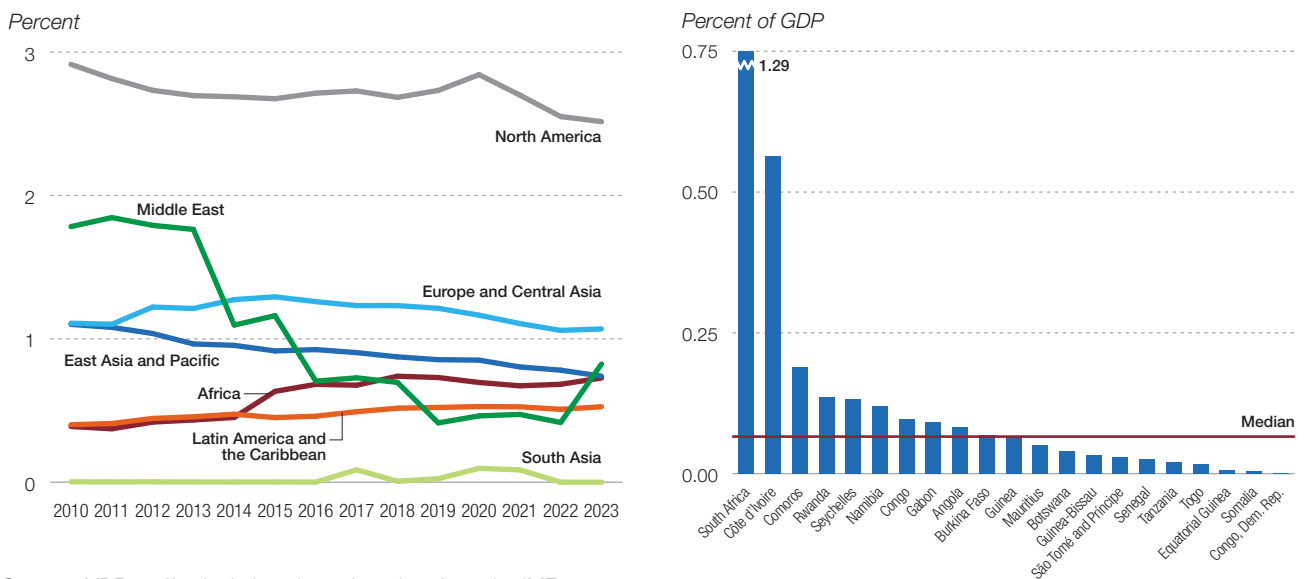
These patterns highlight both the importance of excise taxes and the scope for further revenue gains through rate rationalization, improved product classification, regular indexation, and stronger enforcement, in line with international best practices.²⁷ Property taxation represents another largely underutilized source of stable and growth-friendly revenue in many African countries. Revenue from taxes on immovable property remains very low across the continent compared with other regions of the world (figure 2.13). While property taxes account for roughly 2.5–3 percent of GDP in North America and about 1.0–1.3 percent in Europe and Central Asia, the regional average for Africa remains below 0.8 percent of GDP, even after modest increases over the past

FIGURE 2.12 Tax-to-GDP ratio in Africa, by country, 2024



Source: African Development Bank statistics.

FIGURE 2.13 Property tax mobilization in Africa: regional benchmarking and country performance



Source: AfDB staff calculations based on data from the IMF.

decade. Cross-country evidence further highlights substantial heterogeneity within the continent. South Africa collects about 0.7 percent of GDP in property taxes, followed by Côte d'Ivoire at around 0.6 percent, while most other countries collect less than 0.2 percent of GDP, and several collect below 0.05 percent. The median among African countries with available data is around

0.06–0.07 percent of GDP, underscoring the large gap between Africa and other regions. These comparisons highlight the considerable scope for strengthening property tax systems in Africa through improvements in land registration, property valuation, billing systems, local tax administration, and improved delivery of social services to elicit voluntary compliance among taxpayers.

Equally important is closing compliance gaps, which remain a binding constraint on revenue mobilization across many African countries. Deploying risk-based audits, streamlining large taxpayer offices to improve the efficiency of revenue collection, and scaling up electronic services can improve filing, payment, and reporting compliance, particularly for VAT and CIT.²⁸ Data compiled by ATAF highlight both capacity constraints and efficiency gaps. In 2023, the average number of taxpayers per auditor stood at 11,173, up from 10,907 in 2022, pointing to heavy auditor workloads in several jurisdictions (figure 2.14). The per capita burden is especially pronounced in South Africa (132,677 taxpayers per auditor) and Kenya (76,024), underscoring the importance of automation and risk-based audit selection to expand coverage and effectiveness.

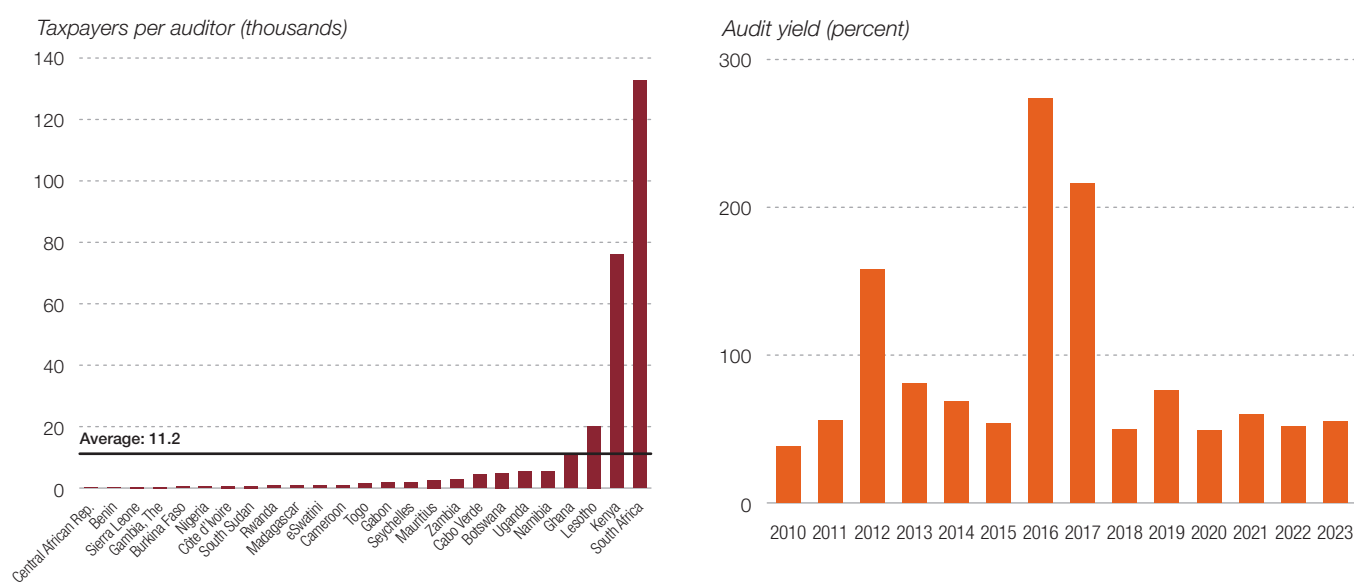
Improvements in audit yield, measured by the share of assessed amounts collected, signal existing scope for gains from stronger enforcement. The average audit yield across ATAF countries rose to 55 percent in 2023, up from 52 percent in 2022, with Botswana, Côte d'Ivoire, and Mauritius achieving yields at or above 100 percent, reflecting highly effective post-assessment collection. By contrast, Angola's recovery rate of just 1 percent highlights persistent enforcement challenges.

In parallel, modernizing customs administration—through improved valuation controls, national single windows, post-clearance audits, and anti-smuggling measures—can further protect the tax base, enhance trade facilitation, and reduce revenue leakages at the borders.²⁹

DRM must extend beyond taxation to harness potential from charges, public assets (including SOEs), and natural resource rents, as sources of nontax revenue (NTR) for many African countries. Figure 2.15 highlights both the scale and volatility of nontax revenue in Africa over the past two decades. In nominal terms, NTR (excluding grants) increased from about \$45.1 billion in 2000 to a peak of \$161.7 billion in 2012, reflecting favorable commodity prices, improved collection of resource rents, and higher user fees. This upward trend, however, proved fragile. NTR declined sharply during subsequent commodity price downturns and during the COVID-19 shock, falling to \$92.9 billion by 2024.

NTR has declined over time. As a share of GDP, NTR halved from around 7–8 percent in the mid-2000s to about 3–4 percent by 2024. This decline reflects cyclical movements, particularly in commodity prices, and a failure to sustain strong institutional frameworks to strengthen current sources and diversify into other sources of NTR. The trend

FIGURE 2.14 Taxpayers per auditor, 2023, and audit yield, 2010–23



Source: AfDB staff calculations based on data from the African Tax Administration Forum.

FIGURE 2.15 Trend in Africa’s non-tax revenue (excluding grants), 2000–24



Source: African Development Bank statistics.

underscores the need to reinforce the structural foundations of NTR mobilization to ensure stability and predictability.

A key priority is improving the pricing and collection of revenue from public services, especially in energy, water, transport, and urban services, where tariffs often fall below cost recovery levels and collection efficiency is limited. The sale of goods and services constitutes a major component of NTR in many countries, although its relative importance varies significantly (figure 2.16). In several economies, it accounts for more than half, and in some cases nearly all, of total NTR, while in others its contribution is modest due to differences in tariff policies, billing systems, and enforcement capacity.

Figure 2.16 also highlights the broader heterogeneity in NTR composition across countries. Resource-rich economies tend to rely more heavily on rents and royalties, reflecting the central role of extractive industries. Interest and dividends, particularly transfers from SOEs, contribute more than 30 percent of total NTR in Equatorial Guinea, Mali, Mauritania, Seychelles, and Kenya, but remain uneven and often unpredictable. Fines, penalties, and forfeits contribute to smaller shares. These patterns suggest that NTR performance depends on economic structure, institutional capacity, and the governance of public assets. Tariff rationalization, improved metering and billing

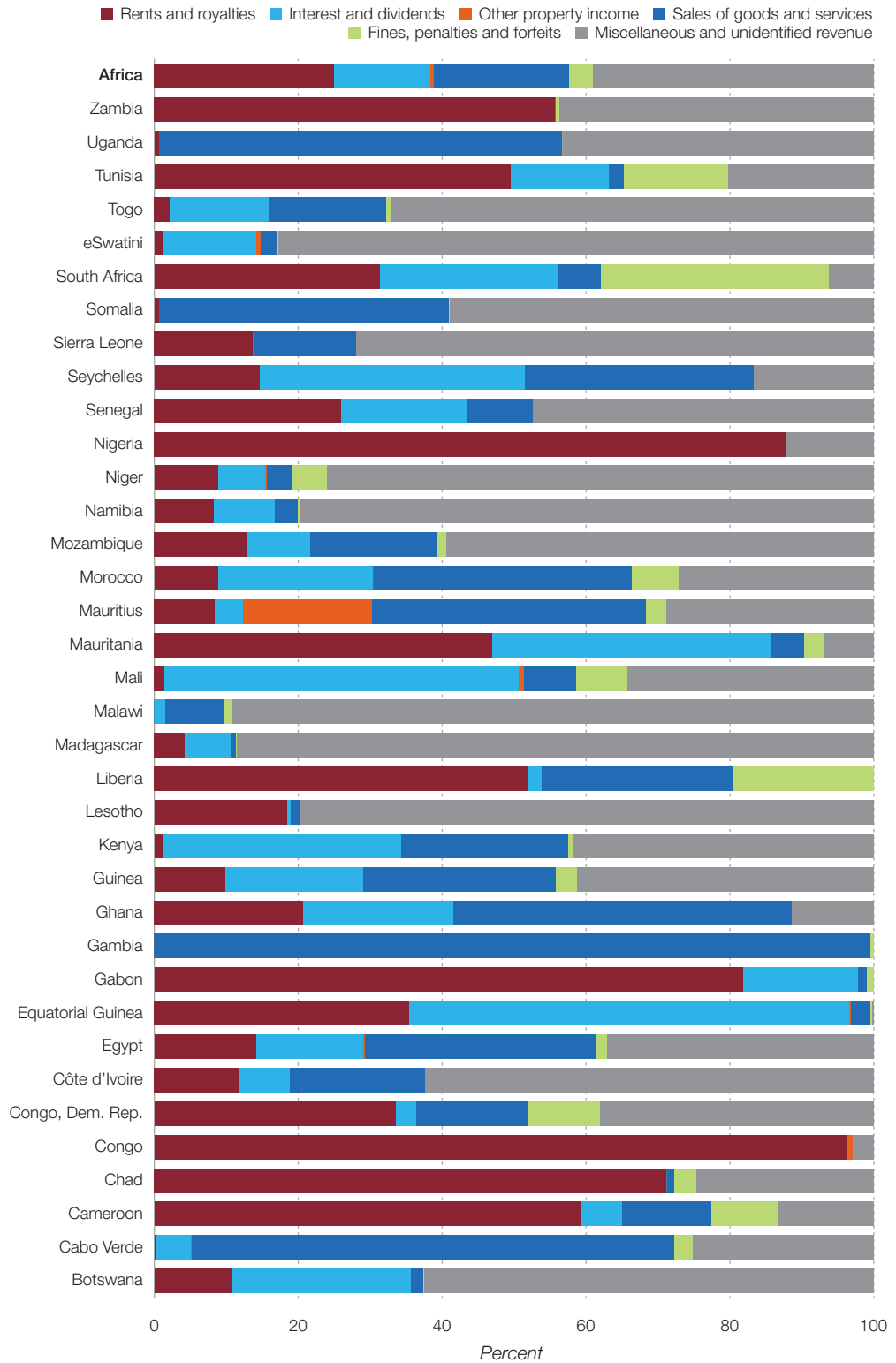
systems, and expanded digital payment platforms can strengthen collections, improve service delivery and reduce quasi-fiscal deficits, particularly in SOE-managed utilities and transport services.³⁰

Strengthening SOE dividends and royalties is equally critical. Despite their significant economic footprint, many SOEs operate under soft budget constraints and transfer net negative resources to national budgets due to weak governance, opaque reporting, and discretionary dividend policies. Establishing clear dividend frameworks, enhancing financial oversight, and aligning SOE incentives with fiscal objectives can generate more stable and predictable revenue streams while improving accountability and operational efficiency.³¹

Similarly, royalty and profit-sharing arrangements, particularly in energy, mining, and telecommunications, warrant periodic review to ensure fair public returns aligned with market conditions. Cross-country disparities in rents and royalties often reflect weaknesses in contract design, production monitoring, valuation, and enforcement. Strengthening contract transparency, improving production and export monitoring, enhancing pricing practices, and reinforcing coordination among tax authorities, line ministries, and SOEs can reduce leakages and increase the public capture of resource rents.³² Well-designed user fees and service charges can complement these reforms by supporting cost recovery and

A key priority is improving the pricing and collection of revenue from public services, especially in energy, water, transport, and urban services, where tariffs often fall below cost recovery levels and collection efficiency is limited

FIGURE 2.16 Distribution of nontax revenue sources as a share of total NTR, 2023



Source: AfDB staff calculations based on data from OECD (2025).

infrastructure maintenance, provided they are transparent, efficiently administered, and accompanied by targeted social protection to safeguard vulnerable households.

Revenue reforms and sequencing

Sequencing matters for credibility and results, as revenue reforms typically involve policy and political trade-offs—balancing revenue objectives with impacts on households, firms, and growth—alongside administrative capacity constraints and time lags between policy adoption and revenue realization. A phased reform strategy enables governments to achieve early wins, strengthen institutional capacity, and ensure sustained implementation and predictable outcomes over time (figure 2.17). For countries at the early stages, reforms could focus on interventions that raise revenue without major legal or policy overhauls to build momentum for additional reforms. These can include integrating taxpayer registers, strengthening filing and payment enforcement, improving the administration of tax exemptions and waivers, and deploying digital tools for VAT and customs administration. In parallel, introducing simplified tax regimes for informal and semi-formal operators—such as presumptive or turnover-based systems—can broaden the tax net early while lowering compliance costs and facilitating gradual formalization. Such measures can generate revenue gains relatively quickly, strengthen compliance norms, and enhance reform credibility.³³ The application

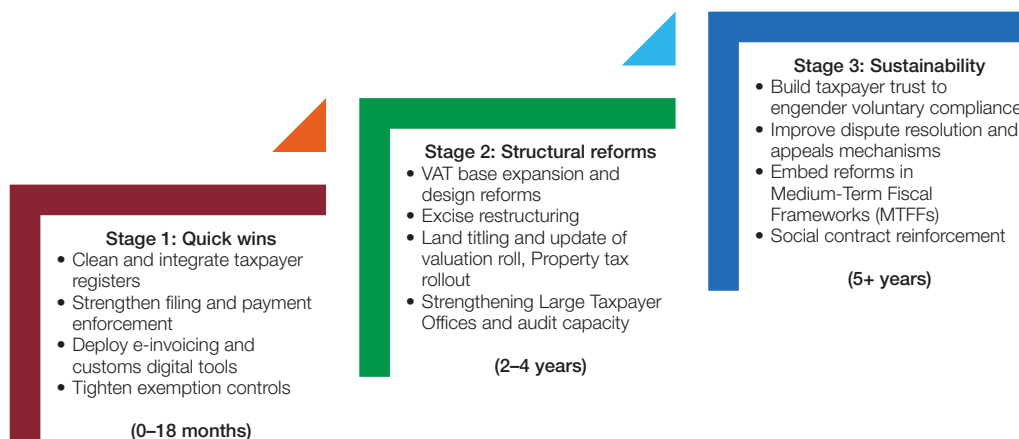
of this sequencing is illustrated in box 2.1, which draws on lessons from Bank-supported governance and tax reform operations across Africa.

The second phase would be to deepen and broaden revenue gains through a combination of policy and institutional reforms, especially those requiring legislative changes and stakeholder engagement. On the policy side, this would include expanding the tax base and rationalizing exemptions, restructuring excise tax, and rolling out property taxation through improved land titling and updating valuation rolls. Institutional reforms such as strengthening large taxpayer offices, enhancing audit and risk management functions, and integrating tax and customs data systems help to underpin these gains by improving enforcement and reducing leakages.³⁴ These reforms would gradually deliver larger revenue gains, reflecting implementation and behavioral lags. Institutional reforms supported by the Bank (strengthening revenue authorities, modernizing PFM systems, and enhancing parliamentary oversight) have led to revenue gains and reduced reform reversals (box 2.1).

The final phase focuses on sustaining revenue performance over the medium term by reinforcing the institutional and social foundations of taxation. This includes strengthening taxpayer trust, improving dispute resolution mechanisms, enhancing transparency, and embedding revenue reforms within medium-term fiscal frameworks. Such measures are critical for fostering voluntary compliance, reducing reform reversals, and ensuring that

Sequencing matters for credibility and results, as revenue reforms typically involve policy and political trade-offs

FIGURE 2.17 Reform sequencing timeline: from quick wins to sustainable fiscal capacity



Source: AfDB staff.

BOX 2.1 Lessons from Bank-supported governance and tax reforms to strengthen DRM in Africa

Strengthening DRM is central to Africa's fiscal sustainability and development financing agenda. Bank-supported governance and tax reforms across several African countries demonstrate how targeted institutional, administrative, and digital interventions can raise revenue and expand the fiscal space.

Zimbabwe Tax and Accountability Enhancement Project (TAEP 2020–25)

The project supported modernization of tax administration through the Integrated Tax and Revenue Management System (TaRMS), strengthened parliamentary oversight, and built capacity across public finance institutions. It streamlined and automated tax processes, improved transparency, reduced leakages, and strengthened compliance. Domestic revenue increased by 36 percent (against a 16 percent target), 76,514 new taxpayers were registered, and TaRMS reached 95 percent functionality by 2025. On the expenditure side, the project strengthened accountability by enabling the Parliament's Public Accounts Committee to ensure a 100 percent follow-up rate on audit recommendations, with uptake of audit recommendations in the national budget rising from 55 percent to 64 percent.

Democratic Republic of Congo Public Finance Modernization Support Project (PAM-FP 2012–17)

The project focused on rehabilitating provincial tax centers, digitalizing the revenue–expenditure–payroll chain, and training public finance staff in five provinces. It contributed to average annual provincial revenue growth of 10 percent, reduced tax filing time by 2.5 days, and improved perceptions of transparency and service delivery. It also enhanced public expenditure efficiency and access to basic services, while perceived inequity in tax administration declined among households and informal sector businesses.

Tanzania Institutional Support Project for DRM and Natural Resource Governance (2017–25)

The project supported modernization of tax and customs systems, strengthened governance of the petroleum and mining sectors, and built capacity in contract negotiation and fiscal forecasting. It contributed to an increase in the tax-to-GDP ratio from 12.4 percent to 13.1 percent, improvements in Public Expenditure and Financial Accountability revenue indicators from D+ to B, and the successful negotiation of nine major natural resource contracts. The upgraded Tanzania Customs Integrated System (TANCIS) improved port efficiency and increased container scanning capacity fivefold from about 200 to more than 1,000 containers per day. Foreign direct investment in natural resources rose from 38 percent to 58.9 percent, exceeding targets.

Namibia Tax Administration Technical Assistance Project (TATAP 2024–26)

The project supports specialized audits in high-risk sectors, advanced data analytics, and institutional capacity building within the Namibia Revenue Agency. It targets a 10 percent increase in non-mining corporate tax revenue by 2026, particularly in the retail and insurance sectors, through risk-based audit methodologies, specialized audits, and strengthened analytical capacity.

Lessons learned

These experiences highlight the importance of targeted reforms to fiscal governance and revenue administration in expanding fiscal space and reducing reliance on high-cost public debt. Sustained gains depend on dedicated financing, staff retention, and maintenance of critical systems. Subnational reforms and investments in basic infrastructure can yield quick revenue gains, while integrated DRM and natural resource governance reforms, targeted audits, and coordinated support to revenue authorities, parliaments, and audit institutions strengthen the entire public finance system. Reforms that enhance fairness, service delivery, and accountability also help build voluntary tax compliance and public trust.

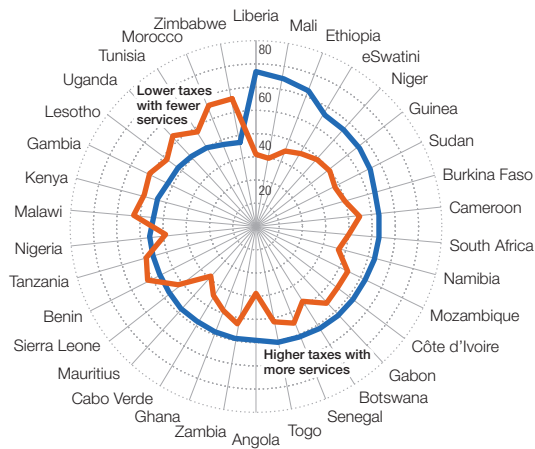
Source: AfDB staff based on Bank-supported governance and tax reform operations.

revenue mobilization translates into sustainable fiscal capacity rather than one-off gains.³⁵

Implicit taxation shapes the political economy of revenue reform, so a central element of sustaining revenue performance is strengthening the fiscal social contract between governments and citizens through improved delivery of social and public services. When taxpayers perceive that they must effectively “pay twice,” once through formal taxes and again through private provision of essential services due to gaps in public provision, they are less likely to view taxation as a fair exchange. In fragile and conflict-affected situations, this breakdown of the fiscal social contract tends to be more pronounced, heightening risks of state delegitimization and weakening incentives for compliance. Strengthening DRM in such contexts requires linking revenue reforms more explicitly to inclusive and visible improvements in service delivery, helping to restore trust between citizens and public institutions. Where the quid pro quo relationship between taxation and public service delivery is weak, tax morale declines; voluntary compliance erodes, and the effective tax base remains constrained. Evidence from multiple rounds of Afrobarometer surveys, as well as the 2024 Public Service Delivery Index in Africa report,³⁶ supports this relationship. Across many African countries, a significant share of citizens expresses a greater willingness to pay taxes when they perceive a clear link between taxation and improved public services (figure 2.18). This finding is consistent with a broad empirical literature showing that tax compliance is strongly shaped by perceptions of fiscal reciprocity.

Large cross-country variations are observed in reported tax avoidance behavior—defined as the legal use of loopholes and exemptions—with an average of about 52 percent of respondents indicating frequent avoidance, rising to more than 80 percent in some countries (figure 2.19). While such patterns point to policy design gaps—particularly the scope for reducing exemptions and closing legal loopholes—they differ fundamentally from tax evasion, which is illegal and represents a more substantial and well-documented source of revenue loss. Evidence suggests that high levels of evasion are closely linked to weak enforcement, limited administrative capacity, and low trust in

FIGURE 2.18 Higher taxes with more services vs. lower taxes with fewer services



Source: AfDB staff calculations based on data from the 2022 Afrobarometer surveys.

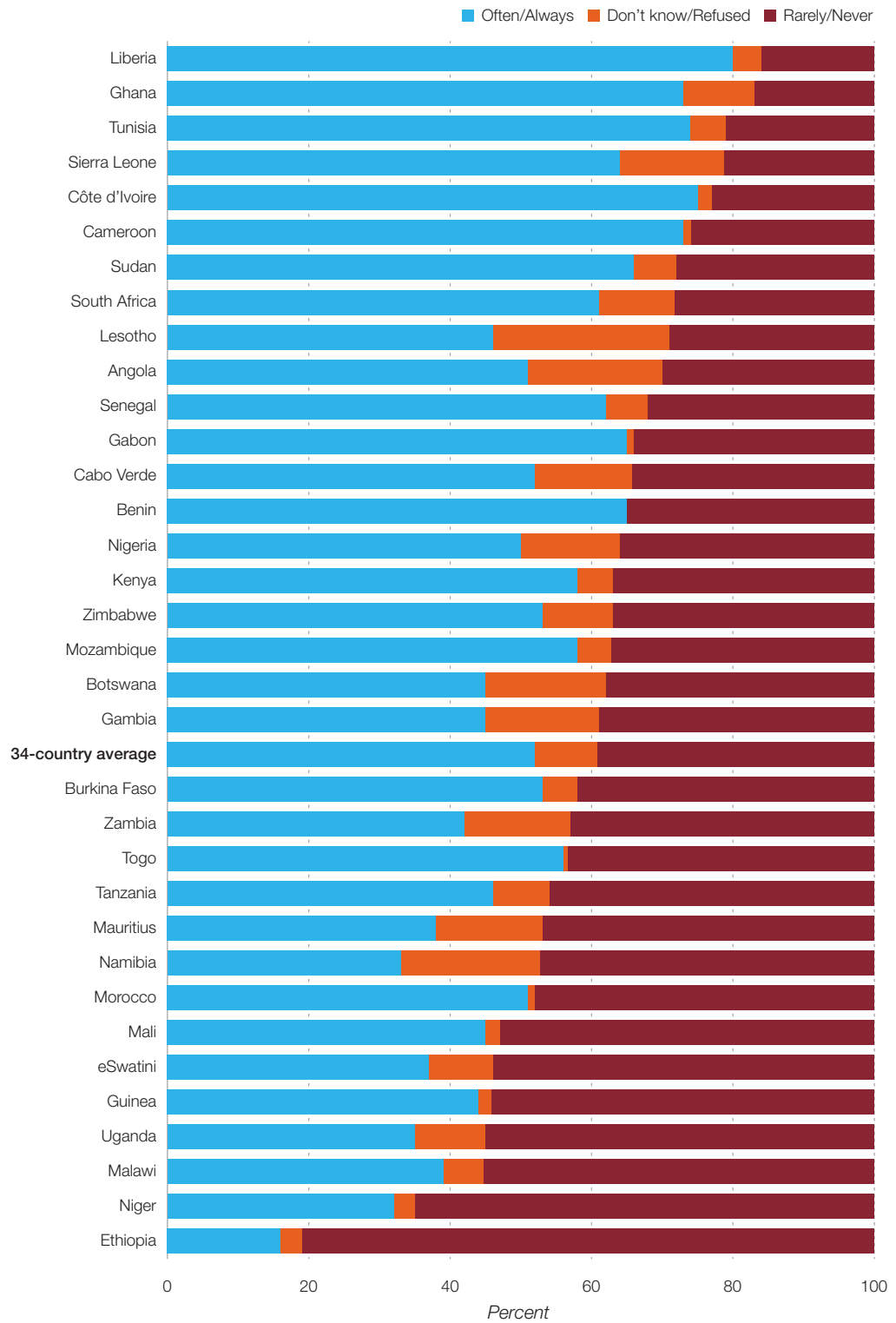
public institutions.³⁷ In this context, compliance gaps reflect not only weaknesses in tax policy design but also deeper institutional and governance challenges. Where governments improve service delivery, transparency, and accountability, voluntary compliance tends to strengthen; conversely, weak public service provision is associated with higher evasion and lower incentives to comply.³⁸ Sustained DRM depends on both tightening policy frameworks to limit avoidance and, more critically, strengthening enforcement and public confidence to reduce evasion and enhance overall compliance.

In this context, strengthening DRM requires a multidimensional strategy that goes beyond tax policy and administration to include improvements in service delivery, transparency, and fiscal governance. Visible improvements in infrastructure, public services, and institutional accountability reinforce compliance, reduce reliance on private provision of public goods, and strengthen trust in public institutions. Embedding revenue reforms within the medium-term fiscal frameworks further enhance credibility by linking revenue mobilization to clear expenditure priorities, fiscal sustainability, and development outcomes.

Institutional enablers and digitalization of revenue collection systems

Effective DRM is underpinned by tax policy design and institutional enablers that translate policy into

FIGURE 2.19 How often do people avoid paying taxes?



Source: AfDB staff calculations based on data from the 2022 Afrobarometer surveys.

sustained collections. These include strong political commitment and clear mandates for reform; capable and professional revenue administrations with performance management and integrity systems; robust legal frameworks for compliance, enforcement, and sanctions; and transparency mechanisms that strengthen accountability and taxpayer trust. Equally important are interoperable digital foundations such as unique taxpayer identification, data sharing across public agencies, and secure e-payment platforms that allow revenue administrations to broaden the tax base, reduce leakages, and improve compliance at scale.

Within this institutional ecosystem, digitalization has become a central pillar of revenue administration reform in Africa. The rollout of electronic filing (e-filing), electronic payments (e-payments), electronic invoicing (e-invoicing), and digital taxpayer registries has already improved efficiency, reduced discretion, and strengthened transparency in many countries. When combined with improved audit targeting and better management of tax expenditures, these reforms can generate large fiscal dividends without increasing tax rates—equivalent to sizable gains in public investment and social spending.

Digitalization is particularly critical for strengthening VAT performance, given the central role of VAT in Africa's tax structure. Tools such as e-invoicing, real-time transaction reporting, and integrated VAT management systems offer options to reduce underreporting, improve refund management, and close VAT compliance gaps. Country experiences show that when e-invoicing, real-time reporting, and customs automation are embedded within broader compliance and enforcement strategies, VAT productivity—defined as the efficiency with which VAT generates revenue relative to its statutory rate (the share of potential VAT revenue actually collected)—improves sustainably.

Accelerating mandatory e-invoicing, strengthening data-driven risk profiling, rationalizing exemptions, and improving coordination between customs and domestic tax administrations are

essential to ensuring that growth in VAT collections reflects genuine improvements in tax effort rather than cyclical or inflation-driven gains. Without such reforms, Africa's VAT-centric tax systems will continue to expand nominal revenue without achieving sustainable improvements in revenue productivity. Beyond VAT, digital tax administration tools are essential to strengthening personal and corporate income taxation. Experience across countries (box 2.2) shows that digital tools deliver sustainable revenue gains when embedded within broader governance reforms, supported by strong legal frameworks, risk-based compliance management, and sustained political commitment.

Role of international cooperation and development partners

International cooperation and development partner support are essential to complement national reforms that strengthen DRM in Africa. Multilateral development banks, bilateral partners, and international organizations can leverage their financial resources and technical expertise to support reforms that strengthen revenue systems and expand the fiscal space for development financing. International tax cooperation initiatives—such as the OECD–G20 Base Erosion and Profit Shifting (BEPS) framework and the Global Minimum Tax—provide opportunities to protect tax bases and enhance fairness in the international tax system (box 2.3). But capacity constraints limit the effective uptake of these initiatives in many African countries, particularly in areas such as transfer pricing audits, treaty negotiation and interpretation, dispute resolution, and data analysis. Many countries continue to face shortages of specialized staff, weak legal frameworks, and limited access to the information required to enforce complex international tax rules. Aligning external support with country-owned reform strategies enhances sustainability and impact, while regional cooperation strengthens collective bargaining and normative influence in global tax governance debates.

Multilateral development banks, bilateral partners, and international organizations can leverage their financial resources and technical expertise to support reforms that strengthen revenue systems and expand the fiscal space for development financing

BOX 2.2 Country case studies on modernizing revenue collection

Rwanda: Leveraging e-invoicing to strengthen VAT compliance

Rwanda has emerged as a continental leader in the use of e-invoicing to improve VAT compliance and reduce fraud. The Rwanda Revenue Authority introduced the Electronic Billing Machine (EBM) system, which requires VAT-registered businesses to issue real-time electronic invoices directly linked to the tax administration. This reform reduced underreporting, improved audit targeting, and strengthened VAT collections. The success of Rwanda's approach reflects strong political commitment, mandatory adoption, and integration of e-invoicing with broader digital government systems. The experience highlights the importance of combining technology with enforcement and taxpayer education to achieve sustained revenue gains.

Kenya: iTax and the digital transformation of revenue administration

Kenya's iTax platform represents one of Africa's most comprehensive digital tax administration reforms. Managed by the Kenya Revenue Authority (KRA), iTax integrates taxpayer registration, filing, payment, and compliance management across major taxes. The platform has expanded the taxpayer base, reduced compliance costs, and enhanced data analytics for risk-based audits. Reforms linking iTax with mobile money platforms and the national identification system have further strengthened compliance. Kenya's experience demonstrates how end-to-end digitalization, when supported by legal reforms and institutional capacity, can modernize revenue administration at scale.

Morocco: Strengthening VAT compliance through administrative and digital reforms

Morocco has made notable progress in improving VAT compliance through a combination of administrative reforms, digital filing systems, and improved refund management. Tax administration has expanded electronic filing and payment, enhanced risk-based audits, and streamlined VAT refund procedures, reducing arrears and improving taxpayer trust. These reforms have contributed to a narrowing of the VAT compliance gap and more stable revenue performance. Morocco's experience underscores the importance of administrative efficiency, predictability, and transparency in strengthening indirect tax systems.

The Gambia: ASYCUDA-World implementation

The Gambia Revenue Authority (GRA) modernized its customs operations through the implementation of ASYCUDA-World, the web-based version of the Automated System for Customs Data developed by UNCTAD. This reform, launched in mid-2022 with funding and technical support from the African Development Bank and UNCTAD, replaced the older ASYCUDA++ system with a more flexible, interoperable, and internet-accessible platform. ASYCUDA-World enables 24/7 electronic filing and processing of customs declarations, duty and tax payments, and real-time classification of goods, reducing human intervention, improving procedural predictability, and facilitating cross-border trade.

Since going live, the system has contributed to marked improvements in customs revenue collection and efficiency. In 2023, the GRA reported a 23 percent increase in customs revenue, with collections reaching a record D15.6 billion (\$231 million)—exceeding annual targets—while a growing share of payments and declarations were processed electronically. The reform has also enhanced trade facilitation, transparency, and data availability, allowing classification, tariff information, and customs tax calculators to be accessed online by traders and agents. Training of dedicated national ASYCUDA teams and stakeholder engagement have underpinned the transition, though full integration with other national systems (e-payments, national ID registries, and Integrated Financial Management Information Systems) remains a work in progress. The Gambia's experience with ASYCUDA-World illustrates how digital customs modernization can strengthen revenue mobilization, reduce compliance costs, and support broader revenue administration reforms, while highlighting the continuing importance of capacity building and systems interoperability.

Source: AfDB staff compilation based on country revenue authority reports and project documentation.

BOX 2.3 International tax cooperation and Africa's revenue mobilization

International tax cooperation has become an indispensable part of Africa's revenue mobilization strategy. The OECD/G20 Inclusive Framework on BEPS brings together countries to address issues such as transfer pricing standards, harmful tax practices, and the allocation of taxing rights over multinational enterprises, including efforts to reform digital economy taxation (Pillar One) and through a global minimum corporate tax (Pillar Two). By mid-2024, 40 jurisdictions worldwide had enacted legislation related to the Global Minimum Tax, marking important progress in efforts to curb harmful tax competition and profit shifting.

Regional organizations and technical forums, such as the African Tax Administration Forum, partner with international bodies like the OECD to deliver joint capacity-building programs on emerging issues such as transfer pricing simplification and practical tools for tax administration. These programs have benefited public officials from African countries, enhancing their ability to interpret and implement international tax standards.

Such cooperation helps strengthen legal frameworks, develop specialized units, and improve dispute resolution capabilities, areas where many African countries face constraints. By facilitating information exchange, technical training, and policy dialogue, international tax cooperation initiatives help level the playing field and support domestic reforms aimed at securing a fair share of global tax revenue.

Source: AfDB staff, based on OECD/G20 Inclusive Framework on BEPS and ATAF reports.

Closing governance and efficiency gaps will help to expand the fiscal space and improve development outcomes and public investment effectiveness, especially in infrastructure and human capital

IMPROVING PUBLIC FINANCIAL MANAGEMENT SYSTEMS

Mobilizing capital at scale requires expanding fiscal resources and ensuring that mobilized resources are used efficiently and transparently

Weak public financial management (PFM) systems reduce the productivity of public spending, erode investor confidence, weaken fiscal sustainability, and undermine the fiscal social contract.³⁹ Public expenditure tracking surveys in several African countries also reveal large leakages between budget allocation and frontline service delivery.⁴⁰ Recent estimates show that Africa loses almost \$587 billion annually in profit shifting, illicit financial flows, corruption, and excessive risk premiums associated with weak governance.⁴¹ Closing governance and efficiency gaps will help to expand the fiscal space and improve development outcomes and public investment effectiveness, especially in infrastructure and human capital.

Robust PFM systems govern the entire public resource cycle, from revenue mobilization and

budget formulation to execution, reporting, and oversight. Strong systems ensure that resources are allocated to priority investments, executed efficiently, and translated into productive capital and improved service delivery.⁴² For countries facing heightened risk of crises, PFM systems need to operate under binding constraints, requiring a greater emphasis on budget stabilization, transparency safeguards to mitigate governance risks. In such contexts, adaptive and risk-informed PFM approaches are critical to sustaining core state functions while laying the groundwork for recovery. By contrast, weak PFM systems are associated with cost overruns, implementation delays, inefficient allocation, and low returns on public investment.⁴³ Strengthening PFM systems can generate significant fiscal and growth dividends by improving investment efficiency and increasing returns on public spending.

Where Africa stands: Progress with persistent institutional gaps

PFM systems across Africa have improved over the past two decades, but progress remains uneven across countries and throughout the

When budgets are poorly planned or executed, public investment projects face delays, cost overruns, or incomplete implementation. This reduces the growth impact of public spending and increases fiscal pressures

budget cycle. About 60 percent of African countries have strengthened aspects of their PFM systems over the past decade, particularly in budget transparency, reporting, and fiscal planning.⁴⁴ These gains have been underpinned by improvements in medium-term fiscal frameworks, accounting standards, internal controls, and audit and reporting mechanisms, which have in turn strengthened fiscal discipline and enhanced policy credibility.⁴⁵

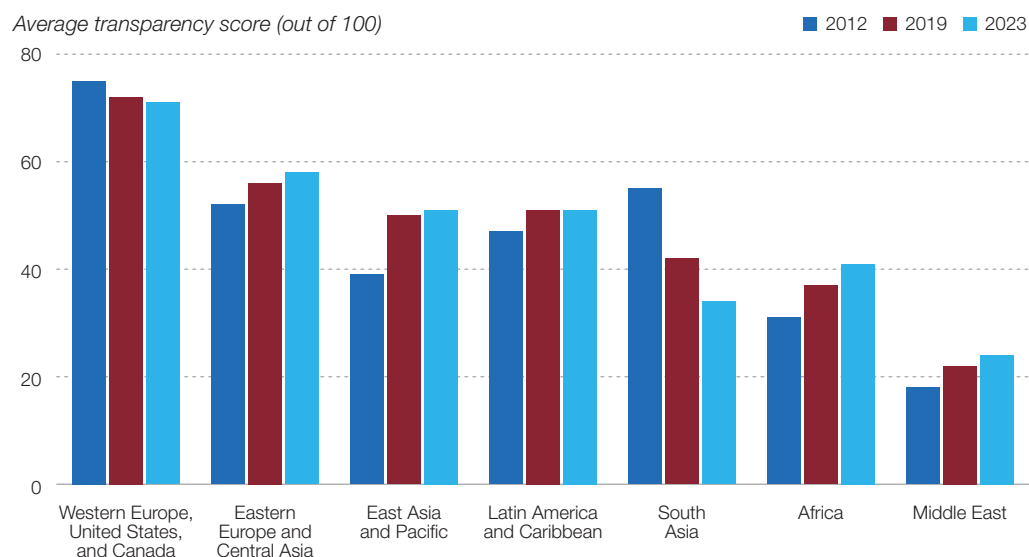
Despite notable gains, weaknesses remain, particularly in budget execution, cash management, procurement discipline, commitment controls, and fiscal reporting.⁴⁶ In many countries, weaknesses in expenditure controls and planning lead to deviations between approved budgets and actual execution. Limited capacity for revenue and expenditure forecasting, weak treasury systems, fragmented financial reporting, and insufficient institutional coordination continue to undermine fiscal discipline and investment efficiency.⁴⁷ These challenges are further compounded by capacity constraints, outdated legal frameworks, and limited digital integration. Weak public investment management systems are associated with lower returns on investment and weaker infrastructure outcomes.⁴⁸ When budgets are poorly planned or executed, public investment projects face delays, cost overruns, or incomplete implementation. This

reduces the growth impact of public spending and increases fiscal pressures. Strengthening PFM systems is critical for maximizing the growth and development impact of public investment.

Improvements in transparency and fiscal accountability

Although there are deviations between approvals and execution, Africa has generally made progress in improving fiscal transparency over the past decade. Budget transparency has improved steadily. According to the Open Budget Survey, Africa's average transparency score increased from 31 of 100 in 2012 to 41 in 2023, one of the fastest increases globally (figure 2.20). This reflects improvements in budget reporting, disclosure, and public access to fiscal information. Progress has also been made in strengthening internal and external audit and legislative fiscal scrutiny over the past decade.⁴⁹ Many countries have strengthened their internal control mechanisms and enhanced the role of supreme audit institutions. Internal audit functions have evolved from traditional compliance-based approaches to more comprehensive risk-based methodologies. External oversight has been reinforced through increased parliamentary engagement and greater involvement of civil society organizations in the budget process. Several countries, including

FIGURE 2.20 Regional trends in budget transparency, 2012–23



Source: Open Budget Survey database 2023.

Benin, Cameroon, Egypt, Madagascar, Morocco, Namibia, Sierra Leone, Somalia, Tanzania, and Zambia, have recorded improvements in fiscal transparency over the past decade, with transparency scores increasing by at least 10 points between 2012 and 2023.

These gains reflect sustained reforms to strengthen the timeliness, comprehensiveness, and public accessibility of budget documents, improve fiscal reporting systems, and reinforce audit and oversight institutions. In several cases, reforms have also expanded citizens' participation in budgeting and engagement mechanisms, resulting in enhanced public scrutiny, stronger accountability, and trust in fiscal institutions. Transparency strengthens both revenue mobilization and fiscal sustainability by reinforcing the fiscal social contract as taxpayers are more likely to comply with tax obligations when they perceive that public resources are managed transparently with visible public services.

Budget transparency has not translated into credibility

Despite improvements in transparency, budget credibility remains a challenge in many African countries. In 2023, 12 of 49 countries with available data recorded budget deviations exceeding 10 percent (figure 2.21), reflecting gaps in revenue

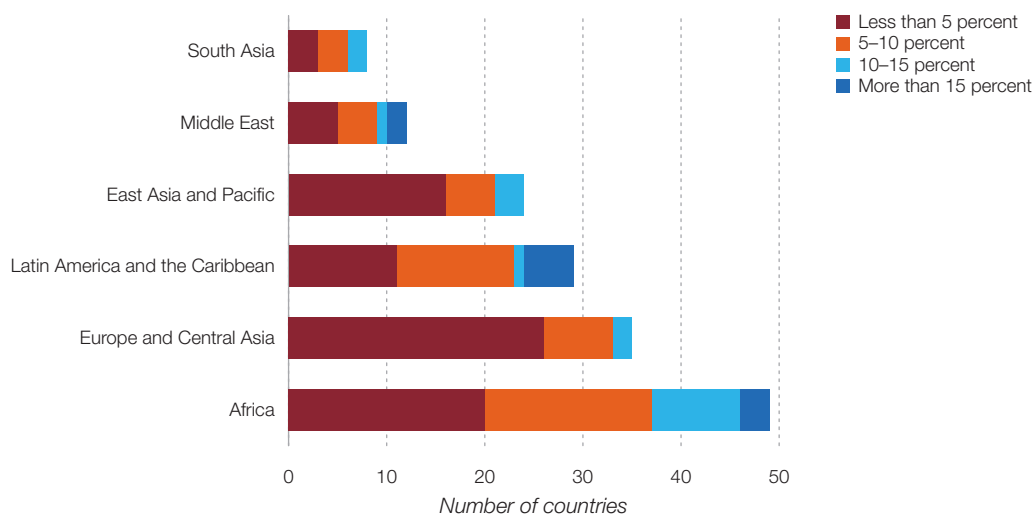
forecasting, expenditure planning, and budget execution. Deviations are higher during crises, such as the COVID-19 pandemic and commodity price shocks. Under these conditions, increased emergency spending to cushion economies against shocks disrupts fiscal planning, and, in the absence of countercyclical buffers, the effects can be long-lasting. Weak budget credibility reduces the efficiency of public investment, increases fiscal risks, and weakens investor confidence. It also contributes to higher borrowing costs, as investors demand a higher risk premium to compensate for the uncertainty. Strengthening budget credibility through improved forecasting, commitment controls, and treasury management is critical for improving fiscal sustainability and mobilizing capital at scale.

Strengthening oversight, audit, and public accountability

Effective oversight and accountability mechanisms are essential components of strong PFM systems. Supreme audit institutions, legislatures, and civil society play critical roles in monitoring fiscal performance and ensuring that public resources are used as intended.⁵⁰ Increasingly, citizens attach great importance to accountability, with most respondents across surveyed African countries affirming the need for strong legislative

In 2023, 12 of 49 countries with available data recorded budget deviations exceeding 10 percent

FIGURE 2.21 Budget credibility: number of countries by region, 2023



Note: Budget credibility is measured by deviations between the approved budget and execution.

Source: World Bank Public Expenditure and Financial Accountability.

oversight of fiscal actions (figure 2.22). As a result, some countries, including Burkina Faso, Egypt, The Gambia, Namibia, and South Africa, have institutionalized mechanisms enabling sustained citizens' participation in the budget cycle (box 2.4).

The overall trajectory in PFM reforms suggests a gradual but steady movement toward more sophisticated, transparent, and accountable practices across the continent. But challenges remain, heightened by the COVID-19 pandemic, on the urgent need for robust, flexible, and transparent PFM systems that can respond effectively to crises while maintaining accountability. Looking ahead, the future of PFM in Africa points toward greater digitalization, enhanced transparency, and improved accountability.

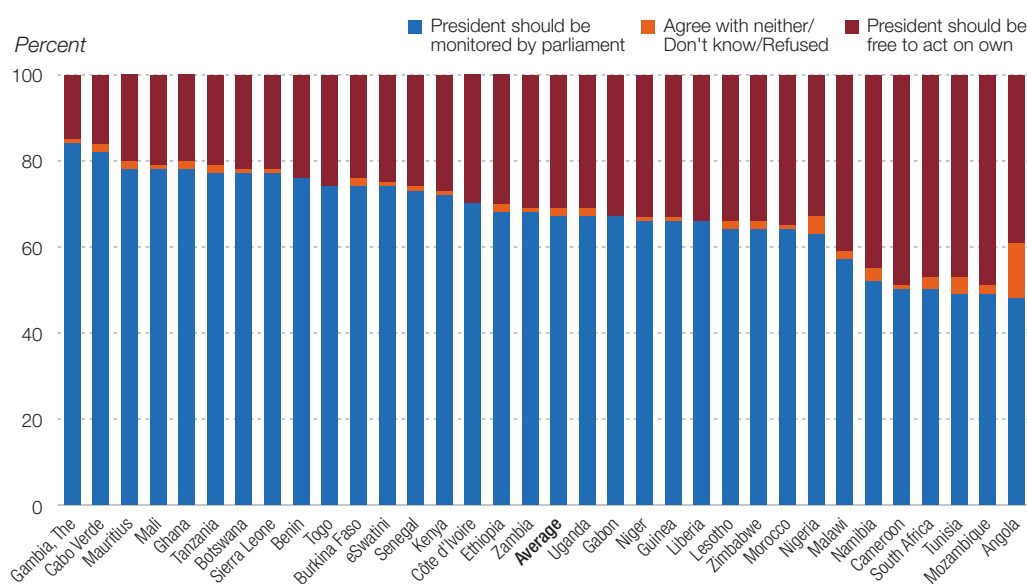
Digital transformation of public financial management systems

As with revenue mobilization, digitalization is central to PFM reform in Africa. It offers opportunities for enhanced efficiency, transparency, and accountability across the entire public finance cycle, from budget formulation to execution and reporting. The adoption of Integrated Financial Management Information Systems (IFMIS) has transformed how governments manage budget processes electronically, strengthen expenditure

controls, reduce leakages, and improve the timeliness and reliability of fiscal reporting.⁵¹ In Africa, about 75 percent of countries have introduced some form of IFMIS.⁵² However, only about 28 percent of these systems are fully operational and integrated due to infrastructure gaps, interoperability challenges, and limited financing and technical capacity.⁵³ While countries such as Botswana, Ethiopia, Ghana, Kenya, Mauritius, Namibia, Senegal, South Africa, and Zambia have fully operational IFMIS platforms, many others continue to face implementation and integration challenges. Fragmentation between IFMIS, tax administration systems, procurement platforms, and banking systems further limits the full potential of digital PFM systems for seamless data exchange and comprehensive fiscal oversight.

The importance of digitalization in improving fiscal governance in Africa cannot be overemphasized. Digital treasury systems have improved expenditure management, electronic procurement platforms and stimulated competition while reducing corruption risks.⁵⁴ Furthermore, digital payroll systems have helped eliminate ghost workers and improve wage bill efficiency.⁵⁵ These gains are consistent with broader progress in digital governance across the continent. Africa's average e-Government Development Index

FIGURE 2.22 Strong public demand for legislative oversight of executive power in Africa



Source: Afrobarometer, Round 9, 2023.

BOX 2.4 The Gambia: Increasing people’s interest in the budget process

The Gambia has made strides in transparency and public participation in recent rounds of the Open Budget Survey. These achievements are not unexpected given the strong relationship between democracies and open budgets. In the 2023 survey, The Gambia saw a 17-point increase in its public participation score, reflecting efforts to promote the public’s engagement throughout all stages of the budget cycle.

- *Local civil society organizations*, through “Gambia Participates”, with support from stakeholders and development partners, have given the public more access to lawmakers and Ministry of Finance officials. Their efforts have helped create several new mechanisms for the public to provide input on the budget.
- *The Ministry of Finance* organizes an event for members of The Gambia Chamber of Commerce, private sector organizations, civil society, and the media to provide feedback on spending and revenue estimates in the budget proposal. While the event was open only to those who were invited, the conversations that occurred between the government and the public were frank and people had the opportunity to address weaknesses in the budget proposal.
- *The National Assembly*, prior to amending the budget proposal, hosted a three-day event for public finance experts and civil society organizations to provide their views on the proposals. During budget debates, the finance and public accounts committee livestreamed hearings with budget experts, which allowed the public to witness the event virtually.

The National Audit Office has been actively communicating their mandate across radio and television programs and within local communities and incorporating people’s input into their audit program. While more efforts to improve these mechanisms are needed, such as showing how public feedback informs budget preparation or ensuring that parliament gets the budget proposals earlier for the public’s feedback to be included, public interest and involvement in the budget are growing.

Source: IMF 2024b.

(eGDI) increased slightly between 2022 and 2024, reflecting gradual advances in digital public sector capabilities (figure 2.23). However, Africa’s average eGDI score of 0.42 in 2024 is well below global leaders such as Europe (0.85) and Asia (0.70), highlighting the need for better digital infrastructure to improve connectivity.

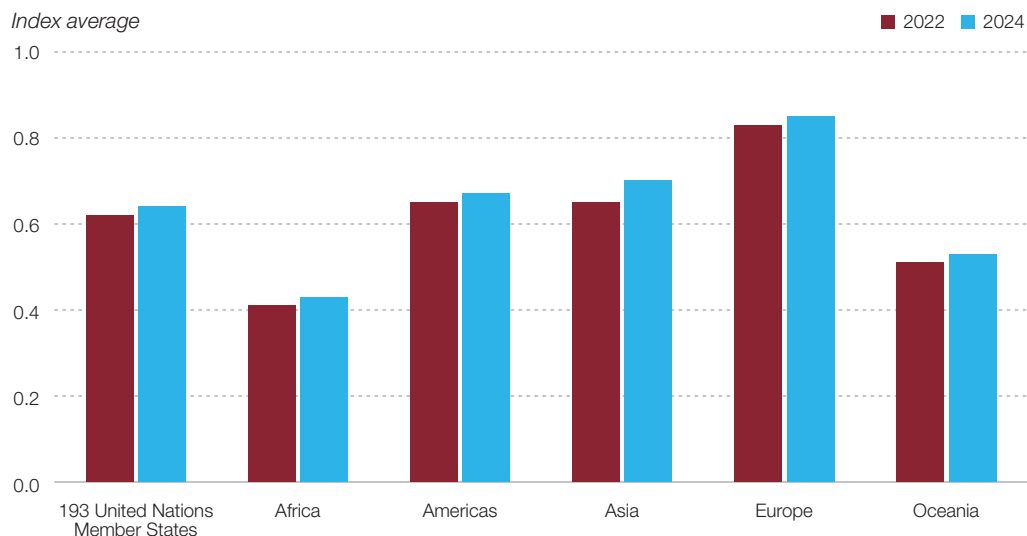
At country level, progress with deployment of eGDI is uneven. South Africa (0.86) and Mauritius (0.75) fall among countries with “very high eGDI” globally. But many African countries remain below the global average. These disparities also explain the fragmentation observed across other dimensions—PFM, tax administration, procurement platforms, and banking. Effectively implemented, digital PFM systems yield transformative results by reducing governance risks and improving fiscal discipline, lower borrowing costs, and enhance the effectiveness of public investment.⁵⁶

Economic dividends and fiscal gains from closing the efficiency gap

The effectiveness of public investment depends on the volume of resources mobilized and the institutional frameworks that govern their use. But quantifying potential gains from fiscal reforms is not straightforward. Weaknesses in PFM and public investment management systems can reduce the productivity and impact of public spending and prevent countries from realizing the full economic and social returns of their investments.⁵⁷ In contrast, well-designed and implemented medium-term fiscal frameworks can improve investment planning, budget credibility, and efficient allocation of public resources.

Despite sustained public investment efforts over recent decades, Africa’s real public capital stock per capita remains lower than in other developing regions. Estimates, based on IMF data, indicate that

FIGURE 2.23 Regional e-Government Development Index averages, 2022 and 2024



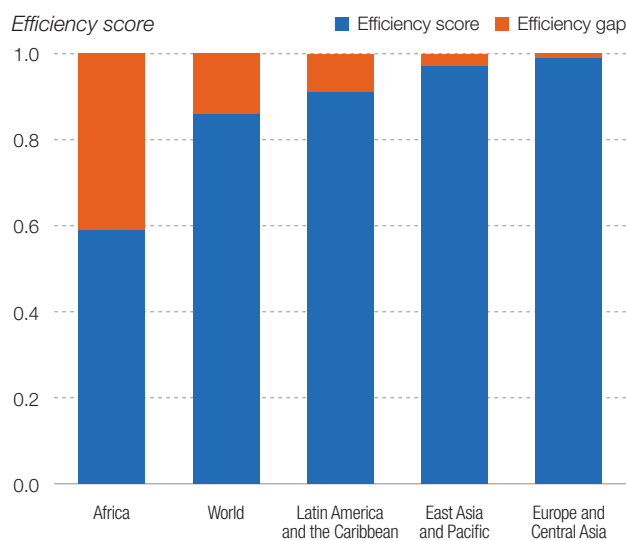
Source: 2022 and 2024 United Nations E-Government Surveys.

Africa’s public capital stock per capita stands at approximately \$4,833—about half the level in Latin America and the Caribbean (\$9,916), and nearly one-quarter of that in East Asia and the Pacific (\$19,896) and Europe and Central Asia (\$20,819).

While scaling up investment remains essential to close infrastructure deficits and support structural transformation, increasing investment volumes alone is insufficient. Weak investment

efficiency results in losses of public resources, reduced growth dividends, diminished fiscal sustainability, and lower investor confidence. Estimates of the efficiency of public investment in Africa reveal large gaps.⁵⁸ By comparing performance across a global sample of 124 countries, including 35 African countries, the analysis identifies the efficiency frontier defined by the best-performing countries and measures the efficiency gap for each country relative to this frontier. Africa’s average public investment efficiency score stands at about 59 percent, implying an efficiency gap of about 41 percent. The efficiency gap of 41 percent means that of \$100 spent in public investment, \$41 is wasted or does not translate into productive capital. This efficiency gap is much higher than the global average of 14 percent and exceeds those in other regions—Latin America and the Caribbean (9 percent), East Asia and the Pacific (3 percent), and Europe and Central Asia (1 percent) (figure 2.24). It means that for a given level of public capital stock, African countries could improve infrastructure outcomes by as much as 41 percent by converging toward international best practices in investment planning, project selection, and execution. Closing this efficiency gap would generate large economic and fiscal dividends, equivalent to increasing infrastructure investment without requiring additional fiscal resources.

FIGURE 2.24 Public investment efficiency scores by region



Source: AfDB staff calculations.

These results also reveal considerable heterogeneity in public investment efficiency across African countries (figure 2.25). Countries such as Egypt, Mauritius, Seychelles, South Africa, and Tunisia, achieve efficiency scores exceeding 80–90 percent, demonstrating a strong capacity to translate public investment into effective infrastructure outcomes. By contrast, countries such as Angola, Chad, Madagascar, and Mozambique have efficiency scores below 30 percent. These gaps highlight the need for targeted institutional reforms to improve development outcomes and efficiency of public investment.

Governance quality and institutional capacity are the key determinants of public investment efficiency. Countries with stronger anti-corruption frameworks and more transparent PFM systems achieve higher investment efficiency. Similarly, at higher levels of eGDI (depicting advanced digital government systems), the public investment efficiency gap is smaller (figure 2.26). This suggests that digitalization improves project monitoring, thus reducing leakages, delays, and cost overruns.⁵⁹ These findings demonstrate that strengthening public investment efficiency could help to expand the fiscal space and increase the growth benefits of productive investment.

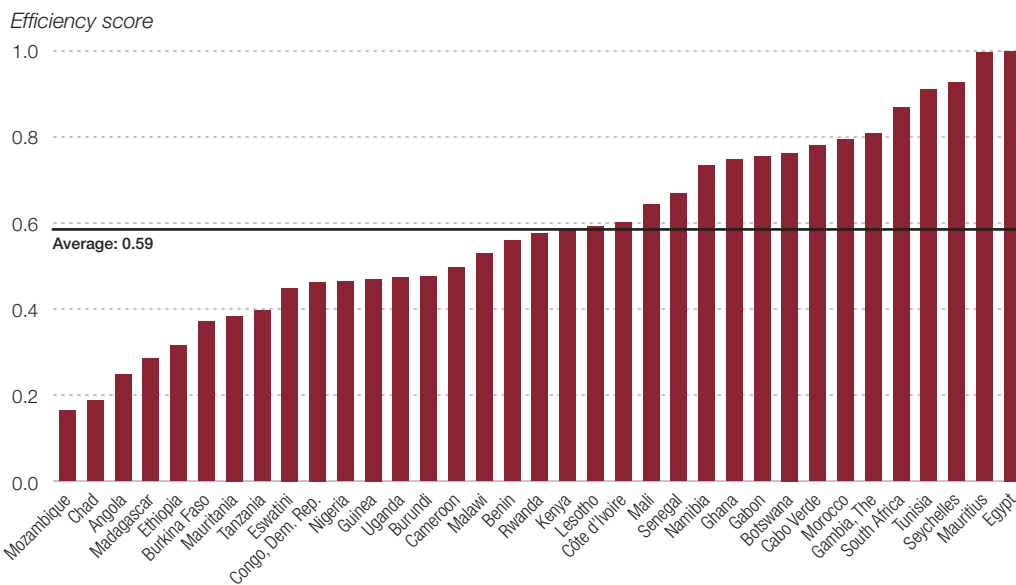
Closing Africa’s public investment efficiency gaps offers substantial economic and fiscal dividends.

The growth returns to public investment vary considerably depending on the efficiency with which investments are implemented (figure 2.27). A 10 percent increase in public investment raises real GDP per capita by about 0.21 percent in high-efficiency countries, compared with only 0.13 percent in low-efficiency peers. This implies that the growth impact of public investment is about 63 percent higher when investment is implemented efficiently. These differences reflect the higher quality and productivity of infrastructure in countries with stronger public investment management systems, where investments are more effectively appraised, executed, and maintained. Efficient public investment strengthens the crowding-in of private capital by improving infrastructure quality and reducing uncertainty, thereby encouraging private sector investment and innovation.

Beyond growth effects, closing the efficiency gap can generate substantial fiscal savings by increasing the effectiveness of existing spending. Improving efficiency allows governments to achieve the same or better investment outcomes with fewer resources, effectively expanding fiscal space without increasing debt or the level of taxation. Closing Africa’s public investment efficiency gap could yield annual fiscal savings of about \$299 billion, or 10.4 percent of GDP in 2024

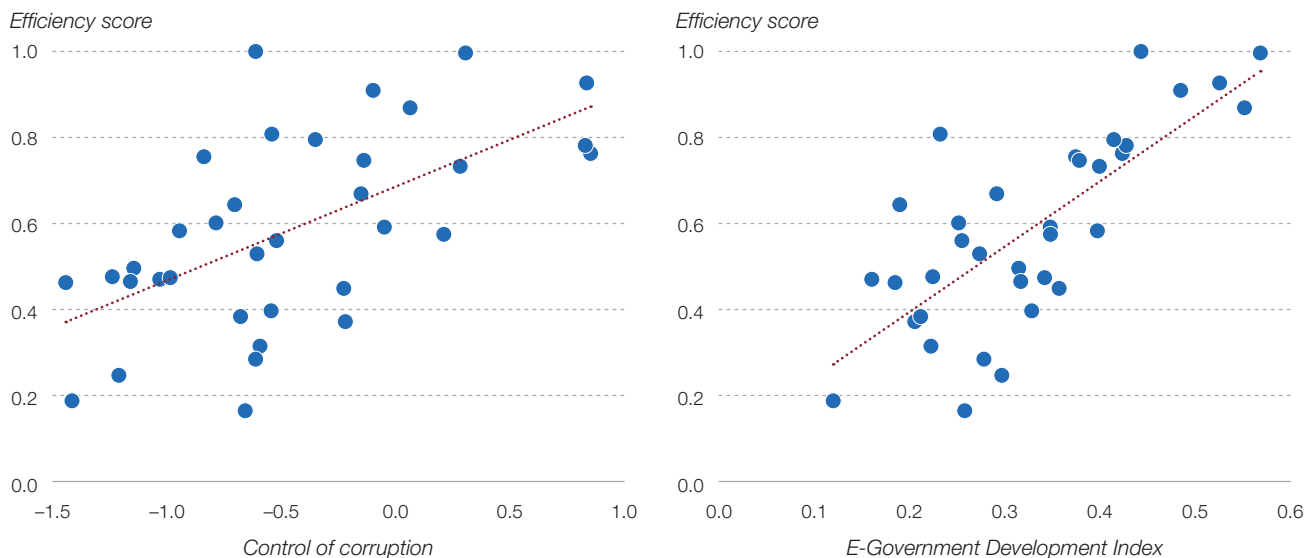
Countries such as Egypt, Mauritius, Seychelles, South Africa, and Tunisia, achieve public investment efficiency scores exceeding 80–90 percent, demonstrating a strong capacity to translate public investment into effective infrastructure outcomes

FIGURE 2.25 Distribution of efficiency scores in Africa



Source: AfDB staff calculations.

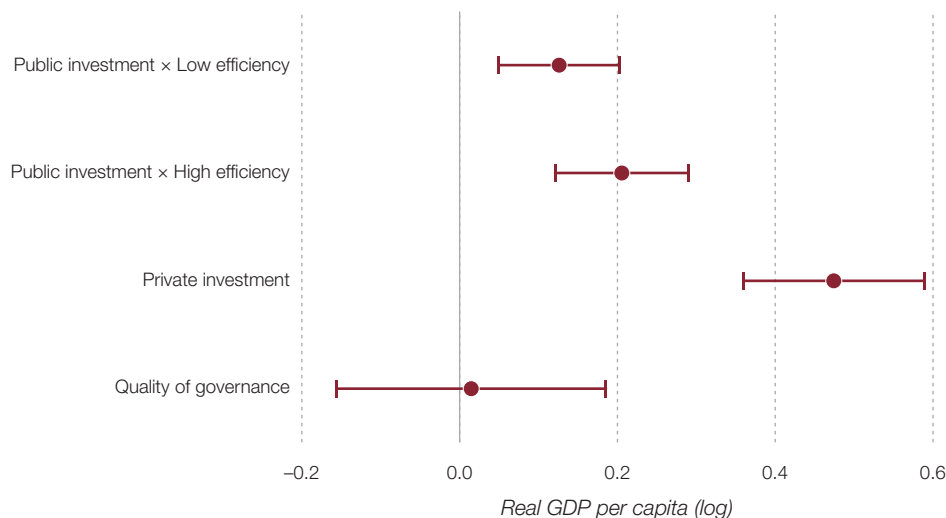
FIGURE 2.26 Efficiency of public investments and governance



Note: The data are averages over 2000–23.

Source: AfDB staff calculations.

FIGURE 2.27 Economic effect of the efficiency of public investments



Note: Countries with an inefficiency score higher than the African average are classified in the “low efficiency” group. These results are robust to heteroscedasticity and to the inclusion of inflation, conflict, and geography among the regressors.

Source: AfDB staff calculations.

(box 2.5). This is about three-quarters of the total estimated financing gap of \$402 billion required to fast-track structural transformation in Africa.⁶⁰ And it is more than double the total the education spending of 3.8 percent of GDP. Higher investment efficiency increases growth, expands the tax

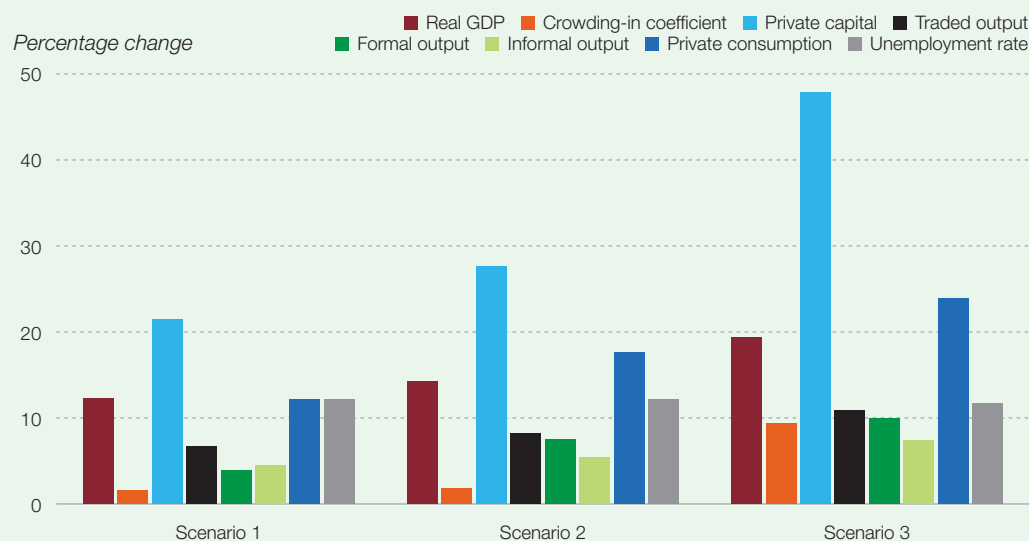
base, and improves debt sustainability and access to capital markets. The fiscal savings realized through investment efficiency could be redeployed to finance critical development priorities, including infrastructure expansion, climate adaptation, human capital development, and social protection.

BOX 2.5 Maximizing the economic gains of prudent public investment management

Over the past decades, African countries have embarked on ambitious investments in public infrastructure to stimulate growth and reduce poverty. But infrastructure investment has much lagged behind the rapid erosion of existing public capital stock in many countries. As a result, the growth effect of such investment has been minimal. Closing the infrastructure gap entails more than simply increasing public investment rates. What matters for growth is the sustained flow of productive capital and the efficient maintenance of existing infrastructure to crowd in private investment and stimulate productivity of factors of production. However, due to fiscal pressures coupled with weaknesses in public budgeting and expenditure implementation systems, resources for infrastructure maintenance have borne the brunt of fiscal adjustment resulting from competing spending needs.

Box figure 2.5.1 quantifies the economic gains from maintenance investment by altering the composition of public investment spending (infrastructure investment, maintenance spending, basic education spending, and upper-level education spending).¹ Each component is assumed to increase by 1 percent of 2024 GDP, with the total amounting to 4 percent of GDP under a mixed investment plan, considering all four components (Scenario 3). We start with Scenario 1, where all spending is allocated to new infrastructure investment, with no funding for maintenance, resulting in a reduction of 7 years from the service life of infrastructure (the depreciation rate increases from 5 percent to 6.2 percent). This raises the return on maintenance by 22 percent above the return on new investment at the initial steady state. Scenario 2 assumes the government allocates the new spending of 4 percent of GDP equally between maintenance spending and infrastructure investment. This keeps the depreciation rate at 5 percent and the return on maintenance equal to the return on new investment. Finally, to account for the economic gains from investment in human capital, Scenario 3 splits the new spending equally between basic education spending, upper-level education spending, infrastructure investment, and maintenance investment.

BOX FIGURE 2.5.1 Long-run effects of public investment under structural reforms: Maintenance



Note: The effects are measured as the percentage change between the steady states, except for the crowding-in coefficient and unemployment rate. Fiscal adjustment is assumed to fall exclusively on spending other than education, so taxes are kept constant. Crowding-in coefficient calculated as $\Delta(k_n + k_x + k_j)/\Delta z^e$, where $k_n + k_x + k_j$ is the total private capital stock and z^e is public infrastructure capital stock.

Source: AfDB staff estimates.

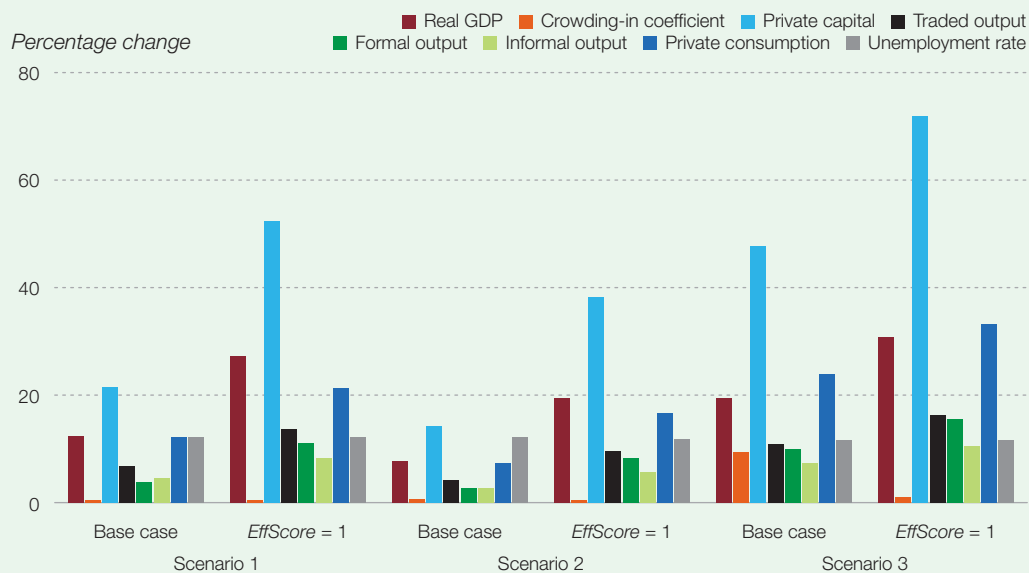
(continued)

BOX 2.5 Maximizing the economic gains of prudent public investment management (continued)

Scenarios 1 and 2 show that the gains from spending on maintenance can be significant. Unlike new infrastructure investment, spending to extend the service life of existing infrastructure increases GDP and aggregate consumption by 12.3–14.2 percent and 12.1–17.6 percent, respectively, with the crowding-in coefficient rising to 1.83 from 1.54 in the first scenario. Spending on maintenance can pay for itself in the long run. These economic gains become paramount when accounting for public investment in education. Indeed, the crowding-in coefficient increases by 1.54–9.36 percent. Consequently, GDP increased from 12.3 percent in Scenario 1 to 19.4 percent in Scenario 3, and aggregate consumption increases from 12.1 to 23.9 percent.

To account for gains from reforms that improve the efficiency of new investment spending—that is, to achieve “more bang for the same buck”—the previous three scenarios serve as a baseline. A comprehensive reform program—through which governments improve public investment management systems, and where investments are more effectively appraised, executed, and maintained—is now assumed, with the investment efficiency score (*EffScore*) rising from 0.59 to the same level as in Europe and Central Asia (see figure 2.24). The gains from closing the efficiency gap can be substantial. The crowding-in coefficient, GDP growth and private consumption are higher in all three scenarios compared to the baseline (box figure 2.5.2). These findings underscore that improvement in public investment management practices in African countries will be key to reducing the efficiency gap and maximizing the economic impact of public investment. Notably, countries could improve public investment efficiency by strengthening the planning and selection of PPPs, the credibility of multiyear budgeting, the effectiveness of project appraisal and selection, the monitoring of projects during implementation, and the registration of infrastructure assets.

BOX FIGURE 2.5.2 Long-run effects of public investment under structural reforms: Efficiency



Source: AfDB staff estimates.

Notes

1. Basic education is primary + lower secondary education. Upper-level education is upper secondary + tertiary.

FORMALIZING THE INFORMAL SECTOR

The scale of informality in African economies constraints resource mobilization

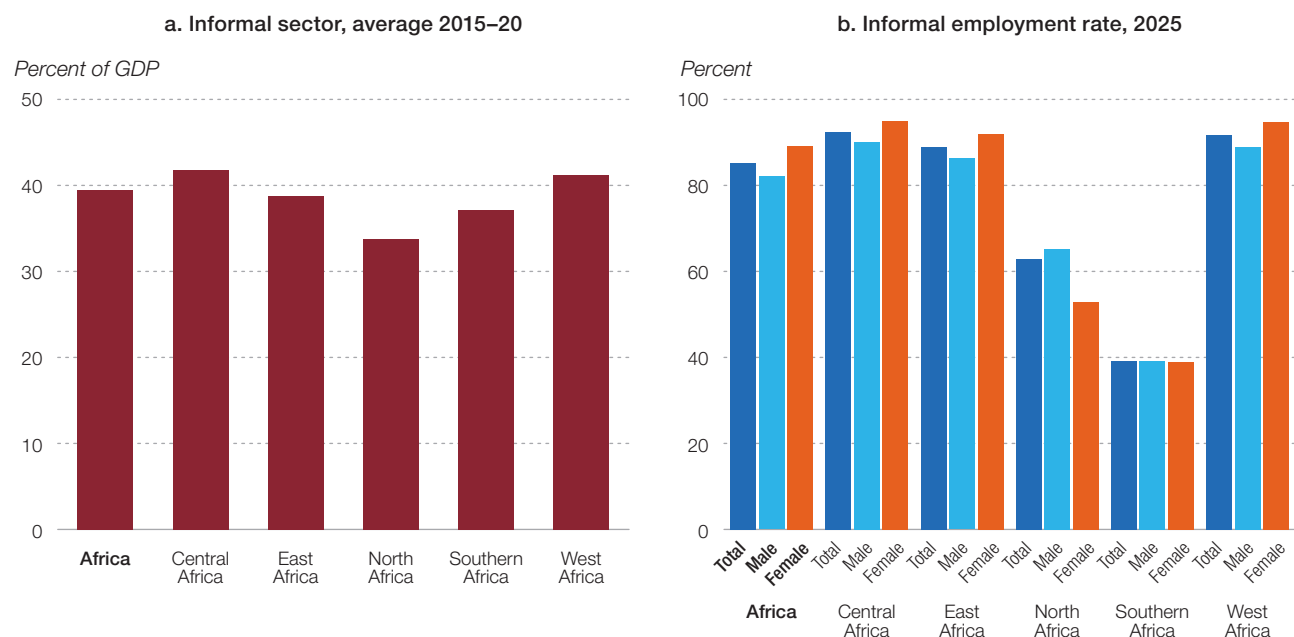
On average, the informal sector accounts for nearly 40 percent of Africa’s GDP and could be as high as 50–60 percent at the upper end in some countries. It also represents about 86 percent of total employment—about 82 percent for males and 89.2 percent for females. Figure 2.28 shows how informality intersects with inclusion, productivity, and equity objectives.

The scale of informality varies sharply across regions, reflecting differences in economic structure, institutional coverage, and labor market absorption capacity. Informal employment is particularly widespread in Central Africa (92.4 percent), West Africa (91.6 percent), and East Africa (88.9 percent), where informality is pervasive among both men and women, though consistently higher among women (figure 2.28). By contrast, North Africa has a relatively low rate of informal employment (63 percent), while Southern

Africa has the lowest (39 percent). The lower rate of informal employment in Southern Africa may be due to deeper enterprise structuring, stronger wage employment absorption, and broader institutional coverage in a majority of countries in the region.

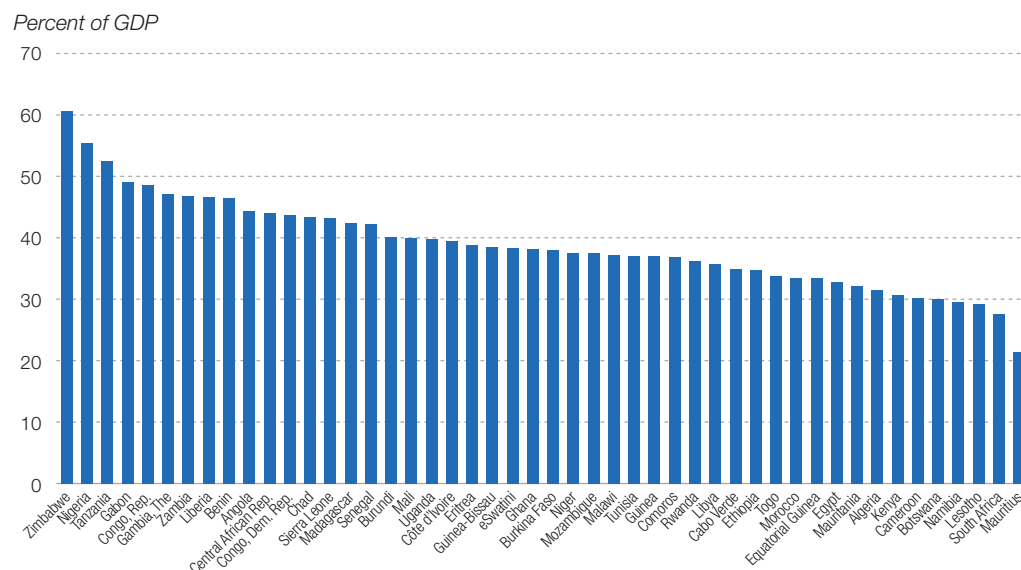
Cross-country patterns underscore the heterogeneity in the integration of the informal sector. In several economies—such as Zimbabwe, Nigeria, and Tanzania—the informal sector accounts for more than half of GDP, reflecting the key role of informal activity in production. In Lesotho, Mauritius, Namibia, and South Africa, the informal sector accounts for less than 30 percent of GDP, reflecting differentiated institutional and production structures (figure 2.29). This heterogeneity suggests that informality is shaped by the interaction of structural transformation, state capacity, and the design and enforcement of rules governing business entry, taxation, and labor markets.⁶¹ The contrast between countries with smaller informal sectors and those where informality is dominant offers useful policy insights and underscores that formalization pathways must be context specific.

FIGURE 2.28 Informality in Africa: Contribution to output and employment, by region



Source: AfDB staff calculations based on data from the ILO Statistics and Elgin et al. (2021).

FIGURE 2.29 Contribution of the informal sector to GDP by country, average 2015–20



Source: AfDB staff calculations based on data from Elgin et al. (2021).

A 10 percentage point reduction in the size of the informal sector could increase annual GDP growth in emerging markets and developing economies by about 1 to 2 percent

Economic costs of informality and the returns to formalization

Informality carries macroeconomic costs, which materialize in the short term through weak DRM and persist over time through slower structural transformation and productivity growth. Estimates indicate that each percentage point of GDP produced in the informal sector is associated with a loss of between 0.17 and 0.41 percentage points of GDP in tax revenue (figure 2.30). These losses reflect both the narrowness of the effective tax base and the practical difficulty of capturing income and transactions generated by unregistered activity.

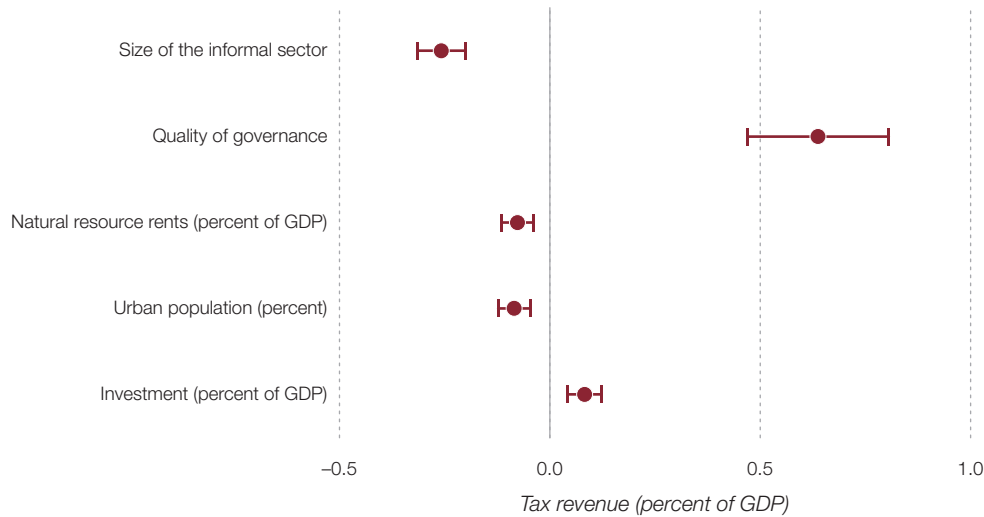
Beyond revenue, informality constrains financial deepening because incomes remain outside banking channels, transaction records are limited, and collateral is difficult to verify, which reduces financial intermediation and limits the ability of firms to invest and expand (box 2.6). By contrast, formalization, even when partial, can deliver sizable growth and fiscal dividends. Building on global evidence, the AfDB (2025) estimated that a 10 percentage point reduction in the size of the informal sector could increase annual GDP growth in emerging markets and developing economies by about 1 to 2 percent. These gains operate through higher productivity of formalized firms,

improved access to finance, stronger property rights, and reduced competitive distortions. From a public finance perspective, formalization is key lever for strengthening DRM because it expands the tax base. AfDB estimates indicate that shifting economic activity from the informal to the formal sector could generate up to \$125 billion in additional revenue annually at the continental level.⁶² Recent estimates suggest that moving 10 percentage points of GDP from informality into formality could yield up to 2.6 percentage points of GDP in additional tax revenue annually, equivalent to about \$75 billion (see figure 2.30 and also table A2.2.1 in annex 2.1). These gains could strengthen fiscal sustainability while improving horizontal equity by narrowing gaps between compliant and noncompliant actors.

Digitalization as a catalyst for formalization

Digitalization can ease the process of formalization by lowering the costs of registration, reporting and payments for services (both private and public). This will contribute to improving Africa's development financing by strengthening state capacity to mobilize domestic resources as well as financial inclusion and structural transformation. A strong relationship is observed between the use of

FIGURE 2.30 Impact of informality on tax revenue



Note: This figure is based on regression results. The complete results are presented in Appendix 2.2. The dependent variable is tax revenue (as a percentage of GDP), and the explanatory variable of interest is the size of the informal sector. The other variables are control variables. Regressions were performed using the ordinary least squares method. The explanatory variables with negative coefficients are those negatively associated with tax revenue.

Source: AfDB staff estimates.

BOX 2.6 Informal sectors and financial sector development

Countries with large informal sectors are associated with weaker financial sector development. For example, a 1 percentage point increase in the size of the informal economy is associated with a 0.4–0.6 percentage point decline in private credit to GDP.¹ Africa’s large informal sector partly explains the low private sector credit to GDP ratio, about 24 percent on average, compared with more than 100 percent in advanced economies.² Similarly, other measures of financial development including broad money (M2) to GDP and the share of adults with bank accounts also highlight a negative correlation between large informal sectors and financial sector development. Countries with informal economies exceeding 30 percent of GDP tend to have M2/GDP ratios that are 10–15 percentage points lower than countries with smaller informal sectors.³

At the firm level, informal sector firms in Africa, Latin America and the Caribbean and South Asia are 25–35 percent less likely to have a loan or line of credit.⁴ These firms pay higher interest rates and face stricter collateral requirements partly because they lack audited accounts and credit histories, making them riskier from a lender’s perspective. Informality lowers the potential savings held in the formal financial institutions. For every 5 percentage points increase in GDP generated in the informal sector, broad money falls by about 2 percentage points of GDP.⁵ This limits the funds available for intermediation as well as the capacity of the banking system to finance investment and to grow. While the adoption of mobile money has increased access to finance by up to 20 percentage points among informal workers in Kenya,⁶ this is mainly brought about by improved access to a mobile money financial account rather than a deepening of formal credit markets.

Source: AfDB staff.

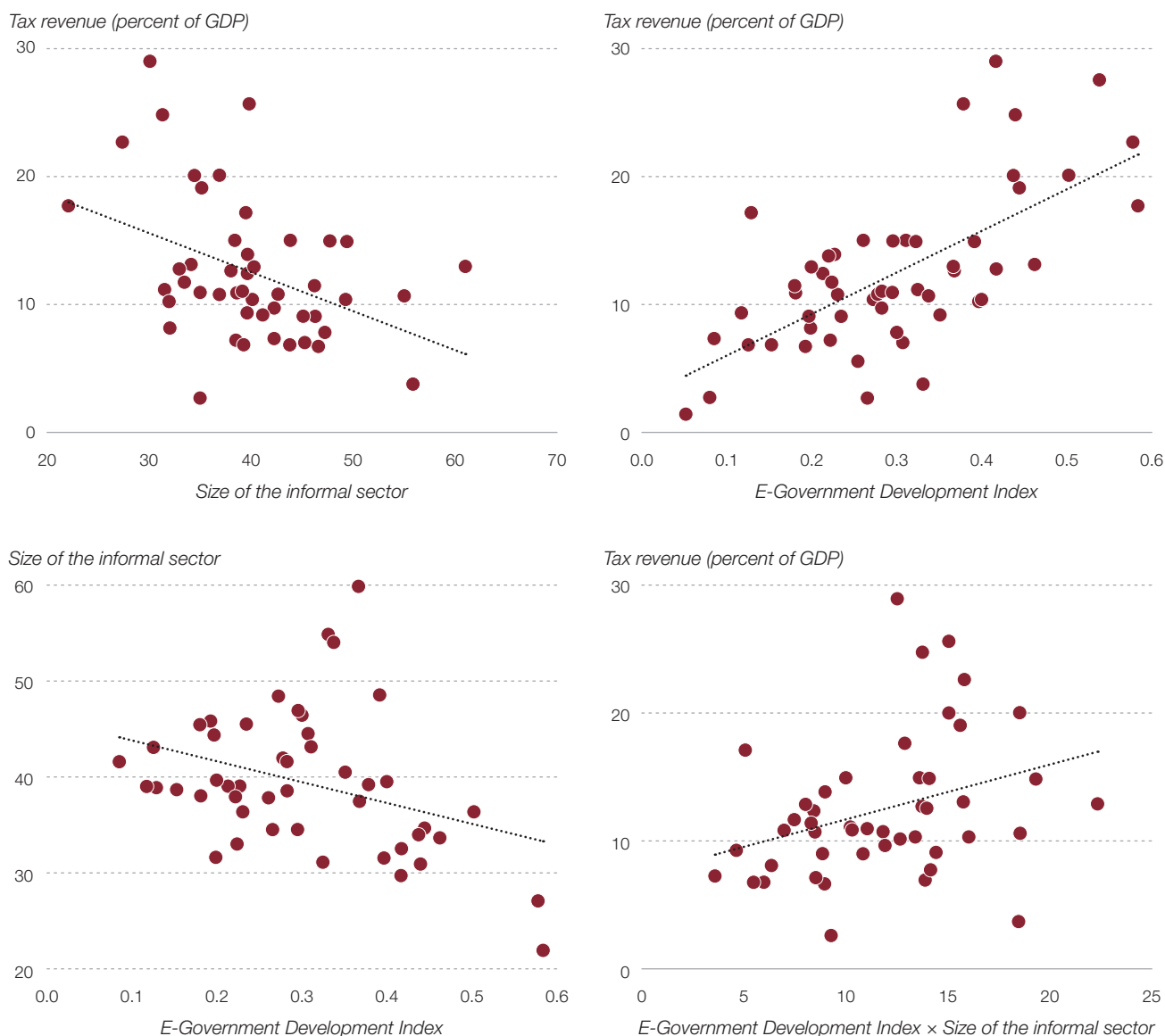
Notes

- 1. Medina and Schneider 2019.
- 2. Schneider et al. 2010; Medina and Schneider 2019.
- 3. IMF 2018.
- 4. Beck et al. 2005.
- 5. IMF 2018.
- 6. Suri and Jack 2016.

digital public administration services, higher revenue mobilization, and lower levels of informality (figure 2.31). This relationship is particularly pronounced in countries with high levels of informality, where even modest improvements in taxpayer registration, transaction traceability, and compliance monitoring can yield significant revenue gains. By expanding the visibility and capture of previously

unregistered economic activity, digitalization enables progressive broadening of the tax base without relying on increases in statutory tax rates. At the same time, digital systems enhance administrative efficiency, strengthen compliance management, and reduce leakages, offering a structurally sustainable pathway to strengthen DRM, support formalization, and improve overall fiscal capacity.

FIGURE 2.31 Informality, digital development, and tax revenue mobilization



Note: The E-Government Development Index is a composite measure of three dimensions of e-government: the provision of online services, telecommunications connectivity, and human capabilities. The size of the informal sector reflects its weight in GDP. The data used are averages over the period 2000–24.

Source: AfDB staff calculations.

Beyond fiscal effects, digitalization also acts as a catalyst for economic and financial inclusion, reinforcing formalization through market incentives rather than coercion. In fragile and conflict-affected contexts, where the informal sector often functions as a source of livelihood and coping mechanism, formalization should be approached more gradually, ensuring that regulatory requirements evolve in step with local capacities and do not disrupt existing livelihood systems. Digital-enabled formalization can reduce economic exclusion and support more stable, resilient livelihoods, particularly in contexts where informality functions as a safety net. Digital payment platforms and financial services enable informal firms to build transaction histories, reduce information asymmetries with financial institutions, and gain access to savings, credit, and risk management tools. These help to strengthen resilience and raise the productivity of microenterprises. Kenya exemplifies this dynamic. The development of M-Pesa, operated by Safaricom, has enabled many informal microentrepreneurs to generate usable transaction records, while products such as M-Shwari leverage these data to assess creditworthiness and extend loans without traditional collateral. By reducing information asymmetries and expanding access to finance, digitalization creates incentives for gradual, voluntary formalization driven by improved market access and economic opportunity, rather than direct fiscal enforcement.

Similarly, online business registries, digital identification systems, and interoperable administrative databases improve the traceability of economic activity and enhance coordination across tax, social security, and financial administration. Linking financial inclusion with administrative modernization, digitalization strengthens incentives for voluntary formalization while expanding access to markets, public programs, and institutional support. Rwanda's experience confirms this institutional logic. The digitalization of business registration through the Rwanda Development Board and the introduction of electronic tax systems by the Rwanda Revenue Authority have reduced compliance costs and simplified procedures. Reforms that improve the efficiency and transparency of registration and tax payments reduce administrative uncertainty and make

the benefits of formalization (such as access to finance and public procurement) more visible. For example, digital systems help reduce mistrust and the “fear of the unknown” that often characterizes formalization processes. This shift promotes gradual adherence, as workers and firms realize the returns from participation in the formal economy. Over time, this strengthens voluntary compliance, expands the formal tax base, and enhances the sustainability of domestic resource mobilization by aligning taxation closely with service delivery, opportunity, and inclusion.

SCALING UP PUBLIC–PRIVATE PARTNERSHIPS

Africa's development challenge is less about a shortage of resources and more about the ability to mobilize capital and channel it into productive investment

Estimates suggest that the continent could harness about \$1.43 trillion annually from multiple sources,⁶³ a volume that exceeds what Africa requires to address its infrastructure deficit and climate financing needs. Yet weak mobilization, intermediation, and allocation mechanisms limit the translation of available resources into productive capital formation. This is reflected in Africa's relatively low infrastructure capital stock. Despite reform efforts, infrastructure assets remain below the levels needed to sustain faster growth. Annual infrastructure spending averages about 3.5 percent of GDP, well below the 5–8 percent typically associated with structural transformation, with the resulting gaps estimated to reduce productivity by around 40 percent and subtract roughly 2 percentage points from annual GDP growth.⁶⁴

Against this backdrop, constraints to Africa's development go beyond resource mobilization investment to the way these investments are financed and delivered. In the face of limited fiscal space, and to avoid further build-up of debt, the private sector can contribute through investments via PPPs. Through PPPs, governments can leverage scarce fiscal resources via structured risk-sharing and blended financing instruments to mobilize long-term private finance on competitive terms as well as strengthen delivery discipline

Constraints to Africa's development go beyond resource mobilization investment to the way these investments are financed and delivered

through performance-based contracting. Well-chosen public investments in Africa tend to crowd in private capital, with each additional public dollar associated with roughly \$1.4.⁶⁵

What recent participation in infrastructure data show about Africa's pipeline and concentration

Despite progress in leveraging PPPs, Africa continues to lag East Asia and the Pacific and Latin America and the Caribbean, although it has generally outperformed South Asia and Europe and Central Asia since the COVID-19 pandemic. The pipeline of projects reaching financial closure in Africa also appears more cyclical than in other regions (figure 2.32). Following a decline in 2020–21 in response to the pandemic, project activity gradually recovered. By 2024, Africa recorded 52 projects reaching financial closure, compared with 97 in East Asia and the Pacific and 94 in Latin America and the Caribbean, while South Asia and Europe and Central Asia recorded fewer projects.

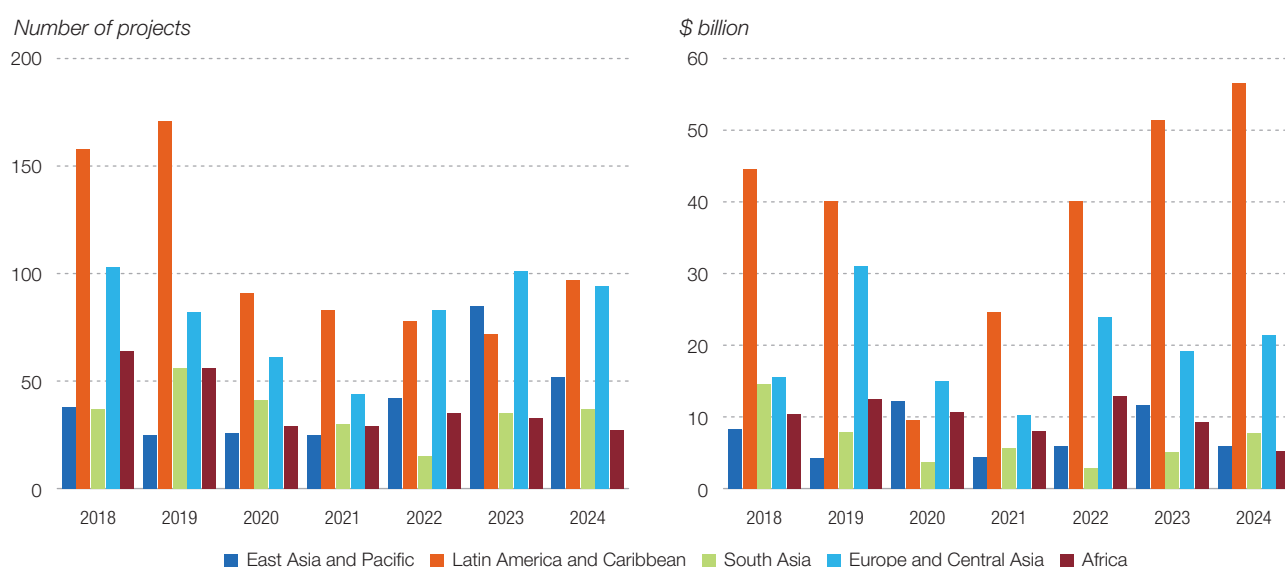
In terms of investment value, divergence across regions is even more pronounced. In 2024, Africa mobilized roughly \$6 billion in private participation in infrastructure (PPI), compared with about \$56.6 billion in East Asia and the Pacific and \$21.3 billion in Latin America and the Caribbean.

Although Africa's investment levels remain above those of South Asia and broadly comparable to Europe and Central Asia, the gap with leading regions such as East Asia and Pacific and Latin America and the Caribbean underscores the continent's significant untapped potential to scale up private infrastructure financing (see figure 2.32).

Geographically, private investment in Africa remains highly concentrated. In 2023–24, South Africa accounted for the largest number of projects reaching financial closure (20), followed by Egypt (9) and Senegal and Tanzania (8 each), while the majority of countries closed only 1 or 2 projects (figure 2.33). The spatial distribution of PPI projects is equally reflected in monetary value: Angola, Egypt, Senegal, and South Africa accounted for the largest shares of PPI during the period, while most African countries attracted only limited volumes of private infrastructure capital (figure 2.34). This skewed distribution reflects differences in market depth, absorption capacity, institutional readiness, and the availability of well-prepared, bankable project pipelines.

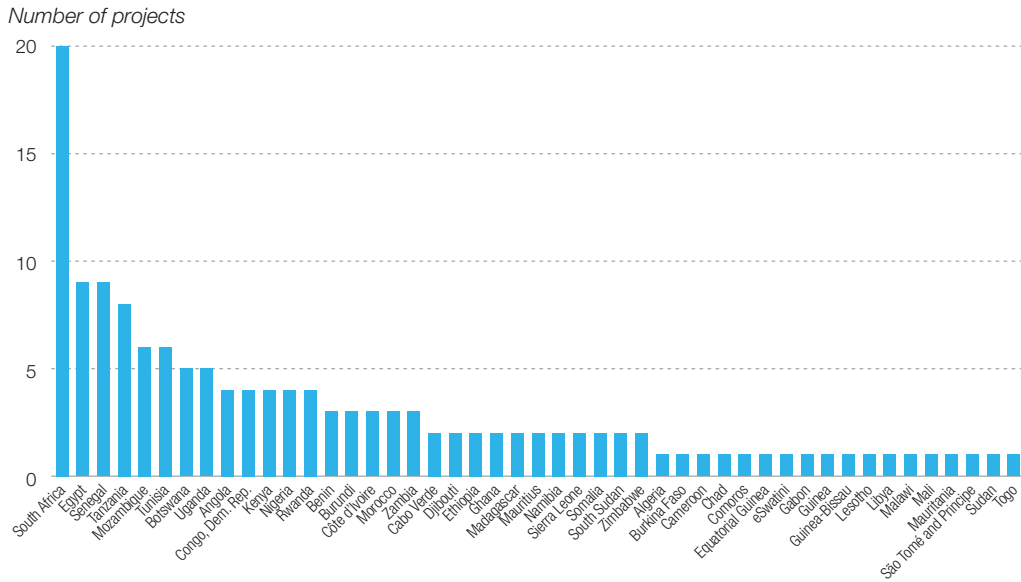
In transition states and frontier markets, these structural constraints are often amplified by elevated risk premiums, heightened perceptions of instability, and limited implementation capacity, which suppress pipeline development even where

FIGURE 2.32 Trends in projects reaching financial closure by region, 2018–24



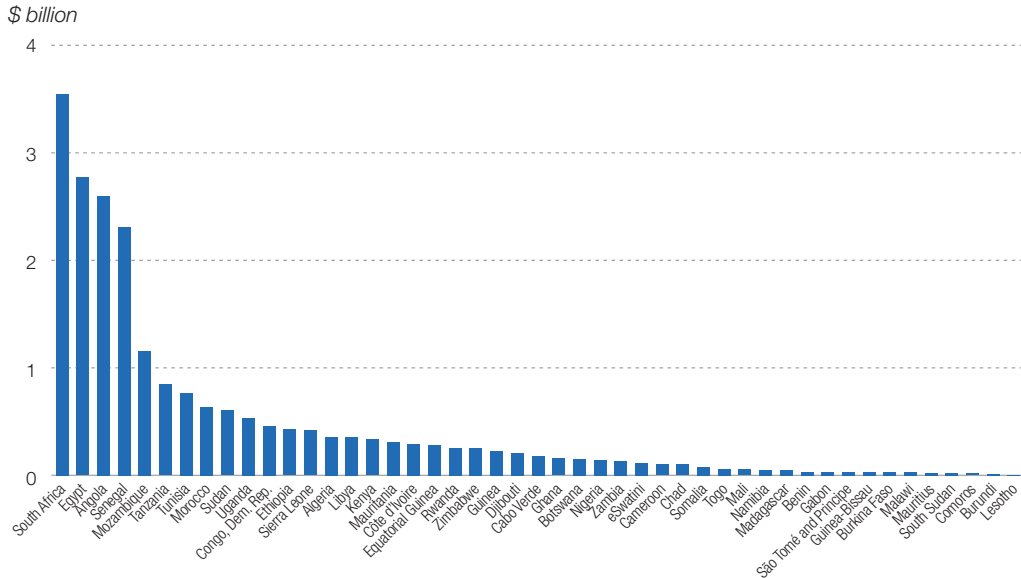
Source: Private Participation in Infrastructure Database.

FIGURE 2.33 Frequency distribution of PPI projects reaching financial closure across African countries, 2023–24



Source: Private Participation in Infrastructure Database.

FIGURE 2.34 Total investment for selected African countries, 2023–24



Source: Private Participation in Infrastructure Database.

infrastructure needs are most acute. Africa's underperformance in attracting project investment relative to peer regions reflects gaps in project quality and regulatory framework as well as perceived risk and weak execution capacity by local partners. Strengthening PPP regulatory

frameworks, deepening local capital markets, and investing in project preparation capacity are key to broadening participation, reducing concentration, and mobilizing capital at scale.

Importantly, PPPs can deliver value-for-money and efficient infrastructure projects when the

African countries are making progress in PPP adoption, with reform momentum accelerating after 2015

enabling environment is conducive. International evidence suggests that PPPs often report fewer cost overruns and better on-time completion than publicly procured projects. However, they take longer to reach financial closure due to complex structuring, risk allocation, and negotiations. The Lusaka–Ndola dual carriageway in Zambia shows that when governments provide viability gap funding, guarantees, and clear revenue frameworks, PPPs can shorten the construction timelines relative to comparable public projects.⁶⁶

Building credible PPP-enabling frameworks and project preparation ecosystems

African countries are making progress in PPP adoption, with reform momentum accelerating after 2015 (figure 2.35). A 2024 survey by the African Legal Support Facility (ALSF) found that 42 of 54 countries have enacted PPP-specific legislation, but about 43 percent still govern PPPs through public procurement regimes rather than dedicated PPP laws, undermining effective project delivery.⁶⁷

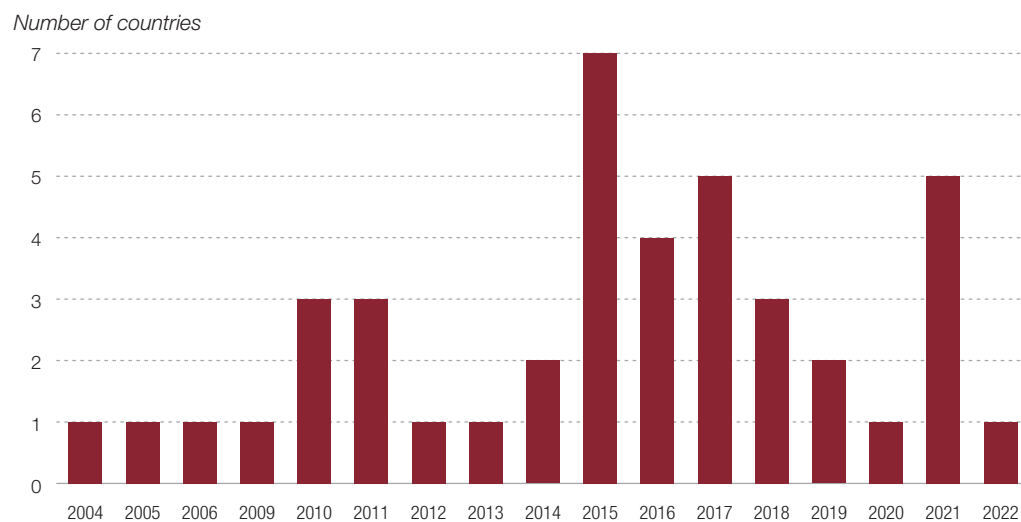
Institutional design matters as much as legal frameworks in determining PPP performance. More than 40 African countries have established PPP units, mostly within ministries of finance or specialized agencies, to oversee project screening, preparation, and transaction management. But their mandates, authority, and technical

capacity vary widely. Where PPP units are empowered with clear mandates, projects are more likely to meet feasibility, affordability, and risk allocation standards before procurement. These standards are supported by standardized appraisal tools and transparent approval processes. Effective risk-sharing frameworks further strengthen PPP performance by allocating risks to the parties best able to manage them.

In stronger PPP regimes, construction and operating risks are transferred to private partners through performance-based contracts, while governments retain sovereign and regulatory responsibilities such as land acquisition and issuing permits. Demand and macroeconomic risks are managed through hybrid structures combining user fees and availability payments, supported by indexation rules, capped guarantees, and clear renegotiation clauses. The ALSF survey for African countries deploying PPP models highlights the growing use of standardized risk allocation matrices, model clauses, affordability approvals, and project preparation facilities to reinforce discipline at entry and reduce renegotiation risk.

Procurement integrity is equally critical for investor confidence and value-for-money. While competitive and two-stage tendering dominate, where direct procurement is permitted, legislation should clearly specify justifications and criteria to limit governance risks and renegotiation. Because

FIGURE 2.35 Yearly adoption trends by African countries with a PPP law, 2004–22



Source: African Legal Support Facility 2024.

of governance weaknesses and pressure to deliver politically expedient projects, unsolicited proposals and renegotiations are prevalent as sources of fiscal risk.⁶⁸ As PPP portfolios expand, transparency and fiscal risk control become critical, given the long-term commitments created by guarantees. Good practice integrates PPP obligations into medium-term fiscal frameworks, applies ceilings on guarantees, standardized valuation of contingent liabilities, and strong disclosure.

Making marginal projects bankable and connecting them to capital markets

Many high-impact infrastructure projects are economically justified but may offer marginal financial benefits, especially where affordability constraints prevent full cost recovery tariffs. Scaling up PPPs in Africa requires a toolkit of financial viability support, asset monetization approaches, and capital market instruments. These need to be applied within clear fiscal limits.

Financial viability support and viability gap approaches

Viability gap funding is an instrument that provides public resources to bridge the gap between project revenue and full lifecycle costs, while balancing affordability and commercial returns.⁶⁹ Under a typical scheme, government—often with support from development partners—provides upfront capital grants or performance-linked payments that reduce required private investment, enabling the private partner to finance, build, and operate the project under commercial discipline. Well-designed viability gap funding helps to convert socially desirable but financially marginal projects into bankable PPP projects.⁷⁰ Viability gap funding support should target projects with strong economic and social returns but weak financial returns, based on robust feasibility, affordability, and value-for-money analysis. And it should be awarded through open, competitive bidding to minimize subsidy requirements.⁷¹ Dedicated facilities with clear eligibility criteria, governance arrangements, caps, and disclosure standards help avoid ad hoc negotiations that weaken fiscal control. When anchored in strong PFM systems, viability gap funding expands private participation without creating off-budget liabilities.⁷²

Infrastructure asset recycling

Asset recycling—monetizing mature, revenue-generating public assets and reinvesting the proceeds into new infrastructure—is an underused but powerful instrument in Africa’s PPP toolkit.⁷³ Under this model, governments concession or lease existing brownfield assets (such as toll roads, ports, airports, and transmission or distribution networks) to private operators in exchange for upfront payments or structured concession fees, which are then earmarked for new infrastructure investment.⁷⁴ Unlike privatization, asset recycling explicitly links monetization to reinvestment, supported by transparent rules for proceeds management and reporting. It is particularly relevant for fiscally constrained countries because it can raise capital without increasing public debt, improve operational efficiency under regulated private management, and create an investable pipeline of lower risk assets with established cash flows attractive to institutional investors.⁷⁵

Brownfield assets are generally easier to value than greenfield projects and can be bundled into diversified portfolios suitable for pension funds and insurance companies. Effective implementation requires a comprehensive asset inventory, performance assessments, clear tariff frameworks, and ring-fenced reinvestment mechanisms, dedicated infrastructure funds, to build credibility. Standardized concession contracts, independent regulation, and enforceable service standards are essential to protect users and ensure affordability.⁷⁶ Recycling frameworks can also strengthen SOE governance and embed modernization and climate-resilient upgrade requirements, aligning short-term fiscal space with long-term sustainability objectives.⁷⁷

Securitization and capital market participation

Limited capacity to refinance operational assets and recycle bank and development finance institution (DFI) balance sheets are a key constraint to scaling up PPPs in Africa. Securitization, by transforming pools of illiquid infrastructure assets, e.g., toll revenue and receivables or PPP loans, into tradable asset-backed securities, offers a bridge between project finance and capital markets.⁷⁸ By converting predictable cash flows into standardized, rated instruments, securitization frees

Asset recycling—monetizing mature, revenue-generating public assets and reinvesting the proceeds into new infrastructure—is an underused but powerful instrument in Africa’s PPP toolkit

Scaling up PPPs without robust fiscal risk management can undermine (rather than expand) fiscal space

up bank capital, extends maturities, and attracts pension funds and insurers seeking stable, long-duration assets.⁷⁹

In practice, this can occur through two channels: pooling performing PPP loans into securities sold to institutional investors or issuing revenue-backed bonds once projects are operational and cash flows are stable.⁸⁰ Infrastructure asset-backed securitization structures rely on ring-fenced rights to future cash flows, making them attractive where revenue is predictable. But success depends on enabling legal and regulatory frameworks covering revenue collection, bankruptcy and collateral management, disclosure, and investor protection, alongside transparent tariff regulation and reporting. Development partners could catalyze this process through credit enhancement and guarantees, helping build benchmarks and standards. Over time, portfolio-based refinancing can transform operational PPP cash flows into scalable instruments suited to domestic institutional investors, easing pressure on public and DFI balance sheets and deepening capital markets.

Managing fiscal risks and safeguarding value-for-money

Scaling up PPPs without robust fiscal risk management can undermine (rather than expand) fiscal space. This is because PPPs can convert upfront public investment needs into long-dated government commitments—availability payments, revenue guarantees, termination compensation, or implicit obligations to ensure continuity of essential services.⁸¹ The 2025 OECD guidance underscores the need for transparency in PPPs budgeting (both costs and contingent liabilities), covering the whole public sector (including SOEs where relevant).⁸²

Transparency is also an enabler of market development. The World Bank's Framework for Disclosure in PPP Projects recommends a systematic structure for proactive disclosure to reduce information asymmetries between governments, investors, and citizens. Strong PPP programs require an integrated "public investment and PPP gateway" that applies comparable appraisal and approval standards across procurement modalities, so that PPP selection is driven by

value-for-money and affordability. In African markets with high-risk premiums, improved disclosure can support more accurate risk pricing and help crowd in longer-term capital by reducing uncertainty over policy, fiscal support, and contracts.⁸³

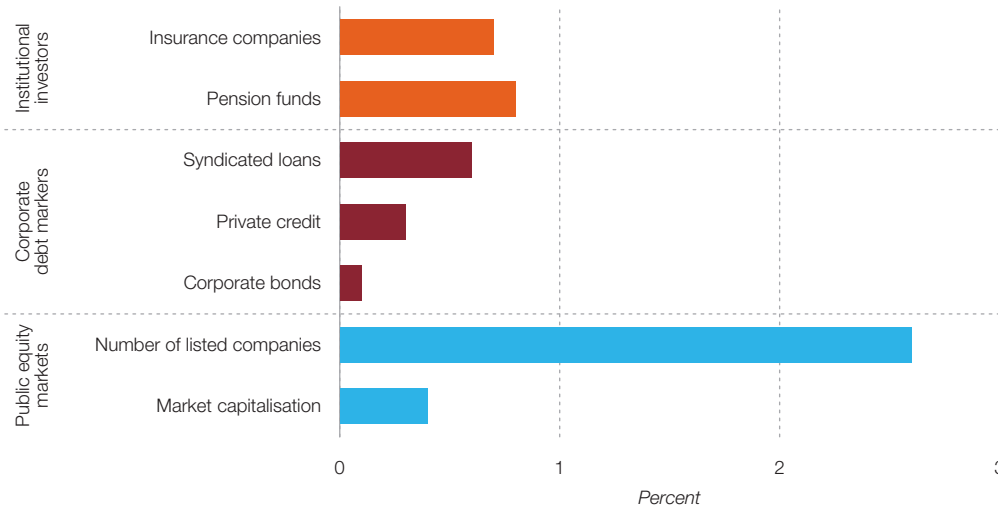
MOBILIZING LONG-TERM CAPITAL FROM REGIONAL AND INSTITUTIONAL INVESTORS

Africa's difficulty in mobilizing long-term capital at scale reflects the fragmented nature of its financial architecture

Africa's domestic financial institutions, including banks, pension funds, and sovereign wealth funds, manage sizable and growing asset pools, estimated at up to \$4 trillion. But less than 2.7 percent of assets held on institutional balance sheets are currently deployed toward domestic long-term productive investment.⁸⁴ Addressing regulatory, market, and project pipeline bottlenecks could help unlock and redirect these resources toward infrastructure financing and productive sectors. Mobilizing long-term capital requires a dual strategy: leveraging, domestic institutional investors—particularly, pension funds and sovereign wealth funds—while deepening regional capital markets and advancing financial integration to expand the opportunity set beyond narrow national markets.

Despite accounting for about 2.5 percent of global GDP in 2024, Africa's footprint in global capital markets remains disproportionately small. The continent represents only 0.4 percent of global public equity market capitalization and around 0.1 percent of global outstanding corporate debt (figure 2.36). By the end of 2024, African stock exchanges listed 1,141 companies, only 2.6 percent of the global total number of listed companies and 5 percent of emerging market economies, with a combined market capitalization of \$561 billion. More important, Africa's equity market capitalization stands at approximately 33 percent of the region's GDP, compared with 61 percent in emerging markets and 113 percent globally.⁸⁵ This gap between economic weight and capital market development reflects a financial system that remains shallow, heavily bank-centric,

FIGURE 2.36 Africa's share in global capital markets, 2024



Source: OECD Capital Markets Series; Africa Finance Corporation (2025).

and fragmented across 54 jurisdictions, with limited cross-border connectivity. These features constrain the pooling of liquidity, limit regional risk diversification, and restrict the range of instruments available for long-term investment in infrastructure, energy, and productive sectors. As a result, domestic savings are not sufficiently channeled into long-term productive investment, leaving African economies overly dependent on external financing that is often volatile, pro-cyclical, and costly.

Institutional investors, particularly pension funds and sovereign wealth funds, represent a promising and largely untapped source for scaling long-term investment within the continent. But in fragile and conflict-affected settings, risk perceptions, shallow markets, and limited project preparation capacity constrain institutional investment, underscoring the need for stronger early-stage pipeline support, market deepening reforms, and appropriate risk mitigation tools. Recognizing infrastructure as an investable asset class—while strategically deploying concessional and first-loss capital to de-risk projects—is essential to crowding in institutional investors, particularly in fragile markets.

Pension funds as patient capital: What the data imply for reform

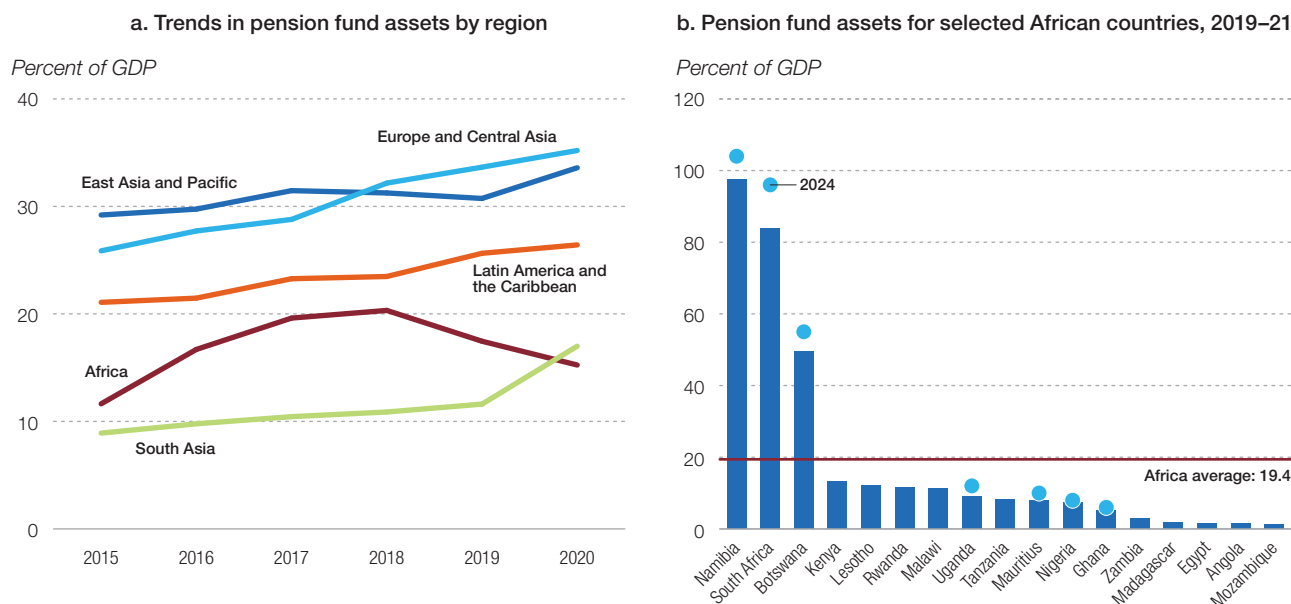
Pension funds are structurally well suited to long-tenor investments: their liabilities are long-dated,

contributions are relatively stable, and payout profiles are predictable. Yet across much of Africa, their scale and allocation patterns limit their transformative potential. In a comparative perspective, Africa's pension fund assets remain below those of advanced regions but above South Asia over the 2015–20 period (figure 2.37a). The distribution of pension funds in Africa is highly uneven (figure 2.37b). Three Southern African countries have deep pension systems relative to the size of their economies: Namibia (around 90–104 percent of GDP), South Africa (about 85–96 percent), and Botswana (around 50–55 percent). In most other African countries, pension fund assets remain below 15 percent of GDP, constraining the development of domestic capital markets, particularly corporate bond markets and long-term project finance.

Even in larger systems where aggregate pension assets exceed \$200 billion, portfolio allocation remains conservative.⁸⁶ Pension funds are heavily concentrated on government securities and bank deposits, with modest exposure to corporate credit and minimal allocation to infrastructure-style alternatives. Country data illustrate this pattern: in 2023, government securities accounted for roughly 81 percent of private pension investments in Ghana, about 47.5 percent of assets under management in Kenya, and approximately 64.9 percent in Nigeria. This structure

Institutional investors, particularly pension funds and sovereign wealth funds, represent a promising and largely untapped source for scaling long-term investment within the continent

FIGURE 2.37 Pension fund assets



Source: World Bank 2025; OECD 2025.

underscores several issues: high sovereign yields often dominate risk-adjusted return comparisons; corporate issuance remains limited and illiquid; and fiduciary, governance, and prudential constraints reduce appetite for project-level exposure. An indicator of under-allocation to long-term productive assets is the very small share invested in “alternative” asset classes. Evidence shows that pension fund allocations to alternatives in selected African markets ranged from 0 to about 2.7 percent of assets under management (end-2020).⁸⁷ Since infrastructure debt, infrastructure equity, private credit, housing funds, and green investment vehicles typically fall within this bucket, such low allocations signal a large, untapped opportunity.

The macro-development payoff from even marginal reallocation could be material if undertaken within strong prudential guardrails. For example, reallocating an additional 1 percent of pension assets annually to domestic long-term instruments—such as infrastructure, housing, and climate-aligned investments—across the six largest African pension markets could cumulatively mobilize about \$1.7 trillion by 2050 (roughly \$70 billion per year under reasonable asset-growth assumptions).⁸⁸ Incremental shifts in the allocation of pension funds to infrastructure, supported by credible

pipelines and robust risk architecture, will help to expand long-term domestic financing.

Cross-country experience offers two design lessons. First, reforms that broaden allowable asset classes are necessary but insufficient: without bankable projects, standardized instruments, credit enhancement mechanisms, and transparent pipelines, regulatory headroom remains unused. Second, the binding constraint is often not foreign-investment caps—such as the relatively high offshore limit in South Africa—but the shortage of investable domestic assets that meet fiduciary and risk management requirements. Strengthening regulatory and prudential frameworks, deepening capital markets, improving project preparation, and enhancing governance standards are essential to unlock pension funds as a cornerstone of Africa’s long-term capital mobilization strategy.

Sovereign wealth funds: Shifting from outward bias to strategic investment windows

Sovereign wealth funds (SWFs) are a major global pool of long-term capital, with more than 180 funds worldwide managing more than \$15 trillion in assets under management. This positions SWFs as powerful vehicles for supporting long-term

investment and crowding in private finance. Africa's share remains very small, estimated at roughly 1 percent of the global SWF assets (figure 2.38a).⁸⁹ In 2025, 24 African SWFs across 20 countries held about \$111 billion, a decline from \$174 billion in 2013, reflecting pandemic-related withdrawals, commodity price volatility, geopolitical fragmentation, and policy uncertainty.

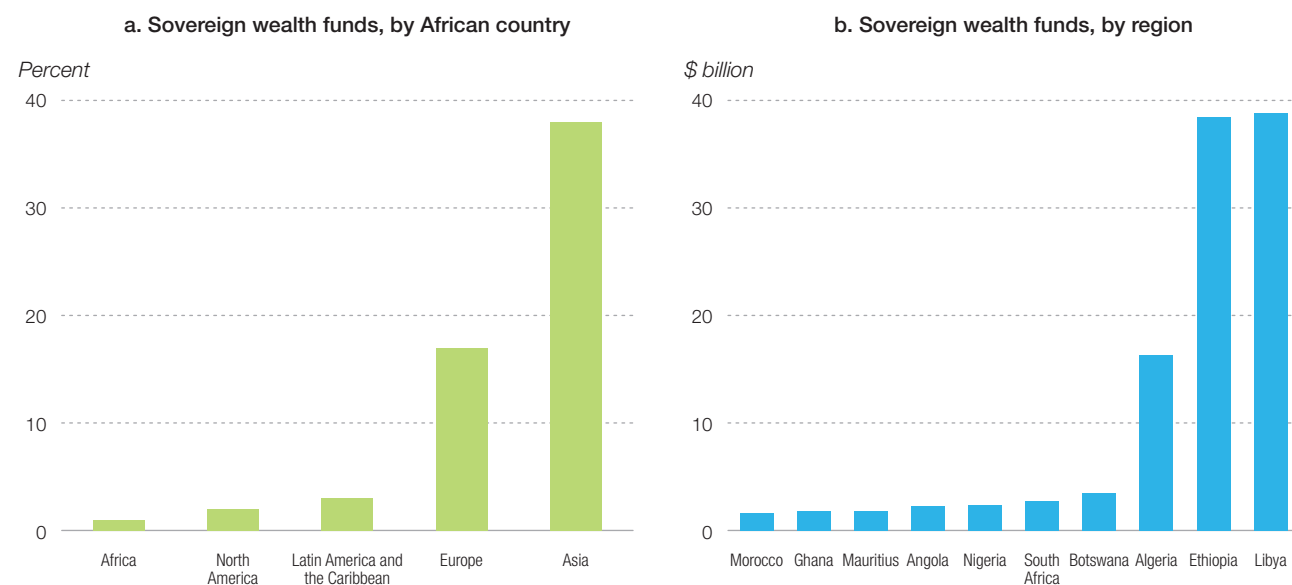
Within the continent, assets are highly concentrated. The Libya Investment Authority is among the largest African SWFs, with reported assets at roughly \$38.8 billion but these are largely frozen under UN sanctions since 2011, followed by the Ethiopia Sovereign Wealth Fund at \$38.5 billion (figure 2.38b). Broader classifications that include both SWFs and public pension funds ("sovereign investors" under some typologies) place Africa's total assets under management closer to \$400 billion, but the subset of pure SWF assets is much smaller - underscoring both size and fragmentation challenges. Three issues are key for policy design: size and fragmentation, mandates and governance, and domestic opportunity set.

First, many African SWFs are small relative to infrastructure financing gaps and operate in shallow domestic capital markets. Fragmented markets, limited investable pipelines, and currency and liquidity risks constrain the extent to which

SWFs can deploy capital locally without breaching prudential norms.

Second, mandates and governance structures shape investment behavior. Many African SWFs were established primarily for stabilization and intergenerational savings, especially in resource-rich economies. Their design often embeds an outward investment bias to diversify risk and insulate portfolios from domestic political pressures. While prudent from a stabilization perspective, this structure can constrain development impact if not carefully calibrated. Policy reforms should aim to design institutional frameworks that facilitate savings growth, investment and development mandates to encourage SWF to invest in domestic markets. A good example is the Nigeria Sovereign Investment Authority (with assets of \$2.4 billion), which operates through ring-fenced sub-funds including stabilization, future generations, and infrastructure window, supported by a firewall that protects portfolio integrity while enabling domestic investment. As of 2025, the Nigeria Infrastructure Fund had invested more than \$402 million domestically in technology and the health sectors to address development challenges and support job creation in these sectors.⁹⁰ Governance standards are equally critical. Alignment with the Santiago Principles and global standards on transparency, accountability,

FIGURE 2.38 Sovereign wealth funds in Africa, 2024



Source: Sovereign Wealth Fund Institute.

Policy reforms need to expand domestic opportunities while preserving robust governance frameworks, ring-fenced development windows, and clear investment rules

and risk management will enhance credibility, lower perceived political risk, and improve co-investment prospects. In environments with high sovereign risk premium, transparent domestic investment criteria, clear withdrawal rules, audited reporting, and professional fund management, influence investor confidence and cost of capital.⁹¹

Third, domestic opportunities are low. Many African SWFs invest more in offshore equities and bonds, often anchored in the conventional 60/40 portfolio benchmarks in advanced markets.⁹² This outward bias reflects diversification motives as well as the weak domestic project pipelines, underdeveloped capital markets and macroeconomic volatility. Evidence suggests that countries with well-structured, bankable projects and credible investment platforms attract higher SWF allocations to emerging markets and domestic investments.⁹³ Where investable instruments exist—such as infrastructure funds, well-governed PPPs, co-investment platforms, and professionally managed regional vehicles—domestic allocations tend to rise.⁹⁴

There are encouraging signs of gradual rebalancing. In 2022, more than 73 percent of surveyed African SWFs (11 of 15) reported meeting elements of their development mandates through domestic investments.⁹⁵ For example, the Nigeria Sovereign Investment Authority and Ghana Sovereign Wealth Fund combine foreign diversification for stabilization with targeted domestic allocations for infrastructure and strategic sectors. For Nigeria, a portion of the sovereign wealth fund is utilized for domestic investment through the Nigeria Infrastructure Fund to drive economic development. Key sectors include agriculture, healthcare, motorways, power, and technology. Since inception, 15 projects with a portfolio of more than \$500 million have been invested in domestic infrastructure, catalyzing more than \$1 billion in third-party investments.⁹⁶ Through the Mineral Income Investment Fund, the Ghana Sovereign Wealth Fund has invested in mineral and energy sectors. Regional co-investment platforms—often backed by DFIs and managed by professional fund managers—are emerging to pool capital across multiple SWFs, reduce concentration risk, and strengthen governance standards.

Deepening this shift requires moving beyond a narrow “savings abroad” paradigm toward a

model of strategic domestic and regional investment aligned with Africa’s agenda for industrialization and structural transformation. This requires identifying investment opportunities and reforms needed to minimize risks. Between 2019 and 2023, global sovereign investors deployed over one-third of their capital in the infrastructure and energy sectors, underscoring the existing opportunities. On average, a sovereign investor deploys \$700 million per deal in the infrastructure and energy sectors, higher than in any other industry.⁹⁷

Many factors motivate sovereign investment in infrastructure and energy. Regulated assets such as utilities usually involve inflation-indexed increases in charges, which ensure a hedge against inflation. Technological changes (such as digitalization) are providing investment opportunities in digital infrastructure and telecommunications. The energy transition is driving investment in renewables, which are sought by sovereign investors seeking to decarbonize their portfolios and achieve net zero, and to take advantage of additional financial support in the subsector from development finance institutions, multilateral banks, and the state. And despite large upfront costs, infrastructure provides predictable long-term revenue that helps state-owned investors meet their financial and other intergenerational liabilities and commitments.

Policy reforms need to expand domestic opportunities while preserving robust governance frameworks, ring-fenced development windows, and clear investment rules. With credible pipelines and institutional architecture, African SWFs can play a larger role in mobilizing long-term capital, complementing private finance and enhancing resilience in fiscally constrained and shock-prone economies. More broadly, aligning large domestic institutional balance sheets—including pension funds and SWFs—with national development priorities requires complementary regulatory and market reforms. Statutory frameworks that recognize infrastructure as an investable asset class, potentially alongside minimum domestic allocation of thresholds consistent with prudential norms, are central to this effort. In South Africa, amendments to the Pension Funds Act explicitly recognized infrastructure as eligible for pension investment (box 2.7), while the Nigeria Sovereign

BOX 2.7 Pension funds, infrastructure finance, and institutional design of DRM in South Africa

South Africa's experience with pension funds illustrates how domestic savings can be mobilized for infrastructure financing when regulation, project pipelines, and risk-sharing mechanisms are well defined and supported by robust legislative frameworks. With retirement fund assets amounting to around 110 percent of GDP,¹ South Africa's pension system is large by emerging market standards. In nominal terms, pension assets exceeded \$345.7 billion in 2023, while the Government Employees Pension Fund (GEPF)—the largest on the continent—managed assets of approximately \$137.1 billion. However, this capital had remained largely disconnected from infrastructure delivery. The 2022 amendment to Regulation 28 of the Pension Funds Act recognized infrastructure as an investable asset class. The reform permits pension funds to allocate up to 45 percent of assets to infrastructure investments, increases the private-equity cap to 15 percent, and retains strong prudential safeguards, including concentration limits and beneficiary protection.

South Africa has shifted attention from portfolio rules to the conversion chain between savings and assets. The National Treasury of South Africa has prioritized reforms in project preparation, transaction support, and blended finance, treating these as public goods essential for crowding in institutional capital. The Infrastructure Fund has approved nearly \$2.30 billion in blended finance projects since 2020, deploying concessional and first-loss capital to de-risk projects for pension funds and insurers. More recently, policy emphasis has moved toward

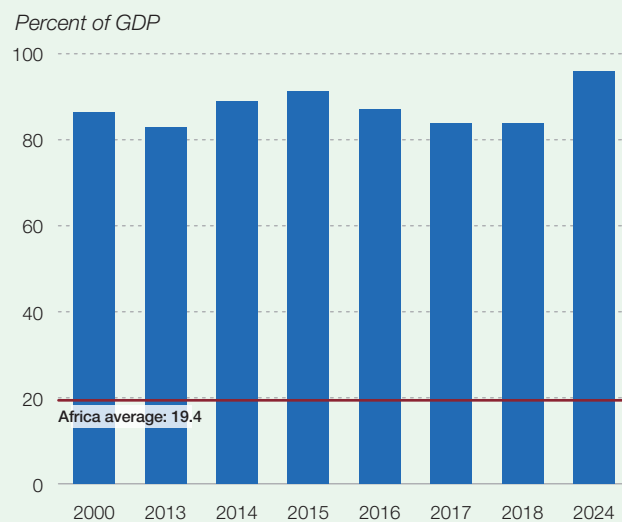
credit enhancement and guarantee mechanisms, particularly for energy transmission and logistics infrastructure. These instruments allow the public balance sheet to absorb early-stage and political risks that institutional investors cannot efficiently bear, converting uncertainty into quantifiable risk.² This approach reflects a crucial lesson: domestic capital is mobilized by risk architectures that respect fiduciary constraints. Through the Public Investment Corporation, pension capital has been channeled into specialized vehicles such as Africa50, enabling professional appraisal, diversification, and governance separation between asset owners and project sponsors.

Source: AfDB staff, based on FSCA (2024), GEPF (2024), National Treasury South Africa (2022, 2025), OECD African Capital Markets Report (2025), and Africa50 (2023).

Notes

1. National Treasury 2023; IMF 2024b.
2. Reuters 2024.

BOX FIGURE 2.7.1 South Africa: Trends in pension fund assets to GDP



Note: The 2024 figure is from official retirement funds and private retirement funds as reported by the South African Reserve Bank, sourced from African Capital Markets Report, 2025 prepared by OECD.

Although the African diaspora represents one of the largest pools of financial resources available to the continent, a large share of this potential is not mobilized

Investment Authority applies a structured dual mandate approach.

International experience underscores the importance of sequencing reforms alongside market development. Kenya illustrates an early reform stage where regulatory space has expanded but pipeline maturity remains limited; Chile shows how deep capital markets enable pension funds to invest in infrastructure through bonds and concessions without extensive guarantees; and Canada represents a frontier model in which large public pension funds act as direct global infrastructure investors supported by sophisticated governance and in-house expertise. For other African countries, key lessons are clear. Infrastructure must be explicitly recognized as an eligible asset class while fiduciary standards and risk discipline are preserved. Blended finance and credit guarantees should crowd in institutional capital rather than replace it. And specialized intermediaries are needed to aggregate projects and manage risks. In debt-constrained contexts, domestic pension funds are increasingly seen as a source of patient capital, as demonstrated by the National Pension Scheme Authority in Zambia, which has expanded into transport and energy investments through equity stakes and public-private partnerships alongside development finance institutions.

LEVERAGING DIASPORA CAPITAL

Africa's diaspora remittances are among the continent's largest and most stable sources of external financing

Over the past 25 years, remittance inflows to Africa have increased nearly tenfold in nominal value and more than tripled on a per capita basis. In 2024, remittances to Africa reached \$104.8 billion, up from \$11.4 billion in 2000, representing an average annual growth rate of 9.7 percent. As a result, remittances have become the continent's leading source of external finance, significantly surpassing official development assistance and FDI.

This expansion reflects both the rapid growth of Africa's diaspora population and remittances per migrant. The number of Africans living abroad

more than doubled from 21.2 million in 2000 to 45.8 million in 2024, implying an average annual growth rate of 3.3 percent. Over the same period, remittances per member of the diaspora increased from \$702 in 2000 to \$2,434 in 2024. In other words, in 2024, average remittances per diaspora member exceeded Africa's GDP per capita (estimated at \$1,976), underscoring the significant development potential of these flows. Although Africans residing in high-income countries account for about 42 percent of the diaspora, they generate more than 77.4 percent of total remittance flows, with average annual transfer of around \$4,200 per person, compared with approximately \$900 among other diaspora segments.

Looking ahead, remittance flows from the African diaspora could exceed \$1 trillion by 2050. If the average trend since 2000 continues, remittances could reach \$179 billion in 2030, \$433 billion in 2040, and \$1,051 billion in 2050. Beyond their scale, diaspora remittances are notably stable—around three times less volatile than FDI—making them a critical source of financing for resilience.⁹⁸ In fragile and conflict-affected contexts, remittances often remain resilient even as state capacity weakens or private investment retracts, providing an essential lifeline for households and local economies. When underpinned by credible institutions and effective risk mitigation mechanisms, diaspora capital can play a catalytic role in mobilizing long-term finance, supporting recovery, and strengthening economic resilience.

Although the African diaspora represents one of the largest pools of financial resources available to the continent, a large share of this potential is not mobilized. A comparative analysis of remittances per member of the diaspora highlights large heterogeneity across African countries. In 2024, five countries stood out as champions in mobilizing diaspora financial resources (table 2.4): Nigeria (\$10,167 per member of the diaspora), Kenya (\$9,251), Egypt (\$6,133), The Gambia (\$7,302), and Senegal (\$5,058). These very high levels contrast sharply with those observed in many other countries that nevertheless have large diaspora populations that are well established in high-income economies.⁹⁹ Even when the diaspora is not extraordinarily large in absolute terms, countries such as The Gambia, Kenya,

TABLE 2.4 Top five performers in diaspora financial mobilization in 2024

Country	Diaspora population (million)	Share in high-income countries (percent)	Remittances per capita (\$)	Remittances per capita in high-income countries (\$)	Remittances per capita outside high-income countries (\$)	Total annual remittances (\$ billion)
Egypt	4.82	80.3	6,132.6	7,097.0	2,200.6	29.6
Gambia	0.07	82.1	7,302.1	8,231.9	3,030.1	0.5
Kenya	0.54	78.4	9,251.0	9,812.0	7,217.7	5.0
Nigeria	2.09	60.4	10,167.3	11,789.4	7,693.9	21.3
Senegal	0.74	58.7	5,058.3	5,375.6	4,607.7	3.8

Note: Countries are classified as champions of diaspora mobilization if they have more than 50 percent of their diaspora population residing in high-income countries and receive more than \$5,000 per member of the diaspora per year.

Source: Data on remittances come from the World Bank’s World Development Indicators. Data on the size of the diaspora come from the United Nations population database.

and Senegal are able to leverage their international networks more effectively than many other African countries. On average, these five countries receive approximately \$8,461 per diaspora member annually from high-income countries and \$4,950 from middle- and low-income countries, illustrating that high levels of diaspora financial mobilization are achievable even outside the wealthiest countries.

The strong performance observed in these countries is driven less by the size of their diaspora but rather by the existence of proactive, transparent, and secure institutional frameworks that promote the formalization of flows and investment. Nigeria, for example, has institutionalized the state–diaspora relationship through a dedicated commission—the Nigerians in Diaspora Commission (NiDCOM)—and the development of specific financial instruments, which have helped structure the supply of diaspora-oriented financial products and strengthen confidence in official channels. Kenya has adopted a national diaspora policy focused on reducing transfer costs, promoting financial inclusion, and formalizing flows, thereby fostering regular and traceable mobilization.¹⁰⁰ In Egypt, improvements in the foreign exchange framework and access to foreign currency have reduced reliance on informal channels, leading to increased remittances per member of the diaspora. Senegal has institutionalized support for diaspora investment through the Support Fund for Investment by Senegalese Abroad and

has announced and structured diaspora bonds (the “patriotic and citizen bonds”) to channel diaspora savings toward public financing. Finally, The Gambia has developed a diaspora engagement strategy oriented toward investment and the creation of dedicated financial products. These experiences show that clarity of instruments, legal certainty, reduced frictions, and the presence of targeted public incentives are key determinants of diaspora financial mobilization.

By aligning the 15 African countries that under-mobilize their diaspora with the average performance of the continent’s top five countries, Africa could generate an additional \$92.1 billion from untapped diaspora financial potential (table 2.5), an amount exceeding total official development assistance to the continent. The typology of countries based on their diaspora’s propensity to remit financial resources identifies 15 countries¹⁰¹ that are under-mobilizing their diaspora for economic and social development financing (see table A2.4.1 in annex 2.4). Leading this group are Sudan (\$22.2 billion), Algeria (\$13 billion), and the Democratic Republic of Congo (\$9.4 billion). This situation indicates that the primary constraint on mobilization is neither the diaspora’s financial capacity nor its attachment to countries of origin. It is a combination of factors, including political instability and the absence of structured national public policies to channel diaspora savings toward productive and secure investment.

TABLE 2.5 Countries with the largest untapped diaspora potential, 2024

Country	Diaspora population (million)	Share in high-income countries (percent)	Remittances per capita (\$)	Current annual remittances (\$ billion)	Benchmark annual remittances (\$ billion)	Untapped annual potential (\$ billion)
Algeria	1.8	96.3	1,010.4	1.8	14.8	13.0
Cabo Verde	0.2	86.3	2,281.4	0.3	1.2	0.8
Cameroon	0.4	56.1	1,537.8	0.6	2.8	2.2
Comoros	0.4	94.1	768.4	0.3	3.0	2.8
Congo Dem. Rep.	2.1	13.8	953.9	2.0	11.4	9.4
Côte d'Ivoire	1.2	20.1	899.8	1.1	6.9	5.8
Ethiopia	1.2	66.8	395.0	0.5	9.1	8.6
Ghana	1.1	53.4	2,868.3	3.0	7.2	4.2
Madagascar	0.2	93.6	1,813.5	0.4	1.8	1.4
Mauritius	0.1	97.7	2,509.5	0.3	1.0	0.7
São Tomé and Príncipe	0.0	56.3	1,934.2	0.1	0.3	0.2
Somalia	1.9	22.3	1,094.3	2.1	11.1	9.0
South Africa	1.0	89.0	850.4	0.9	8.1	7.3
Sudan	3.8	32.5	237.7	0.9	23.1	22.2
Zimbabwe	1.5	13.7	2,310.2	3.5	8.3	4.7
Total	16.9	—	—	17.8	110.1	92.1

Note: The benchmark level is calculated by applying the same average remittance levels per member of the diaspora observed in champion countries—\$8,461 for diaspora members residing in high-income countries and \$4,950 for those residing outside high-income countries—to the corresponding diaspora shares of the countries considered here. Differences may occur in totals due to rounding.

Source: Data on remittances come from the World Bank's World Development Indicators. Data on the size of the diaspora come from the United Nations population database.

HARNESSING AFRICA'S NATURAL RESOURCE ASSETS

Abundant natural capital, including forests, savannas, wetlands, and marine ecosystems, provides critical services such as carbon sequestration, water regulation, and soil fertility

These services remain largely invisible in economic statistics and weakly integrated into public and investment decision-making.¹⁰² The emergence of carbon markets, biocredits, and the biodigital economy, combined with improved natural resource accounting, can contribute to mobilizing new sources of financing, support sustainable growth, and position Africa at the center of global markets for the ecological transition and environmental data. In addition, environmental degradation, climate vulnerability, and biodiversity losses undermine long-term growth prospects. In the context of increasing fiscal constraints, valuing

these assets and accounting for the degradation of the continent's ecosystem represents a strategic opportunity to capture the true value and contribution of natural capital to Africa's development.

Moving beyond the extractive model

The exploitation of rents derived from natural resources has shaped African economies more strongly than those of many other regions, while also exposing resource-dependent countries to significant structural vulnerabilities. Opaque governance of extractive sectors, together with competition over transboundary natural resources, has contributed to fragility, conflict, and regional instability in several contexts. Transitioning away from extractive-led growth models requires deliberate measures to promote economic diversification that enhances inclusion and community centered frameworks.

Over the period 2017–21, natural resource rents averaged 8.6 percent of GDP in Africa (figure 2.39),

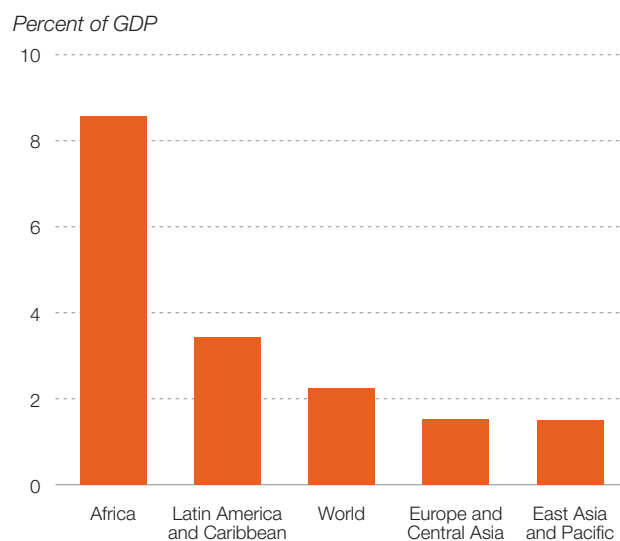
nearly four times the global average (2.3 percent) and significantly higher than for Latin America and the Caribbean (3.4 percent), East Asia and the Pacific (1.5 percent), and Europe and Central Asia (1.5 percent). In some countries, such as the Democratic Republic of Congo, Equatorial Guinea, Angola, Libya, and the Republic of Congo, natural resource rents exceed 20 percent of GDP, underscoring heightened exposure to volatility and governance risks. By contrast, resource rents remain below 1 percent of GDP in Botswana, Djibouti, Mauritius, Morocco, and Seychelles, reflecting more diversified economic structures.

In the absence of strong institutions and governance, natural resource rents weakly translate into finance for development and may turn into a “resource curse,” becoming drivers of economic inefficiency and political instability. Countries that are highly dependent on natural resource rents tend to record lower shares of manufacturing value added to GDP and tax revenue to GDP, and a greater propensity for armed conflict (figure 2.40). In the context of the global energy transition and the gradual shift from fossil fuels, oil-dependent African economies face increased risk of “stranded assets,” where reserves may lose their economic value relative to more diversified economies.

Integrating natural capital into national accounting systems provides a foundation for moving beyond the extractives model of natural resource exploitation. Natural capital accounting, implemented through the System of Environmental-Economic Accounting (SEEA), enables countries to measure natural assets and ecosystem services in both physical and monetary terms, alongside produced and human capital. By doing so, natural capital accounting makes visible the contribution of ecosystems to economic performance and national wealth.

Moving beyond extraction also requires rethinking concession-based systems in sectors such as mining, forestry, fisheries, and agriculture. Greater emphasis on local value addition, downstream processing, and ecosystem-based production systems can increase domestic value added, create jobs, and limit environmental degradation. Integrating natural capital further supports improved land use planning by enabling public authorities to compare the long-term economic

FIGURE 2.39 Natural resource rents by regions, average, 2017–21



Source: AfDB staff calculations based on data from World Bank, World Development Indicators.

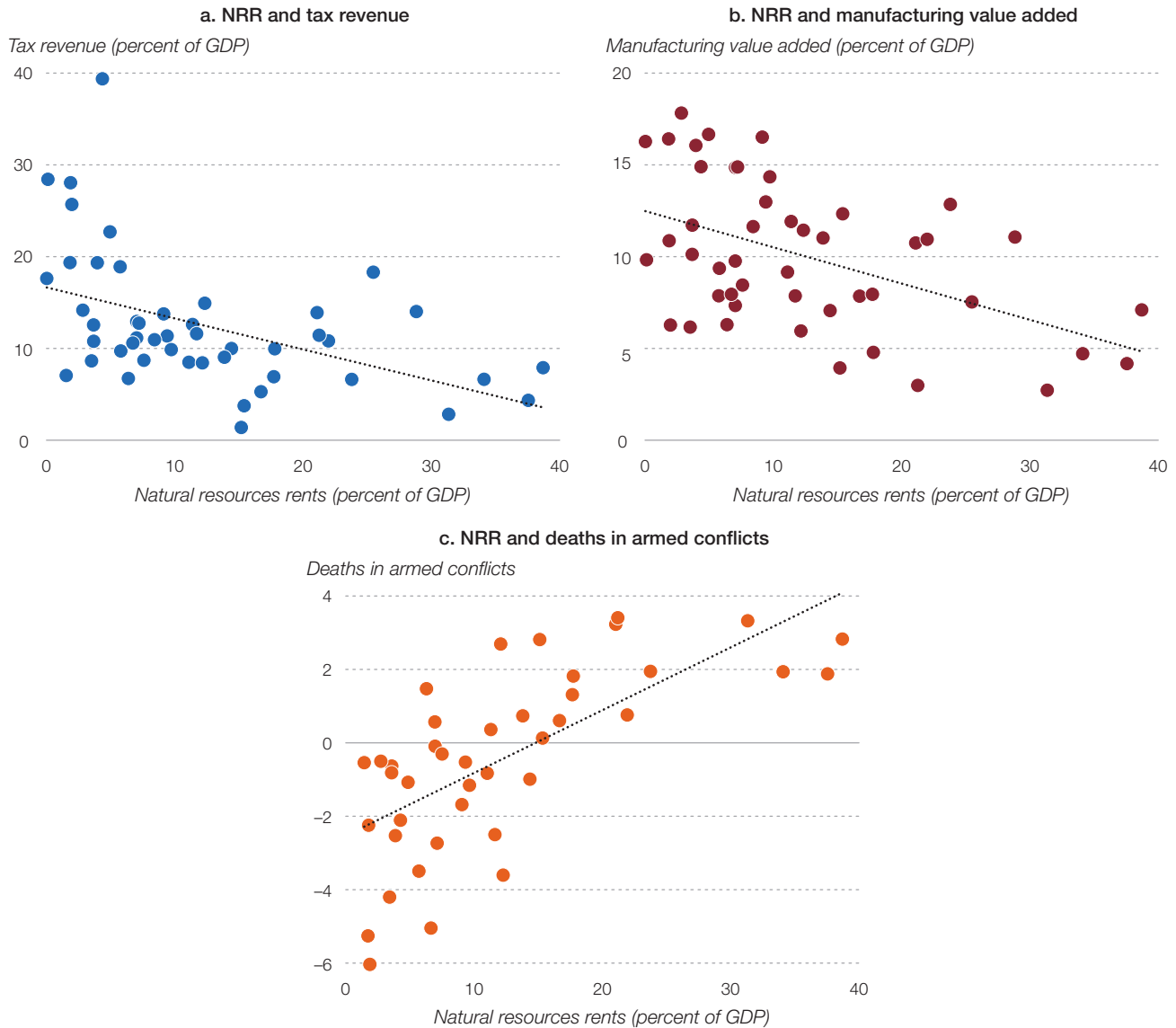
returns associated with conservation, sustainable use, and resource conversion.

Natural capital, economic performance, and macroeconomic sustainability

Conventional macroeconomic indicators measure the value generated when natural resources are extracted, traded, and consumed, but they still capture only marginally the value produced by the functioning of ecosystems. As a result, the statistical system tends to reward activities that convert natural assets into current income while undervaluing those that maintain assets and future income streams, thereby orienting development strategies toward extractive trajectories rather than sustainable value creation.¹⁰³

Natural capital represents between 30 and 50 percent of total wealth in many countries,¹⁰⁴ with an estimated value of nearly \$7.6 trillion in 2020, or about two and a half times annual GDP.¹⁰⁵ When not incorporated into macroeconomic analysis, this wealth leads to an underestimation of the productive and financial capacity of African economies. Recent empirical work indicates that even a partial correction of this bias would contribute to large improvements in Africa’s economic performance. Estimates suggest that

FIGURE 2.40 Natural resource rents, manufacturing, tax revenue, and armed conflicts



Source: AfDB staff calculations based on data from the World Revenue Longitudinal Database (WoRLD) and World Development Indicators.

incorporating only the carbon sequestration services of forests would increase Africa’s measured output by roughly \$66 billion annually, equivalent to about 2.2 percent of continental GDP.¹⁰⁶ This adjustment reflects only one ecosystem service among many and therefore represents a conservative lower bound. Ignoring natural capital leads to misjudging fiscal space and debt sustainability. The implications are more pronounced in countries with large forests, where the estimated annual value of carbon sequestration alone approaches or exceeds recorded national income.¹⁰⁷

Accurately recording the values of the major productive assets helps to improve countries’ debt repayment capacity (based on debt to GDP ratio), particularly in economies rich in forests, biodiversity, or coastal ecosystems.¹⁰⁸ Integrating natural capital into national planning frameworks improves sovereign risk assessment and the measurement of the fiscal space. Beyond external perception, this approach strengthens policy consistency. In some countries, natural resources account for nearly 30 percent of public revenue.¹⁰⁹ Incorporating them within an asset-based

framework helps to ensure that improvements in fiscal balances do not come at the expense of declining national wealth. In the context of the 2025 System of National Accounts, integrating natural capital would be an instrument for macroeconomic sustainability and intergenerational wealth management.

Natural capital as a source of financing

The financial valuation of nature operates through several complementary channels linked to climate, biodiversity, biological data, and marine ecosystems, which are gradually redefining the economic role of Africa's natural resources. At the global level, the pricing of ecosystem services is progressing rapidly and is contributing to the emergence of nature as an economic asset class. In this context, Africa holds a comparative advantage, as it hosts approximately 25 percent of the world's biodiversity, more than 20 percent of the remaining tropical forests, and nearly 60 percent of the planet's uncultivated arable land.¹¹⁰ This endowment places the continent at the center of emerging markets for carbon, biodiversity, and biological data, making natural capital a potentially major source of both domestic and international financing.

Projects in Africa related to land use, landscape restoration, and forestry exhibit some of the lowest marginal costs of abatement worldwide. The joint World Bank–World Resources Institute report (2025) indicates that Africa possesses large mitigation and climate resilience potential based on land restoration, forest management, and natural infrastructure. By 2030, the continent could supply up to around 30 percent of the global potential of nature-based climate solutions.^{111,112} But while global voluntary carbon transactions exceeded \$2 billion in 2023, Africa captured only a limited share. This gap is explained by institutional and market constraints, including certification costs, project fragmentation and price asymmetries.

Beyond climate considerations, the economic value of nature extends to biological diversity. Genetic resources derived from African ecosystems supply the pharmaceutical sector, industrial biotechnology, and crop improvement, while countries of origin capture only a marginal share of the benefits.^{113,114} Emerging biodiversity credit

mechanisms and access-and-benefit-sharing frameworks aim to correct this asymmetry and enable protected areas (covering 17 percent of Africa's territory)¹¹⁵ to evolve from conservation spaces into revenue-generating assets. The global bioeconomy is estimated at more than \$4 trillion and projected to reach nearly \$30 trillion by 2050, according to the Global Bioeconomy Summit. Appropriate governance frameworks will help to capture the value from extraction and the scientific knowledge derived from nature.

Coastal ecosystems illustrate the convergence between environmental protection and development financing. Blue bonds, coastal carbon credits, and sustainable fisheries certifications make it possible to monetize these services while preserving ecological integrity. These emerging carbon, biocredit and biodigital markets could transform Africa's natural capital from a passive factor into a strategic economic sector. By structuring these markets and strengthening regional cooperation, regulatory frameworks and technical capacities, Africa can mobilize new fiscal resources, improve macroeconomic stability, and position itself as a central actor in the global green transition economy.

Governance, institutions, and macroeconomic stability

The translation of ecological assets into economic prosperity depends fundamentally on institutional quality. In Africa, opaque contracts, insufficient enforcement of environmental standards, and weak PFM frameworks have historically limited the development impact of natural resource sectors. This undermines both macroeconomic sustainability and social stability.

Historically, extractive sectors have exposed many economies to commodity price cycles. Fiscal revenue expands during boom periods and contracts sharply during downturns, complicating macroeconomic management. By contrast, ecosystem service revenue depends more on ecological performance than on global price fluctuations and therefore offers potential to stabilize income streams over time. Transparent contracts, standardized monitoring systems, robust environmental and social safeguards, and credible verification frameworks will help to improve price formation,

Natural capital is a potentially major source of both domestic and international financing for Africa

reduce risks, and attract long-term investment by strengthening investor confidence. Harmonized methodologies for valuing carbon and biodiversity assets reduce transaction costs and limit market fragmentation, while continental knowledge-sharing and data platforms support the integration of natural capital accounting into budgeting and planning processes. These efforts help establish a continental reputation for high-integrity environmental assets and improve bargaining power in international markets.

CROWDING IN GLOBAL PRIVATE CAPITAL IN A FRAGMENTED WORLD

Global fragmentation and the emergence of multipolarity are reshaping the finance landscape

Rising trade policy uncertainty, supply chain realignments, fragmented aid and capital flows, and escalating geopolitical tensions, alongside increased defense spending in advanced economies, are reshaping global patterns of production, trade, and finance. Trade tensions have disrupted supply chains, raised import costs, and reduced FDI. While Africa has shown resilience and recorded improved exports in 2024 and 2025, partly supported by nearshoring and

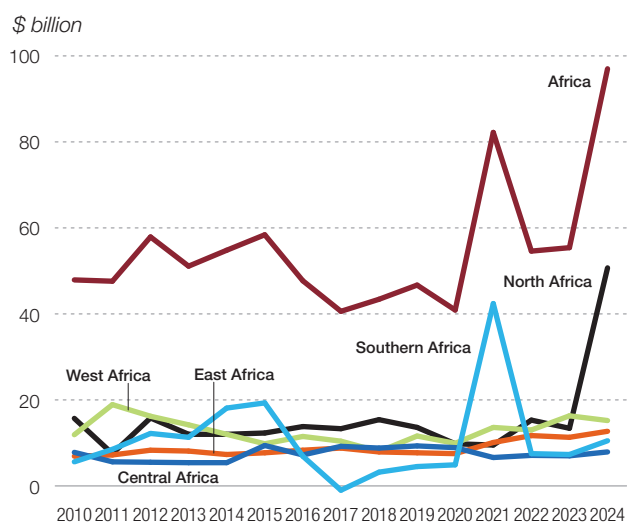
friendshoring strategies, uncertainties around FDI inflows, declining official development assistance, and tighter global liquidity conditions pose risks to the external financing outlook. Moreover, the current global financial environment is characterized by high-risk premium, tight liquidity, and stricter regulatory, environmental, and traceability requirements that increasingly shape which countries and firms can access global markets and value chains. In this context, there is a need for African countries to crowd in global private capital in key sectors such as power, transport, digital infrastructure, and industrial platforms. This requires fostering a policy and regulatory environment that attracts long-term private capital, that is aligned with clearly articulated national priorities, and that operates under predictable rules, enabling partners and investors to commit at scale while ensuring that projects deliver infrastructure, jobs, local supplier development, skills, and improved market access.

Foreign direct investment signals both Africa's potential and its fragility

Africa's FDI record over the last 15 years underlines both Africa's attractiveness and its exposure to global and domestic shocks. Over 2010–24, inflows averaged about \$51.9 billion per year in 2010–14, eased to \$47.4 billion in 2015–19, and rose to about \$66.0 billion in 2020–24 (figure 2.41). Yet the latest data show how fragile rebounds can be. FDI inflows to Africa fell by 42 percent in the first half of 2025 compared with the same period in 2024,¹¹⁶ reflecting that inflows remain volatile and often concentrated in a small number of markets and large transactions. This volatility matters because financing at scale requires stability and commitment.

The 2024 rebound in FDI that saw an increase of \$41.6 billion over 2023 was indeed highly concentrated, with North Africa accounting for 52 percent of the inflows in 2024, driven by the \$35 billion Ras El-Hekma megaproject investment in Egypt. Excluding that one-off surge, FDI increased modestly from \$42.0 billion to \$46.4 billion, highlighting the gap between spike years and broad-based momentum. The subregional series also underline Africa's exposure to shocks. Southern Africa shows outsized swings (\$4.9 billion in 2020,

FIGURE 2.41 FDI inflows to Africa and subregions, 2010–24



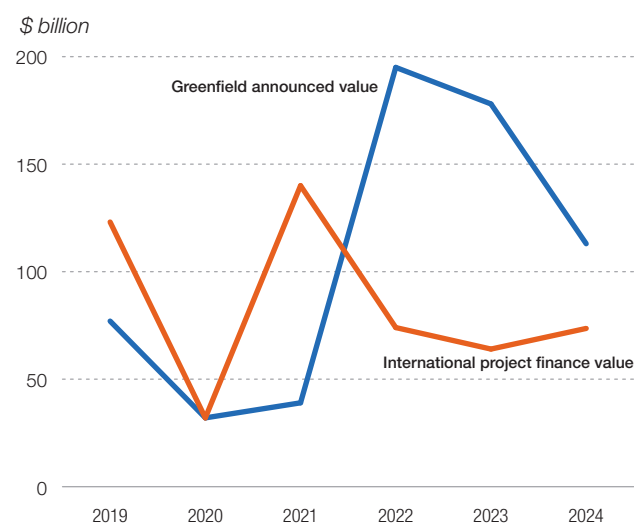
Source: UNCTAD 2025c.

\$42.4 billion in 2021, and \$7.5 billion in 2022), consistent with episodic megadeals and corporate restructurings rather than a steady pipeline. When FDI is concentrated in a few megaprojects, headline numbers can hide fragility. For example, a delayed project, a sudden policy reversal, or a foreign exchange shock can all quickly shift sentiment and tighten financing well beyond the country affected as investors reprice risk across similar deals. Reducing this volatility requires credibility with predictable sector rules, transparent procurement, and, most importantly, a stable macroeconomic, fiscal, and political environment.

The type of investment also matters for development outcomes. On the one hand, greenfield projects signal diversified productive investment such as new plants, service capacity, supplier development, and jobs. By contrast, IPF can mobilize large capital quickly into major assets such as power, transport, energy, often supported by clearer cashflow structures. In 2024, the investment pipeline shows a clear divergence where IPF strengthened while greenfield softened, suggesting momentum is coming more through large, structured infrastructure deals than a broad-based expansion in new productive capacity. In 2024, the value of greenfield investment declined by 37 percent to \$113 billion, from \$178 billion in 2023 (figure 2.42), due to tighter global financial conditions, geopolitical uncertainty, and delays in large energy and infrastructure projects. Even within greenfield, composition changed sharply, where construction and metal products recorded the biggest increases, while electricity and gas supply projects fell by \$51 billion in value.

Greenfield investment moved in the opposite direction: announcements fell 5 percent, and their value dropped 37 percent to \$113 billion, from \$178 billion in 2023 (see figure 2.42). Even within greenfield, composition changed sharply, where construction and metal products recorded the biggest increases, while electricity and gas supply projects fell by \$51 billion in value. Greenfield investment remains a key channel for building productive capacity in industry and services, while project finance can mobilize large sums quickly for infrastructure, together shaping whether Africa's pipeline becomes diversified and scalable rather than episodic. Policies should aim at

FIGURE 2.42 Greenfield announcements and project finance in Africa, 2019–24



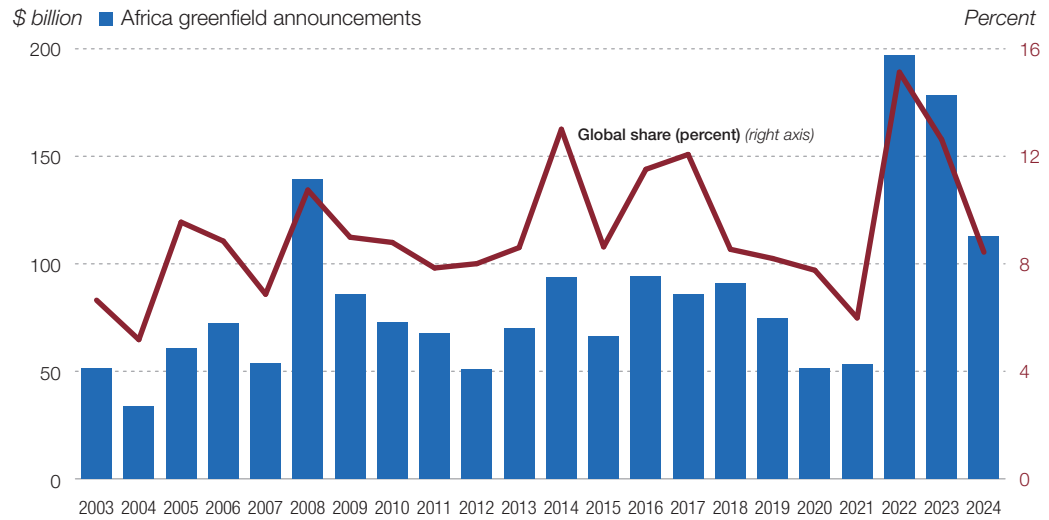
Source: UNCTAD 2022, 2025c.

boosting both types. This matters because financing at scale for accelerated and resilient growth depends on rebuilding a deeper pipeline of diversified investments that generate jobs, create linkages, and spur export diversification, alongside large infrastructure deals.

Resource projects can bring foreign exchange and public revenue, yet they typically create fewer jobs. Their development impact is larger when policies encourage local processing and supplier development. Export-oriented manufacturing and agro-processing platforms that build local supplier networks, such as Morocco's automotive (and now electric vehicle) value chain, illustrate this approach. It generated about 220,000 jobs and roughly \$17 billion in vehicle exports in 2024. With clear policy signals, well-designed incentives, and selective de-risking, governments and partners can steer the investment pipeline toward higher-impact sectors.

Strong preparation and planning matter. Africa's share of global announced greenfield investment has been volatile over the 2003–24 period. In 2022, Africa reached about 15.1 percent of global announcements (\$197 billion of \$1.3 trillion worldwide) before easing to 8.4 percent in 2024 (\$113 billion as the world remained at \$1.3 trillion) (figure 2.43). Since these figures capture investment intentions rather than implementation, a key

FIGURE 2.43 Greenfield investment in Africa: Announced value and global share, 2003–24



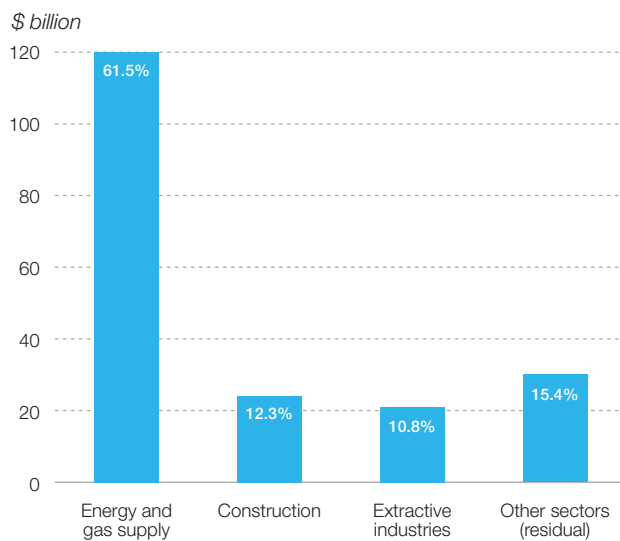
Source: UNCTAD 2022, 2025c.

constraint is the conversion rate from announcement to delivery. Turning announcements into projects that can reach financial close requires more rigorous project preparation, risk mitigation, and coordinated planning across government departments.

This conversion challenge is reflected by the volume of greenfield investments and their composition. Of the roughly \$197 billion announced

in 2022, about \$120 billion (61.5 percent) was concentrated on energy and gas supply, while construction accounted for \$24 billion (12.3 percent) and extractives for \$21 billion (10.8 percent). All other sectors combined represented about \$30 billion (15.4 percent) (figure 2.44). While energy and resource-related sectors dominate the greenfield investments, relying on them narrows development impacts and heightens vulnerability to sector-specific shocks. The balance includes manufacturing, agrifood processing, transport services, ICTs, and business services, activities that typically generate stronger job creation and deeper domestic supplier linkages. The relatively small share of announced investment indicates that diversification remains constrained. Strengthening the pipeline in these sectors would broaden employment creation, deepen domestic value chains, and reduce vulnerability to commodity price cycles.

FIGURE 2.44 Africa Greenfield announced investment, selected sectors, 2022



Source: UNCTAD 2025c.

De-risking and blended finance: Building bankable pipelines

Private investment in Africa remains constrained by a persistent wedge between expected project cash flows and the financing costs required by investors. Bridging this wedge—particularly in fragile and high-risk environments—requires a more integrated development approach that is aligned with humanitarian and peacebuilding

efforts. When well-coordinated effectively, joint delivery mechanisms and co-financing platforms can help align global private capital with both financial returns and fragility reduction objectives.

Even after accounting for macroeconomic fundamentals and sovereign credit ratings, African issuers face an additional risk premium of roughly 2.9 percentage points. This raises effective discount rates for long-lived infrastructure and industrial projects and creates disincentives for private investment.^{117,118} The purpose of de-risking is to narrow this wedge by preventing risks where possible, allocating residual risks to parties best equipped to manage them, and deploying targeted public or concessional finance only for risks that markets cannot efficiently price. To be effective and sustainable, de-risking must be carefully sequenced, prioritizing stabilization, risk reduction, and institutional strengthening before scaling investment. This approach supports the development of credible, bankable project pipelines while avoiding distortions to market incentives.

The sequence begins with policy and sector credibility: clear and predictable rules, enforceable contracts, and reliable tariffs or user fees. Once this foundation is in place, a finance-ready pipeline is needed, built through rigorous project preparation, standardized documentation, and programmatic procurement that reduce transaction costs and enable replication and aggregation. Stronger preparation facilities, standardized documentation, and aggregation of smaller projects into investable portfolios will help to address weak preparation and high transaction costs. Credit enhancement, refinancing windows, and capital-recycling structures can extend maturities and improve risk profiles, crowding in domestic pension and insurance capital alongside MDBs and infrastructure funds and allowing early-stage capital to be redeployed into the next wave of projects.

The Africa Investment Forum has mobilized large volumes of investor interest, \$29.2 billion in 2024 and more than \$100 billion in cumulative investment interests since 2018, by structuring transactions that move priority deals closer to bankability. The AGIA-PD, created to finance early-stage development, reached a first close of \$118 million toward a \$400 million target, directly targeting the “missing middle” where viable

projects stall before they become financeable. Africa50 has supported investments in infrastructure projects with a total value exceeding \$6.6 billion, illustrating how prepared pipelines can translate into financed assets.

In sectors with high public benefits but limited private revenue, time-bound blended finance is justified to address market failures. Concessional or first-loss layers should be used sparingly and only to unlock commercial capital, typically anchored by MDB concessional windows and climate funds, with complementary contributions from philanthropy and impact investors (box 2.8). Platforms such as Zafiri aggregate renewable investments to reduce transaction costs and enable institutional participation. At the system level, Mission 300 links policy reform, utility performance, and blended finance to a pipeline of investable power projects aimed at connecting 300 million people by 2030.

External portfolio inflows

Africa's net portfolio inflows also underline how quickly global financial conditions are transmitted into the domestic financing space (figure 2.45). Inflows were broadly steady through much of the 2010s, punctuated by episodes of risk-off shocks, before the cycle turned sharply in 2020–22 as global monetary conditions tightened, and investors reduced exposure to riskier assets. These reversals matter because they drain domestic liquidity, increase exchange-rate pressures, and push up the cost of capital, raising refinancing and hedging costs when investment needs are greatest. From 2023, flows began to rebound, signaling improved investor confidence. The implication for mobilizing development finance at scale is that portfolio capital is inherently fast-moving and procyclical. Its durability requires strong economic fundamentals, a predictable policy framework, stable and low inflation, and deep local-currency markets, as well as targeted de-risking and liquidity backstops.

The composition of Morgan Stanley Capital International (MSCI) country indices provides a proxy for where foreign portfolio equity is concentrated. For example, for Egypt, Kenya, Morocco, Nigeria, and South Africa, which together account for the majority of Africa's listed market capitalization and

Africa's net portfolio inflows underline how quickly global financial conditions are transmitted into the domestic financing space

BOX 2.8 Philanthropy as catalytic capital

Data from the Organisation for Economic Co-operation and Development (OECD) indicate that Africa is a major destination for philanthropic financing in developing countries, capturing around one-third of total flows over 2020–24. Africa's share rose from 33.2 percent in 2020 to 37.4 percent in 2023, before easing to 32.0 percent in 2024. In terms of value, disbursements to Africa increased from \$3.8 billion (2020) to \$4.7 billion (2023), then fell to \$2.7 billion (2024). The 2024 decline coincided with a broader contraction in philanthropic disbursements to developing countries, from \$12.5 billion to \$8.6 billion, showing that this source can be cyclical.

While philanthropy is not a stable financing source for long-horizon growth, it can be catalytic when used upstream as “first money in” to fund project preparation, transaction support, and early risk reduction so that project concepts become finance-ready deals. Evidence from infrastructure preparation platforms shows why this can have a large impact. Globally, the World Bank's Global Infrastructure Facility shows that each \$1 of project preparation support has mobilized more than \$100 of private capital at financial close. Guarantees and concessional loans from MDBs can reduce residual risks and lower financing costs, and private investors can bring in larger volumes of capital to scale delivery.

Philanthropy led by African businesses and foundations is currently concentrated in social and enterprise programs. For example, the Aliko Dangote Foundation spends around \$35 million per year on programs across Africa, while the Tony Elumelu Foundation reports disbursing more than \$100 million in direct funding to more than 24,000 African entrepreneurs since 2015, alongside training support at scale. These examples show that African philanthropic capital is already financing human capital development and private sector outcomes. Building on global blended finance practice, there is scope to allocate a portion of this funding as catalytic capital that improves investment delivery by financing early project initiation and preparation to reach financial close. Where governance is strong, small first-loss or junior layers in blended vehicles can help crowd in commercial investors by absorbing initial losses and improving risk–return profiles. Philanthropy can also use performance-linked funding to pay for outcomes that markets tend to underprovide, such as new off-grid connections for households, improved grid reliability, and stronger small and medium enterprise supplier links. This would strengthen the development impact of domestic investment by expanding the project pipelines and raising the success rate for scaling up capital.

Source: AfDB staff, based on OECD data on philanthropy for development, World Bank Global Infrastructure Facility, Aliko Dangote Foundation, and Tony Elumelu Foundation reports.

foreign portfolio participation, show that financials, telecommunications, and a small number of large corporates dominate the portfolio market segments.¹¹⁹ This pattern reflects where investors can deploy capital at scale, enter and exit positions with relative ease, hedge currency and refinancing risks, and rely on stronger disclosure, governance, custody, settlement, and repatriation arrangements. For current leading markets, the policy challenge is to deepen and diversify capital markets beyond a narrow set of firms, sectors, and instruments. For smaller and less liquid markets, the priority is to

build the basic conditions of investability, including macroeconomic stability, credible exchange-rate and inflation management, predictable regulation, stronger investor protection, and functioning trading, clearing and settlement systems. This calls for broadening the domestic institutional investor base, expanding local-currency bond and equity markets, and strengthening market infrastructure. It also requires better liquidity support and deeper regional integration to help smaller markets achieve the scale and credibility needed to attract sustained investment.

Leveraging fragmentation to build strategic platforms

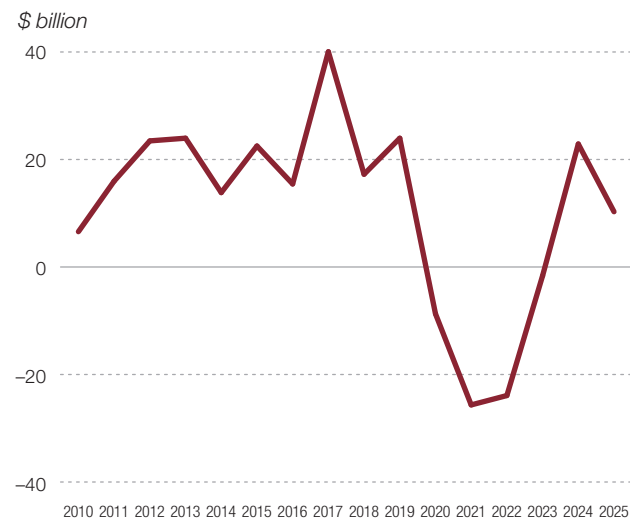
Global capital is becoming more selective and more sensitive to geopolitical risk, compliance requirements, and payment frictions. Financial fragmentation can raise the cost of cross-border transactions, introduce new frictions in payments and capital flows, and amplify volatility for emerging and frontier markets. At the same time, competition for secure supply chains in energy, food, critical minerals, and data infrastructure is intensifying. This creates a strategic opening for Africa to move beyond being a price-taker in global markets and instead position itself as a reliable production and financial platform with integrated markets.

Africa's strategic objective should be to turn fragmentation into multiple, bankable pathways for investment by diversifying sources of finance while building replicable platforms that can attract support across cycles. In a fragmented world, the quality of investment is as important as its quantity: policies that encourage processing, supplier development, and domestic capability building can better anchor Africa in higher-value segments of global value chains. At the same time, investors increasingly favor connected corridors and shared infrastructure systems over stand-alone projects, while clearer "rules" on traceability, due diligence, data quality, and interoperable payments are becoming central to market access and project bankability.

Corridors models illustrate this logic. For example, development of the Lobito Corridor will combine rail and port rehabilitation with coordinated customs processes, concession frameworks, and predictable access rules.¹²⁰ Financing under this approach supports both the physical infrastructure and the policy and governance foundations that make corridors commercially predictable. Investors can then price risk against system-wide volumes and cashflows, lowering the cost of capital and enabling follow-on investment in processing, industrial zones, and export services along the corridor.

Trade and payments architecture is equally strategic. Instruments such as AfCFTA's Guided Trade Initiative and the Pan-African Payment and Settlement System reduce transaction costs, shorten settlement times, and limit foreign

FIGURE 2.45 Africa: Net portfolio investment inflows



Source: African Development Bank statistics.

exchange exposure for intra-African trade. By easing payment and compliance frictions, they strengthen market access and improve the bankability of cross-border projects for investors operating across different partner blocs.

Strengthening partnerships to mobilize capital, investment, and trade

Growing political polarization and policy uncertainty in advanced economies, alongside shifting geopolitical and geoeconomic alignments, have both positive and negative implications for Africa's ability to mobilize development finance. They may redirect fiscal resources and private capital toward domestic and strategic priorities in partner countries, while raising uncertainty and financing costs for African borrowers. Or they may create new opportunities as investors and governments diversify markets, supply chains, and strategic partnerships. The key policy challenge for Africa is therefore to translate this global re-ordering into Africa-led, investment-ready platforms that reduce risk, strengthen domestic value addition, and attract more diversified and resilient sources of finance.

South-South partnerships can mobilize capital and delivery capacity at scale when structured as integrated platforms linking infrastructure, industrial capability, joint ventures and market access. The development payoff is greatest when

Transparent procurement, appropriate risk-sharing mechanisms, and credible debt management frameworks are associated with stronger project performance and lower financing costs

financing embeds supplier development and technology transfer provisions, allowing domestic firms to move up value chains and expand exports. For example, Ethiopia's industrial parks program, supported by enabling infrastructure including the Addis-Djibouti rail connection, illustrates how logistics connectivity can underpin export-oriented manufacturing. At peak level, the parks attracted more than 100 foreign investors and generated more than \$450 million in annual export earnings, particularly in textiles and apparel, while creating jobs.¹²¹ The integration of transport infrastructure with industrial clustering helped reduce logistics costs and strengthened Ethiopia's integration into global production networks. When financing is aligned with supplier development and technology transfer provisions, it can raise domestic value addition. Morocco's automotive ecosystem around Tanger Med demonstrates a similar logic. Coordinated port expansion, industrial clustering and targeted industrial policy helped attract major global manufacturers and build a domestic supplier base.¹²² The sector now supports approximately 220,000 jobs and generated around \$17 billion in automotive exports in 2024, making it Morocco's leading export industry.¹²³

Co-financing arrangements that bring together African DFIs and domestic institutional investors with international development finance and export credit opportunities can lengthen tenors, reduce financing costs, and spread risk across institutions, making large projects more financeable and scalable. For example, Kenya's Lake Turkana Wind Power Project was financed through a blended structure involving AfDB, the European Investment Bank, bilateral DFIs, and commercial banks within a risk-sharing arrangement that lengthened tenors and reduced financing costs in a frontier market context. Similarly, Africa50 has mobilized public and private capital into bankable infrastructure projects, using a development-and-investment model that pools preparation expertise and institutional capital to reduce transaction costs and crowd in investors.¹²⁴

International experience shows that the development impact of infrastructure and investment partnerships depends on institutional and contractual design. Transparent procurement, appropriate risk-sharing mechanisms, and credible debt

management frameworks are associated with stronger project performance and lower financing costs.¹²⁵ Embedding these principles within Africa-led, investment-ready platforms would strengthen credibility, reduce uncertainty, and increase the likelihood of partnerships crowding in private capital and delivering sustainable development outcomes.

Partnerships with Europe operate through a different but complementary model centered on regulatory alignment, sustainability standards and blended finance. For example, Europe's Global Gateway frames Africa-Europe cooperation around scaling investment in the green and digital transitions, sustainable growth and jobs, health, and skills, backed by a \$150 billion Africa-European Union (EU) package for the 2021–27 period within the broader \$300 billion Global Gateway Initiative. Delivery relies on grants, blending, and guarantees, with the European Investment Bank playing a major role in supporting project preparation and pipeline development.

At the same time, Europe's tightening sustainability requirements through instruments such as the Carbon Border Adjustment Mechanism and corporate supply chain due diligence rules make standards, traceability, and certification increasingly central to market access and project bankability. While these frameworks can enhance long-term competitiveness and environmental performance, concerns have been raised that compliance costs may be high for some African exporters, particularly for smaller firms and in carbon-intensive sectors. In this context, standards can act either as a barrier or as an upgrading mechanism. The outcome depends on whether regulatory alignment is accompanied by financing, technical assistance, capacity building, and transition support that enable African producers to meet new standards without eroding competitiveness.

Engagement with BRICS economies (Brazil, Russia, India, China, and South Africa) can be a channel for diversifying Africa's financing and investment partnerships. The development payoff depends on how financing is supported by regional corridors, pooled project pipelines, and sector programs, where standardized preparation and clear risk-sharing allow capital to be deployed

at scale. Corridor approaches illustrate the model: the African Development Bank has supported multi-country transport programs, including \$1 billion for a 1,110 km corridor linking Ethiopia to Nairobi/Mombasa and support for a \$3.2 billion central rail corridor linking Tanzania, the Democratic Republic of Congo, and Burundi, including the use of securitization, showing how platform structures can mobilize finance across connected assets rather than one-off projects. With Egypt and Ethiopia joining in 2024 alongside South Africa, cooperation may deepen in areas such as trade facilitation and payment arrangements, but outcomes will depend on project selection, governance, and avoiding concentrated liabilities.

CONCLUSION AND POLICY RECOMMENDATIONS

The combination of large refinancing needs, limited tax revenue mobilization, reduced official development assistance, slower FDI inflows, and tighter global liquidity conditions poses risks to Africa's ability to achieve its development objectives. But the shifting global environment and growing financing needs create new opportunities for the continent. The reconfiguration of global supply chains, rising demand for green minerals, expansion of carbon and biodiversity credit markets, and growing pools of domestic institutional capital offer new pathways to mobilize development financing at scale. Harnessing these opportunities requires strong institutions and financial systems, and strategic policy frameworks that position Africa to assert greater financial agency in a fragmented world. Closing today's infrastructure and Sustainable Development Goal financing gaps also requires a systematic shift toward de-risking frameworks, credible regulation, and targeted fiscal support that crowd in private capital at scale. Evidence shows that well-chosen public investment in Africa tends to crowd in rather than crowd out private capital, with each additional public dollar associated with roughly \$1.4 in private investment.¹²⁶ The objective is to ensure that every public dollar mobilizes multiple dollars of private finance, catalyzes technology transfer, and builds managerial expertise under strong

governance and fiscal safeguards. Mobilizing capital at scale calls for comprehensive reforms and coordinated actions across fiscal policy, financial sector development, governance, and regional integration.

Mobilizing fiscal resources at scale and improving their use

- *Ensure proper sequencing of fiscal reforms.* Sequencing matters for credibility and results, as fiscal reforms typically involve policy and political trade-offs, administrative capacity constraints, and time lags between policy adoption and revenue realization. A graduated approach to reform design and implementation allows governments to build institutional and absorptive capacity and secure early gains to garner social and political support. For countries at the early stages of reforms, the first phase could focus on measures that raise revenue without major legal or policy overhauls and build momentum for additional reforms. These should include integrating taxpayer registers, strengthening filing, payment enforcement, administration of tax exemptions, and deploying digital tools for VAT and customs management. Such measures can generate revenue gains relatively quickly, strengthen compliance norms, and enhance reform credibility.

The second phase would be to deepen and broaden revenue gains through a combination of policy and institutional reforms, especially those requiring legislative changes and stakeholder engagement. On the policy side, this would include expanding the tax base and rationalizing exemptions, restructuring excise taxes, and rolling out property taxes. Institutional reforms—including strengthening large taxpayer offices, enhancing audit and risk management functions, and integrating tax and customs data systems—will help lock in these gains by improving enforcement and reducing leakages.

The final phase would focus on sustaining revenue performance over the medium term by reinforcing the institutional and social foundations of taxation. This includes strengthening transparency and dispute resolution mechanisms to improve taxpayer trust and embedding

A graduated approach to reform design and implementation allows governments to build institutional and absorptive capacity and secure early gains to garner social and political support

Across many African countries, a large share of citizens express willingness to pay taxes when they are linked to improved public services

revenue reforms within the medium-term fiscal frameworks. These measures would support voluntary compliance, reduce reform reversals, and ensure that revenue mobilization translates into sustainable fiscal capacity.

- *Strengthen the fiscal social contract between governments and citizens.* A central element of sustaining revenue performance is strengthening the fiscal social contract between governments and citizens. Implicit taxation shapes the political economy of revenue reform. When taxpayers perceive that they effectively “pay twice” for essential services, once through taxes and again through private providers, due to gaps in public provision, they are less likely to view taxation as a fair exchange. Across many African countries, a large share of citizens express willingness to pay taxes when they are linked to improved public services. Strengthening DRM requires a multidimensional strategy that goes beyond tax policy and administration to include improvements in service delivery, accountability, transparency, and fiscal governance.
- *Strengthen institutional capacity for increased revenue collection.* Effective DRM is underpinned by tax policy design and institutional enablers that translate policy into sustained collections. Strong political commitment, professional revenue administration underpinned by clear integrity systems, robust legal frameworks, enforcement, and sanctions; and transparency mechanisms will help to strengthen accountability and taxpayer trust. Interoperable digital platforms—such as unique taxpayer identification, data sharing across public agencies, and e-payment—help to broaden the tax base, reduce corruption and other leakages, and improve compliance. Within this institutional ecosystem, digitalization has become a central pillar of revenue administration reform in Africa. Experience across countries shows that digital tools deliver sustainable revenue gains when embedded within broader governance reforms, supported by strong legal frameworks, risk-based compliance management, and political commitment.
- *International cooperation and the role of development partners are key for effective resource mobilization and retention.* As African countries

pursue measures to expand DRM, international cooperation and partner support are needed to complement national reforms. Globalization, digitalization, and the growing mobility of capital have heightened cross-border tax challenges, including base erosion and profit shifting (BEPS), aggressive tax planning, and transfer pricing. Addressing these challenges requires policy and administrative reforms, developing common standards, and sustained capacity building. Development partners need to support information exchange and asset recovery to reduce illicit financial outflows.

International tax cooperation initiatives, such as the BEPS agenda and the Global Minimum Tax, offer important opportunities to protect tax bases, enhance fairness, and reduce harmful tax competition. But capacity constraints limit the effective uptake of these initiatives in many African countries. Development partners need to sustain technical and financial support to strengthen institutional capacity and legal frameworks and treaty negotiations for countries to enforce domestic and international tax rules, particularly in areas such as transfer pricing audits.

- *Strengthen PFM to effectively mobilize, retain, and productively deploy domestic capital.* Effective PFM systems will help to ensure that mobilized resources translate into productive capital and improve service delivery. By ensuring that a greater share of allocated resources translates into effective infrastructure and productive assets, countries can generate higher growth returns from existing spending envelopes. Closing the efficiency gap could yield fiscal savings of about \$299 billion annually, resources that could be redeployed to ease financing constraints while simultaneously amplifying the growth impact of scaled-up capital mobilization. To achieve this, governments need to improve project selection, procurement, maintenance, multiyear fiscal planning, and oversight. Furthermore, in low-efficiency environments where absorptive capacity is a constraint, governments could take a gradual approach in public investment scaling ups to avoid cost overruns.

To enhance accountability and improve the effectiveness of public finances, governments

need to sustain measures to improve budget credibility and execution, publish timely fiscal reports, and strengthen supreme audit and parliamentary oversight. Digitizing revenue and expenditure systems, tightening procurement controls, and reducing leakages in public programs and SOEs will help to ensure that mobilized resources are used effectively.

- *Make formalization simple, progressive, and economically attractive by creating clear incentives.* When firms and workers understand the links between formalization and improved economic opportunities and access to essential services, transitioning from the informal sector becomes a rational decision. Governments should prioritize reducing the cost and complexity of entering and remaining in the formal sector by simplifying tax regimes, streamlining business registration procedures, and introducing proportionate, progressive obligations adapted to firms' size and capacity. Formalization should be designed as a gradual integration process, supported by simplified presumptive tax systems, one-stop registration centers, digitalized procedures, and intermediate legal statuses. Lowering registration and compliance costs will reduce the incentives to remain informal. Coordinated action among tax authorities and the social service providers (including social security, public health, and education) will help to ensure sustainability.

Mobilizing long-term capital from regional, and institutional investors

- *Increasing participation in asset-backed pensions will help to expand insurance uptake and the pool of resources.* By focusing on informal workers who are generally excluded from institutional pension plans, insurance uptake can be increased through mandates or automatic enrollment. Kenya, Uganda, and Zambia have implemented micro pension programs and reforms to include informal sector workers, underscoring the opportunities for other countries to expand insurance coverage and pool of institutional funds while simultaneously reducing risk exposure among informal workers. For example, Kenya's Mbao Pension

Plan extends pension and savings scheme coverage to the informal sector.¹²⁷ Uganda's Mazima Voluntary Individual Retirement Benefits Scheme allows for daily and weekly contributions, and KACITA Provident Fund Scheme targets low-income informal sector workers.¹²⁸ In Zambia, the government has developed a strategy on extending coverage to informal sectors and implemented pension reforms which provide for accessing pre-retirement benefits of 20 percent of the accumulated pension value, increasing income replacement ratios to 60–65 percent of the total, and enabling additional voluntary contributions) to enhance financial security and increase coverage.¹²⁹ The country's public compulsory pension system has since developed a digital platform to facilitate the capture of workers in the informal sector, including domestic workers, gardeners bus and taxi drivers and small-scale farmers. But the uptake of the policy has been slow, largely due to capacity constraints, paucity of infrastructure and lack of trust by the targeted populations.¹³⁰

- *Mobilize institutional capital for infrastructure.* Project bonds and infrastructure funds, supported by de-risking tools such as guarantees and blended finance, can help to expand capital mobilization. Strengthening capital market regulations and disclosure standards will facilitate the issuance of long-dated infrastructure securities. The collaboration between the Bourse Régionale des Valeurs Mobilières and Africa50 illustrates how coordinated reforms can attract pension fund capital and deepen domestic capital markets. In Morocco, longterm savings institutions that manage substantial pension and social security assets also illustrate how institutional funds can be transformed into capital for infrastructure investments.
- *Pension reforms and developing the broader institutional investor ecosystem, including capital markets, insurance companies, and asset managers, will help to expand capital mobilization.* Large private companies can be encouraged to list on the stock exchange through targeted tax incentives and streamlined procedures for initial public offering (IPOs), partial privatization of state-owned

Governments should prioritize reducing the cost and complexity of entering and remaining in the formal sector by simplifying tax regimes, streamlining business registration procedures, and introducing proportionate, progressive obligations adapted to firms' size and capacity

Governments need to sustain efforts to improve project preparation, standardize public–private partnership frameworks, and strengthen the legal and procurement frameworks to crowd in private capital and institutional investors

enterprises, and promoting secondary share offerings by listed firms. Authorities can support the development of insurance markets through financial literacy programs to create awareness for different insurance products and develop new distribution channels. These measures would help to deepen market liquidity, improve pricing and make domestic equity markets more attractive to institutional and foreign investors.

Scaling up PPPs and private capital participation

- *De-risking mechanisms and partial credit guarantees from MDBs can help to attract private investments.* While Africa’s perceived risk is a barrier to attracting assets currently invested outside, it records the lowest infrastructure loan default rate globally at 1.9 percent, compared with 12.4 percent in Eastern Europe and 10.1 percent in Latin America.¹³¹¹³² Strengthening partnerships between the private sector, NDBs, and MDBs to leverage available derisking tools, including partial credit guarantees, political risk insurance, first-loss tranches, viability gap funding, and currency risk mitigation, will enhance the risk–return profile of projects and align them with institutional investor preferences. For example, AfDB’s support to InfraCredit with a \$15 million subordinated facility strengthened its capital base and enabled infrastructure financing.¹³³ Deepening de-risking frameworks requires sustained improvements on project quality, market depth, and risk mitigation.¹³⁴
- *Improve the quality and bankability of infrastructure projects to attract funding from national pension funds and sovereign wealth funds.* Governments need to sustain efforts to improve project preparation, standardize PPP frameworks, and strengthen the legal and procurement frameworks to crowd in private capital and institutional investors. Improving market depth and liquidity by increasing tradable instruments, developing secondary markets, and broadening the institutional investor base will help to improve price discovery, reduce transaction costs, and increase risk-adjusted returns. Regular sovereign benchmarking

and active market making will lower the risk premium and make local-currency bonds viable alternatives to foreign assets. For optimal returns, risk mitigation instruments must be embedded in domestic offerings so that investors see a path to global comparable risk-adjusted returns.

Leveraging diaspora capital

- *Diaspora capital mobilization needs to be integrated into national development financing strategies.* For countries with very high potential to mobilize capital from the diaspora, national diaspora financial markets and investment funds with clear regulatory frameworks to ensure regular issuance, investor protection, and capital transferability are key to increasing remittances. For countries with high remittances, the priority should be to increasingly shift a share of the funds received from family support to investment. Banks and money transfer operators could design products that allow for automatic channeling of a share of remittance flows into savings–investment products through opt-out partial allocation. Municipal or community diaspora bonds that target financing of local infrastructure will attract the diaspora population to invest back home and help to increase the impact of these flows. Fiscal incentives, convertibility guarantees, and good governance are critical to ensure that mobilized resources are channeled into investment.
- *Governments should adopt a sequenced strategy to promote diaspora capital inflows.* In the short term, priorities should focus on reducing transfer costs, strengthening the transparency and reliability of formal remittance channels, and introducing savings instruments. In the medium term, focus should be on structuring the remittances through dedicated instruments—diaspora bonds, specialized investment funds, and public–diaspora co-financing mechanisms—supported by targeted tax incentives and partial guarantees to deepen trust and participation. In the long term, policy should focus on building a diaspora financial ecosystem grounded in strong legal frameworks, capital transferability, high standards

of governance, and the systematic integration of diaspora instruments into national development strategies, thereby ensuring larger, more stable, and sustainably transformative investment effects.

Harnessing Africa's natural resource assets

- *A transition toward natural capital-based development requires policy actions that promote value creation and asset management-driven growth.* This calls for a strategic approach to invest in infrastructure, technology, measurement, and capacity building to harness the natural wealth for sustainable returns. The first step is to adequately measure the value of natural capital and integrate it into economic statistics. This will ensure that natural assets are measured as components of national balance sheets and inform public decision-making. The second step is to protect the asset base through improved resource planning, enforcement, and restoration programs to ensure that asset values are maintained or increased. The third step is to monetize the value of natural capital by harnessing environmental, carbon, and biodiversity markets. These should be treated as export sectors that require appropriate infrastructure, regulatory frameworks, and market information. Measuring and monetizing natural assets will help to improve national financing strategies, strengthen fiscal sustainability assessments, and attract long-term investment. To increase the value of and revenue from ecosystem services, national governments need to strengthen carbon registries, biodiversity verification, and blue finance frameworks, with the support of development partners and in coordination with the private sector. This will also help to improve the feasibility of debt instruments linked to conservation and climate resilience.

Crowding in global private capital in a fragmented world

- *Strengthen project preparation to increase the share of pipeline projects that reach financial close.* To attract global private capital flows at scale, national authorities need to ensure predictable sector frameworks, enforceable contracts, transparent procurement, and tariff systems that improve competitiveness and make project revenue more predictable. Private firms need to strengthen their capacities for project preparation, which entails better transaction support, standardized documentation, and bundling smaller projects into larger bankable portfolios. Multilateral development financial institutions can support national authorities through risk guarantee facilities and other financial instruments aimed at reducing the information gap in project preparation. Support should include providing knowledge on global best practices in the preparation and design of well-structured bankable projects, especially for small and medium enterprises and start-up businesses, including those targeting women and youth.¹³⁵
- *Increasing the number and scale of investment pipelines in manufacturing, agro-processing, transport and business services will expand job creation, export diversification and deepen supplier linkages.* Where viable projects face maturity constraints, credit enhancement, refinancing, and capital-recycling structures can help to extend tenors, improve risk allocation, and attract domestic institutional capital. Stronger partnerships between multilateral development banks and pan-African banks and regional development finance institutions will help to mobilize global private capital through co-financing and providing guarantees. Such arrangements need to be supported by interoperable payment systems that lower transaction costs and improve the bankability of cross-border projects.

Private firms need to strengthen their capacities for project preparation, which entails better transaction support, standardized documentation, and bundling smaller projects into larger bankable portfolios

ANNEX 2.1 SCALING UP INVESTMENT TO RAISE GROWTH TO A MINIMUM OF 7 PERCENT

To estimate the investment requirements to raise Africa's growth to 7 percent, we rely on a standard Solow-style growth accounting framework. In the standard Solow-growth accounting framework, growth originates from more labor (L_t), more capital (K_t), increased human capital (h_t), and better technologies (A_t) as per the production function:

$$Y_t = A_t K_t^\alpha (h_t L_t)^{1-\alpha}.$$

Data for GDP, labor, capital, and human capital are from the Penn World Table, and total factor productivity (TFP) A_t is computed as a residual. While the production function is written in terms of aggregate capital, this measure includes both private and public capital. Public infrastructure investment enters the analysis through its contribution to the aggregate capital stock, and its growth effects are captured via capital deepening and associated spillovers to productivity and human capital.

GDP growth can then be decomposed according to:

$$\frac{dY_t}{Y_t} = \frac{dA_t}{A_t} + \alpha \left(\frac{dK_t}{K_t} - \frac{dL_t}{L_t} \right) + (1 - \alpha) \frac{dh_t}{h_t} + \frac{dL_t}{L_t}.$$

Africa's GDP growth currently revolves around 4 percent a year. For it to rise to 7 percent annual, investment will need to rise, taking into account possible spillover effects on TFP and human capital growth captured via elasticities. In Africa, increases in capital stock per capita are associated with statistically significant, though moderate, gains in total factor productivity, with an elasticity of about 0.04, and with stronger effects on human capital accumulation, with elasticities ranging from 0.09 to 0.14 depending on the period. These estimates are incorporated into the growth accounting exercise to capture both the direct contribution of higher investment and its indirect effects through production efficiency (TFP) and skills. This framework allows us to derive the scale of additional investment required to sustain higher growth trajectories in a transparent and internally consistent manner.

ANNEX 2.2 FORMALIZING THE INFORMAL SECTOR

TABLE A2.2.1 Informality and tax revenue

Variable	Tax revenue (% GDP)							
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
Size of the informal sector	-0.412*** (0.033)	-0.211*** (0.031)	-0.205*** (0.034)	-0.197*** (0.034)	-0.170*** (0.033)	-0.245*** (0.033)	-0.257*** (0.030)	-0.258*** (0.031)
Quality of governance		1.053*** (0.052)	1.101*** (0.055)	0.895*** (0.065)	0.886*** (0.064)	0.875*** (0.066)	0.616*** (0.086)	0.638*** (0.087)
GDP per capita (ln)			-0.110 (0.229)	0.436* (0.249)	1.447*** (0.367)	1.081*** (0.401)	1.594*** (0.555)	1.402** (0.576)
Natural resource rents (percent of GDP)				-0.107*** (0.017)	-0.090*** (0.015)	-0.099*** (0.017)	-0.080*** (0.021)	-0.077*** (0.021)
Urban population (percent of total population)					-0.070*** (0.017)	-0.065*** (0.018)	-0.090*** (0.021)	-0.085*** (0.021)
Investment (percent of GDP)						0.072*** (0.019)	0.075*** (0.021)	0.083*** (0.022)
Human Capital Index							1.885*** (0.713)	1.830** (0.717)
Inflation rate (percent)								-0.011** (0.005)
Constant	29.423*** (1.420)	25.624*** (1.309)	26.309*** (2.775)	22.589*** (2.870)	16.899*** (3.037)	20.466*** (3.084)	14.026*** (3.307)	15.273*** (3.400)
Observations	974	932	924	921	921	885	738	721
R-squared	0.176	0.373	0.383	0.404	0.415	0.447	0.443	0.437

Note: Standard errors in parentheses are robust to heteroscedasticity. *, **, and *** denote significance at the 10 percent, 5 percent, and 1 percent confidence level, respectively. Ordinary least squares regressions were performed. They were based on panel data composed of 48 African countries over the period 2000–20.

ANNEX 2.3 DATA ENVELOPMENT ANALYSIS APPROACH

Data Envelopment Analysis (DEA), applied in this study, is a nonparametric method for assessing the relative performance of homogeneous decision-making units (DMUs). In this analysis, the DMUs consist of 1,241 countries worldwide, including 35 African countries. DEA measures the relative capacity of each unit to transform a set of inputs into observable outputs, without imposing any a priori functional form on the production technology.

Unlike parametric approaches, DEA relies on the construction of an empirical efficiency frontier defined by the best observed performances within the sample. Each unit is then positioned relative to this frontier, allowing for the estimation of an efficiency score ranging between 0 and 1. A score equal to 1 indicates that the unit is considered efficient with respect to the best practices observed.

The analysis employs an output-oriented DEA model, in which the objective is to maximize outputs for a given level of inputs. This orientation is particularly well suited to the assessment of public investment, as governments generally have limited scope to rapidly adjust input levels, but can improve project planning, execution, and governance to enhance outcomes.

Let there be a set of N countries using K inputs to produce M outputs. For each country i , the optimization problem is formulated as:

$$\max_{\Phi, \lambda} \Phi$$

subject to:

$$Y\lambda \geq \Phi y_i, \quad X\lambda \leq x_i, \quad \lambda \geq 0$$

where y_i and x_i denote the vectors of outputs and inputs of country i , respectively; Y and X are the corresponding matrices for the full sample; λ is a vector of weights; and Φ is the proportional output expansion factor. The efficiency score is defined as $1/\Phi$. The selected model assumes variable returns to scale, allowing a distinction between pure technical inefficiency and inefficiency related to the scale of economies.

Consistent with the literature, the inputs include real public capital stock per capita, complemented by real GDP per capita to capture the contribution of the private sector to the provision of infrastructure services. The outputs encompass both economic infrastructure (road network length, electricity generation) and social infrastructure (access to improved drinking water, secondary school teacher ratios, and number of hospital beds), allowing for an integrated assessment of public investment outcomes. The data used are averages over the period 2000–23.

ANNEX 2.4 LEVERAGING DIASPORA CAPITAL

TABLE A2.4.1 Typology of countries based on their performance in mobilizing diaspora finances

Typology and criteria	Country	Diaspora population (million)	Share in high-income countries (percent)	Annual remittances per capita (\$)
A. High untapped potential:	Sudan	3.79	32.5	238
1) Solvent diaspora population 200,000 or more, <i>or</i> share of diaspora in high-income countries 60 percent or more, <i>and</i>	Congo, Dem. Rep.	2.10	13.8	954
	Somalia	1.94	22.3	1,094
2) Annual remittances per capita less than \$3,000	Algeria	1.78	96.3	1,010
	Zimbabwe	1.52	13.7	2,310
	Ethiopia	1.24	66.8	395
	Côte d'Ivoire	1.21	20.1	900
	Ghana	1.06	53.4	2,868
	South Africa	1.01	89.0	850
	Cameroon	0.41	56.1	1,538
	Comoros	0.37	94.1	768
	Madagascar	0.21	93.6	1,814
	Cabo Verde	0.15	86.3	2,281
	Mauritius	0.11	97.7	2,510
	São Tomé and Príncipe	0.04	56.3	1,934
B. Champions of mobilization:	Nigeria	2.09	60.4	10,167
1) Share of diaspora in high-income countries 50 percent or more, <i>and</i>	Kenya	0.54	78.4	9,251
	Egypt	4.82	80.3	6,133
2) Annual remittances per capita \$5,000 or more	Senegal	0.74	58.7	5,058
	Gambia	0.07	82.1	7,302
C. High performance with room for improvement:	Morocco	3.63	98.5	3,449
1) Share of diaspora in high-income countries 20 percent or more, <i>and</i>	Tunisia	0.72	98.6	4,554
	Liberia	0.15	31.3	4,660
2) Annual remittances per capita more than \$3,000 but less than \$5,000	Tanzania	0.23	23.6	4,992
D. Small, high-performing countries:	Djibouti	0.00	10.2	15,659
1) Diaspora population less than 100,000, <i>and</i>	Botswana	0.02	12.0	7,668
	Sierra Leone	0.06	17.5	5,054

(continued)

TABLE A2.4.1 Typology of countries based on their performance in mobilizing diaspora finances *(continued)*

Typology and criteria	Country	Diaspora population (million)	Share in high-income countries (percent)	Annual remittances per capita (\$)
E. Low structural mobilization:	South Sudan	3.17	1.0	359
1) Share of diaspora in high-income countries less than 10 percent, <i>and</i>	Burkina Faso	2.05	0.8	288
	Benin	0.73	4.9	324
2) Annual remittances per capita less than \$3,000	Burundi	0.58	6.5	411
	Malawi	0.43	0.7	437
	Niger	0.44	1.0	1,292
	Rwanda	0.54	5.5	959
	Togo	0.58	2.7	1,026
	Mauritania	0.09	4.5	1,031
	Lesotho	0.25	0.1	1,927
	Namibia	0.04	6.0	2,394
	Zambia	0.12	9.2	2,723
	Uganda	0.58	4.6	2,473
F. Other (intermediate):	Mali	1.29	14.0	847
1) Share of diaspora in high-income countries more than 10 percent, <i>and</i>	Mozambique	0.70	13.4	380
	Guinea	0.51	28.4	1,213
2) Annual remittances per capita more than \$3,000	Congo, Rep.	0.23	46.6	190
	Guinea-Bissau	0.10	40.3	1,982
	Seychelles	0.02	15.8	538
	Eswatini	0.01	10.6	2,884
	Angola	0.62	35.0	83

Source: AfDB staff calculations based on the World Bank's WDI database and the United Nations Global Migration Database.

NOTES

1. AfDB 2025.
2. The efficiency gap of 41 percent means that of \$100 spent in public investment, \$41 is wasted or does not translate into productive capital. In the 2024 *African Economic Outlook*, the inefficiency score was estimated at 39 percent, based on data for 2019. The updated data show that rather than decline, inefficiency has increased, calling for concerted policy measures—as highlighted in this report—to address challenges related to public investment spending.
3. AfDB 2025.
4. Wadhwa 2018.
5. AfDB 2025.
6. AfDB 2025.
7. AfDB 2025.
8. AU and AfDB 2024.
9. From the 1950s onward, these economies rapidly increased investment rates, with capital services accounting for a large share of GDP growth. Between 1970 and 1985, capital accumulation contributed 56 percent of growth in Hong Kong and 65 percent in Singapore, compared with 42 percent in India and 45 percent in the United States (APO 2020). These growth outcomes were enabled by sustained increases in investment-to-GDP ratios: Singapore's investment rose from about 10 percent in 1960 to nearly 45 percent in the early 1980s, while South Korea's increased from roughly 5 percent in the early 1950s to close to 40 percent by the early 1990s.
10. Expansion of access to quality education helped convert rising capital intensity into sustained productivity rather than diminishing returns. By the early 1990s about 18–20 percent of the labor force across the Asian Tigers had attained tertiary education. In Singapore, the share of the working-age population with at least secondary education rose from 15.8 percent in 1966 to 66.3 percent by 1990.
11. The Public Service Delivery Index in Africa 2024
12. Tajikistan is an exception. Its growth is primarily explained by its diaspora capital. Over the past 20 years, the country has received remittances representing more than 20 percent of its annual GDP, averaging 32.1 percent of GDP over the period 2000–24.
13. During the period of analysis, Ethiopia's annual economic growth averaged 8.7 percent, underpinned by the state-led growth model with large public investments in infrastructure, and the social services provided through state-owned enterprises.
14. Rwanda's high growth rates over this period, averaging 7.5 percent, have been driven by state-led development planning and investment in infrastructure and services (especially ICT, tourism, and mining).
15. Kararach et al. 2022.
16. Presbitero 2016.
17. Berg et al. 2013.
18. Warner 2014.
19. <https://www.enterprisesurveys.org/en/graphing-tool>.
20. <https://www.afdb.org/en/documents/public-service-delivery-index-africa-2024-report>.
21. IMF 2023.
22. https://www.oecd.org/content/dam/oecd/en/publications/reports/2024/06/revenue-statistics-in-asia-and-the-pacific-2024_c976266c/e4681bfa-en.pdf.
23. <https://documents1.worldbank.org/curated/en/099053124144112152/pdf/P175240-59c9ec0f-ca98-43ef-9cfa-2b65b4bc659e.pdf>.
24. AfDB 2025.
25. AfDB 2025.
26. IMF 2022; OECD 2021.
27. IMF 2021; WHO 2022.
28. IMF 2022.
29. World Bank 2020; AfDB 2024; ATAF 2024.
30. IMF 2023; World Bank 2022.
31. AfDB 2024; OECD 2021.
32. IMF 2022; World Bank 2020.
33. IMF 2022; AfDB 2025.
34. OECD 2021; IMF 2023.
35. World Bank 2020; AfDB 2024.
36. AfDB 2025.
37. World Bank 2019; IMF 2020.
38. Torgler 2007; OECD 2021.
39. IMF 2018.
40. World Bank 2016.
41. AfDB 2025.
42. PEFA Secretariat 2023; IMF 2018.
43. IMF 2015; Rajaram et al. 2014.
44. PEFA Secretariat 2023.
45. IMF 2021; OECD 2021.
46. PEFA Secretariat 2023.
47. IMF 2018; World Bank 2020.
48. IMF 2015.

49. UNDP 2025.
50. OECD 2021.
51. Diamond and Khemani 2005.
52. World Bank 2024.
53. UNDP 2023.
54. World Bank 2016.
55. IMF 2018.
56. IMF 2022; World Bank 2020.
57. IMF 2015; Rajaram et al. 2014.
58. For methodological details and full estimation results, see Annex 2.2 for more details.
59. World Bank 2022; IMF 2018.
60. AfDB 2024.
61. EU et al. 2023.
62. AfDB 2025.
63. AfDB 2025.
64. https://www.avca.africa/media/4zbp2qdp/avca_research_private_capital_investment_in_africas_infrastructure_2025_public.pdf.
65. Francois et al. 2024. <https://openknowledge.worldbank.org/entities/publication/a78dca5c-dfc1-4d0c-b6bc-9f961f9e8e8e>
66. Chama and Phiri 2025.
67. ALSF 2024.
68. <https://www.imf.org/-/media/files/publications/dp/2021/english/mrbpppiea.pdf>.
69. https://ppp.worldbank.org/sites/default/files/2022-03/PIQ_FinancialViabilitySupport_FINAL_online.pdf.
70. World Bank 2020.
71. IMF 2022; World Bank 2023.
72. AfDB 2024; World Bank 2020.
73. <https://ppp.worldbank.org/case-asset-recycling>.
74. OECD 2021; World Bank 2020.
75. OECD 2021; AfDB 2024.
76. World Bank 2020; OECD 2021.
77. AfDB 2024.
78. World Bank 2020; AfDB 2024.
79. <https://assets.bii.co.uk/wp-content/uploads/2025/10/10092130/The-role-of-securitisation-in-developing-capital-markets-in-Africa-BII-and-FSD-Africa.pdf>.
80. OECD 2021; World Bank 2020.
81. <https://www.imf.org/-/media/files/publications/dp/2021/english/mrbpppiea.pdf>.
82. <https://legalinstruments.oecd.org/public/doc/275/275.en.pdf>.
83. https://ppp.worldbank.org/sites/default/files/2022-03/FrameworkPPPDisclosure_101917_FINALFULL.pdf.
84. Africa Finance Corporation 2025.
85. OECD 2025.
86. OECD 2025.
87. IFC 2022.
88. AfDB 2025.
89. Sovereign Wealth Fund Institute 2026.
90. Nigeria Sovereign Investment Authority 2026.
91. UNCTAD 2025b.
92. OECD 2011.
93. UNCTAD 2025b.
94. <https://blogs.worldbank.org/en/africacan/impact-sovereign-wealth-funds-can-make-africa>.
95. Konfidants 2022.
96. UNCTAD 2025b.
97. UNCTAD 2025b.
98. Volatility is measured by the standard deviation of the growth rate of financial flows over the period 2000–24.
99. See the country typology and the methodology used in table A2.4.1 in annex 2.4.
100. See Kenya Diaspora Policy 2024.
101. A country is classified as under-mobilizing its diaspora financially (Group A) when: (i) the stock of its diaspora residing in high-income countries is large (exceeding 200,000 people or representing more than 60 percent of its total diaspora), and (ii) average remittances received per member of the diaspora are below \$3,000 per year.
102. AfDB 2024.
103. GDP measures the annual flow of production rather than the stock of assets that makes such production possible. This distinction is important for Africa, where natural capital represents a large share of national wealth and where economies rely on the export of minimally processed commodities. When a forest is harvested and timber is sold, GDP increases immediately. But, when the same forest regulates hydrological cycles, preserves soil fertility, stabilizes the climate, and supports economic activity over the long term, no value is recorded in the accounts.
104. UNEP 2023.
105. World Bank, Wealth Accounting (<https://datacatalog.worldbank.org/search/dataset/0042066/wealth-accounting>).
106. AfDB 2024.
107. AfDB 2024.
108. World Bank 2021.
109. <https://blogs.worldbank.org/en/africacan/africas-untapped-natural-resource-potential-could-be-the-engine-for-economic-transformation>.

110. AfDB 2025; World Bank 2021.
111. This estimate does not correspond to an observed contribution but to a geographical allocation of the mitigation potential assessed for the 2030 horizon in scenarios compatible with the Paris Agreement.
112. Collins et al. 2025.
113. Convention on Biological Diversity 2022.
114. <https://www.cbd.int/gbf>.
115. <https://www.unep-wcmc.org/en/news/the-africa-protected-areas-congress-a-commitment-to-african-led-conservation%E2%80%AF>.
116. UNCTAD 2025.
117. UNDP 2023.
118. Gbohoui, Ouedraogo, and Some 2023.
119. MSCI 2024.
120. A trade and logistics route linking the mineral and agriculture producing interior of Angola and the Democratic Republic of Congo (and, increasingly, Zambia) to the Atlantic Port of Lobito via rail and supporting logistics.
121. World Bank 2022; UNCTAD 2023.
122. World Bank 2022.
123. Ministry of Industry and Commerce of Morocco 2024.
124. Africa50 2023.
125. World Bank 2022; IMF 2023
126. <https://openknowledge.worldbank.org/entities/publication/a78dca5c-dfc1-4d0c-b6bc-9f961fbe8e8e>.
127. Kwena and Turner 2013.
128. The Provident Fund is a voluntary, nonstatutory schemes run by the Kampala City Traders Association with the aim of promoting a culture of savings. It targets informal traders, small business owners, and market vendors in Kampala and across the country. The scheme is registered by the Uganda Retirement Benefits Regulatory Authority.
129. <https://www.mlss.gov.zm/?p=5786>.
130. Miti et al. 2023.
131. Moody's Analytics 2020.
132. AfDB 2023.
133. <https://www.afdb.org/en/news-and-events/press-releases/nigeria-african-development-bank-and-infrastructure-credit-guarantee-company-limited-sign-15-million-agreement-enhance-infrastructure-financing-72034>.
134. https://gca.org/wp-content/uploads/2023/01/GCA_State-and-Trends-in-Adaptation-2022_Adaptation-Finance-Flows-in-Africa.pdf.
135. Simpasa 2024.

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STRENGTHENING AND CONSOLIDATING AFRICA'S FINANCIAL SYSTEMS AND AGENCY IN THE CHANGING WORLD

3

KEY MESSAGES

The contrast between the emerging global financial realities and the development financing landscape has never been sharper. International financial flows to Africa—including overseas development assistance, foreign direct investment, remittances, commercial loans, and other external financial flows—remain low. But financing requirements to achieve the United Nations Agenda 2030 on Sustainable Development Goals (SDGs) and the African Union's Agenda 2063 have increased significantly in the post-COVID-19 era. This, combined with the rapidly evolving global economic and financial landscape, characterized by geopolitical and trade tensions and increasingly inward-looking policies among advanced economies, calls for Africa to strengthen and leverage its domestic financial systems to mobilize capital for its development. In doing so in the face of sharp resource constraints, African countries will need to prioritize their interventions, focusing on actions that enhance domestic and regional institutional capacities and systems to attract and sustain financing for their development needs.

Africa's ability to mobilize capital for development is, however, constrained by a shallow, underdeveloped, and bank-based financial system. Measured by conventional financial development indicators, Africa's financial system is small compared with other regions of the world. Despite marginal improvements in the last two decades, domestic credit to the private sector in Africa, as a share of GDP, averaged 34.6 percent in 2020–24, compared with 52.0 percent in Latin America and Caribbean. And at 44.6 percent of GDP, Africa's stock market capitalization although higher than in Latin America and Caribbean (38.3 percent), remains much lower than 100.1 percent in South Asia. By contrast, interest rate spreads remain high, averaging 14.7 percent in 2023, compared with 5.9 percent in Latin America and the Caribbean. These weaknesses highlight Africa's failure to leverage its potential and opportunities in accessing long-term capital and confirm the slow pace of its development and structural transformation. Therefore, strengthening and consolidating Africa's financial systems present important and sustainable pathways to mobilize development financing for the continent. That will entail short-term measures targeted at course correction, systems consolidation, and cross-border coordination; medium-term measures to expand the financial sector's reach and impact; and overarching and longer-term measures to ensure the financial sector's sustainability and enhance its agency and sovereignty.

Greater regional financial integration is essential to unlock efficient cross-border capital flows. Africa's financial system remains highly fragmented and geographically concentrated, with financial activity and market depth clustered in a small number of large economies. Fragmented markets restrict efficient cross-border financing flows, reduce overall

Africa's domestic resources present scope to expand capital for development through the introduction and better intermediation of financial instruments such as private equity, infrastructure funds, and de-risking projects for investors

system coherence, and weaken intermediation capacity. Divergent supervisory standards, legal inconsistencies, and uneven institutional capacity limit cross-border participation and infrastructure development. These barriers elevate compliance and transactions costs and undermine investor confidence. Strengthening cross-border financial infrastructure, promoting interoperability among payment and settlement systems, and supporting regional capital market linkages will foster a more connected ecosystem. A coordinated approach to market development can gradually transform isolated national systems into a functional regional network of integrated institutions capable of supporting broader economic participation.

Unlocking the untapped domestic capital—including large pools of assets under management in sovereign wealth funds, public pension funds, and central banks—can enhance the role of the financial sector in financing development. Africa holds substantial domestic financial assets, including \$2.5 trillion in commercial banking assets, more than \$1.2 trillion in equity market capitalization, \$320 billion in insurance assets, and more than \$1 trillion in assets under management in state-owned entities. These domestic resources present scope to expand capital for development through the introduction and better intermediation of financial instruments such as private equity, infrastructure funds, and de-risking projects for investors. Achieving this requires a better-structured financial system that will unify fragmented markets, increase cross-border investments, and use digital financial platforms.

Leveraging financing platforms such as climate finance and Islamic finance offer new pathways to expanding the reach and development impact of Africa's financial system. Climate finance instruments in Africa are nascent but emerging as promising innovative mechanisms to finance resilient infrastructure. Africa's climate finance flows currently meet only about 23 percent of the estimated annual funding required to implement the Nationally Determined Contributions and achieve the 2030 climate goals. Leveraging innovative climate financing instruments

and related asset classes—green bonds, carbon markets, blended finance, and climate risk insurances and guarantee schemes—can contribute to the deepening of domestic financial markets and mobilize capital for climate-resilient infrastructure projects traditionally perceived as high risk and unattractive to private investment.

Similarly, Islamic finance assets, estimated at about \$6 trillion globally in 2024, concentrated mostly in banking (Islamic), Sukuk (Islamic bonds), and Islamic investment funds present additional sources of development financing for Africa. In Sudan, the entire banking system is Shariah-compliant, while several African countries, notably Côte d'Ivoire, Morocco, Nigeria, and Senegal, have introduced legislation and supervisory guidelines to operationalize and embed Shariah-compliant finance within existing financial systems. But Islamic banking assets in Africa constitute less than 10 percent of total banking assets. Expanding Shariah-compliant savings, credit, and microfinance products and other forms of Islamic finance could bring households and small and medium enterprises that avoid interest-based finance into the formal financial system. This will widen the deposit base and increase financial inclusion and domestic resource mobilization.

Africa's insurance market, if fully utilized, has the capacity to mobilize capital at scale for long-term investment. But it remains small and fragmented, with a penetration rate less than 2 percent of GDP, compared with 3.2 percent in Latin America and the Caribbean. With increasing economic activity, the potential for the insurance market to generate resources for development is often underestimated. Expanded and integrated insurance markets can strengthen their balance sheets, deepen Africa's financial system, and enhance mobilization of long-term institutional savings for high-impact capital projects. The pooling of premiums across Africa's fragmented insurance markets into a coordinated and integrated system could expand and channel the pool of institutional savings into bonds, equities, and infrastructure assets, thereby supporting market liquidity, yield-curve formation, and maturity transformation.

Real estate also presents an opportunity to mobilize capital for long-term investment.

Africa is the world's fastest urbanizing region, with the urban share of the population expected to reach 60–65 percent by 2050, presenting an opportunity to leverage the expanding middle class for development. Real estate offers a natural asset class for long-term institutional investors, whose liability structures match the long duration and inflation hedging of property assets. Africa's prime real estate has average yields of 8–12 percent, higher than in other parts of the world. So, by transforming illiquid land and unregistered property into bankable collateral assets, expanding real estate markets could transform financing for households and small and medium enterprises, thus supporting financial inclusion and stimulating long-term savings mobilization.

Proposed here are several policy recommendations for building a robust financial markets architecture to drive Africa's economic development.

The first set of recommendations focuses on the urgent issues of addressing bottlenecks to strengthen and consolidate domestic and regional financial systems, without which not much can be achieved. The second focuses on expanding the financial sector's economic reach and impact as the business and institutional environments improve; and the third addresses overarching and longer-term concerns, including system sustainability. At the country level, however, implementation should be tailored to specific contexts. Importantly, long-term reforms should not be deferred simply because they take time to yield results; they should be initiated early to ensure timely and effective outcomes.

In the short term: Address bottlenecks impeding the strengthening and consolidation of domestic and regional financial systems

- *Address structural and institutional bottlenecks that constrain effective functioning of Africa's financial systems.* As financial systems are increasingly interconnected, fragility conditions easily propagate through bank credit and capital flows. Domestic and regional action will require risk pooling and policy harmonization. Strengthening macrofinancial surveillance to

facilitate early detection of financial stress and coordinate preventive measures will be critical. South Africa and Mauritius provide valuable lessons on how to develop robust macrofinancial surveillance systems.

- *Strengthen the institutional framework for domestic debt management.* Stronger coordination of public debt policies, and transparent disclosure of debt stocks will help to improve accountability, debt sustainability assessments, and investor confidence. Separating debt management offices from ministries of finance could help to strengthen accountability. Some African countries such as South Africa, Mauritius, Egypt, Namibia, and Morocco with transparent domestic debt practices could provide useful peer-learning experiences for others where these practices are still lacking.
- *Build a strong domestic capital market by developing local-currency debt markets, expanding credit guarantees, blended finance, and political risk insurance, and adopt new debt management technologies and risk dashboards.* Countries that have strengthened their domestic capital markets—such as Botswana, Egypt, Kenya, Mauritius, Morocco, Namibia, Nigeria, South African, and Uganda—regularly offer local-currency bonds with maturities of 10 to 20+ years and could provide lessons for others aiming to develop their local-currency debt markets.
- *Enhance sovereign and overall credit risk management and address the shortfalls in current ratings.* Better systems for borrower vetting, including through increased digitalization, to reduce non-performing loans default risks will help lower interest rate spreads and lower the cost of capital. Sovereign risk assessments in many African countries do not fully reflect cross-country heterogeneity in the economies' financial depth, or institutional capacity, and that neighborhood effects pervade the sovereign credit ratings. Estimates show that mispricing of risk costs African countries about \$74.5 billion a year in unmet savings and financing.¹ The African Credit Rating Agency will help to alleviate information asymmetry. Countries need, however, to conduct supplementary analyses of their credit risk and debt distress while simultaneously

Stronger coordination of public debt policies, and transparent disclosure of debt stocks will help to improve accountability, debt sustainability assessments, and investor confidence

Accelerating regional financial integration and fully realizing the benefits of expanded financial inclusion require deliberate reforms and investments that tackle structural drivers of fragility, bridge infrastructure gaps, particularly in digital technologies, and strengthen administrative capacity in the most vulnerable countries

ensuring readily available and quality data that can aid fair rating.² This will enhance market confidence and agency.

- *Address pockets of fragility and conflict to improve risk perceptions.* Spillover effects from fragility and conflict in a few countries can dampen investor appetite even in otherwise more stable economies. Accelerating regional financial integration and fully realizing the benefits of expanded financial inclusion therefore require deliberate reforms and investments that tackle structural drivers of fragility, bridge infrastructure gaps, particularly in digital technologies, and strengthen administrative capacity in the most vulnerable countries.
- *Deepen and integrate domestic and regional financial markets.* Operationalizing the pan-African financial ecosystem to create economies of scale and facilitate smooth cross-border capital flows, while reducing transaction costs and risk of contagion, will require harmonizing regulatory frameworks, prudential standards, payment systems, and cross-listings of stock exchanges cross-border insurance coverage and regional pooling of pension funds and further deepen Africa's financial markets. Regional financial integration would help mitigate adverse effects of fragility. Africa's stock market capitalization represents only 43.3 percent of GDP, very low relative to global and peer-region benchmarks and the continent's own development financing needs. Efforts to integrate Africa's stock markets could help to leverage this component of the financial sector. In 2022, the AfDB, in collaboration with the African Securities Exchanges Association, launched an initiative aimed at converting African stock exchanges into a single, interoperable trading network, which is needed to improve market depth, liquidity, and access to capital. The expansion of pan-African banks such as Ecobank, United Bank of Africa, Standard Bank Group, Attijariwafa Bank, Bank of Africa and Banque Misr is creating dynamism in many African economies through innovation and raising local competition in the financing of country and regional projects and trade finance as well as fostering financial inclusion.

In the medium term: Expand the financial sector's economic reach and impact

- *Strengthen regulatory frameworks and risk management systems.* Information asymmetries are perverse in Africa's financial markets and undermine contract enforcement and the incentive structure. This is due to regulatory weaknesses and high credit risk, which undermine market discipline and underwriting standards, encourage imprudent investment practices and contribute to high non-performing loans. These vulnerabilities, in turn, constrain financial intermediation. Addressing these constraints requires strengthening the independence and enforcement capacity of regulatory agencies (central banks, securities and exchange commissions, pensions and insurance authorities, and other financial watchdogs) while modernizing prudential frameworks and supervisory tools in line with international standards and best practice. It also calls for stronger credit risk management (credit reference bureaus and collateral registries) and improved data quality and transparency.
- *Reform and empower NDBs and regional DFIs.* Reforming and capitalizing NDBs, DFIs, and RDBs will help to strengthen Africa's financial architecture and expand financial inclusion and development financing. The participation of NDBs and DFIs in bond issuances, syndicated loans, and private placements could help broaden market activities. Consider Nigeria's Bol, which secured a €1 billion syndicated loan from European investors, facilitated by Afreximbank, during 2023–24. Morocco's Caisse Centrale de Garantie and the West African Development Bank's joint financing of green and regional infrastructure with Africa50 suggest that long-term financing by NDBs, DFIs and RDBs has enormous potential. Improvements in governance and transparency are needed for these institutions to reach underserved sectors and regions. Stronger coordination between the regulators, and the national and regional DFIs, is critical to promoting the development of innovative financial instruments.
- *Incorporate pensions, insurance, sovereign wealth funds, and social welfare fund assets as*

key means of enhancing capital markets depth and liquidity. Amending the asset allocation frameworks of pension, insurance, and social welfare funds to emphasize more domestic investments in Africa could expand the pool of institutional funding for Africa’s development. For African SWFs, this will involve a shift from focusing on fiscal stabilization to a hybrid model that prioritizes investing in infrastructure, local private equity, and sectors like agriculture, energy, and healthcare. When deployed with adequate safeguards, these assets could shift the focus of Africa’s financial systems from short-term, bank-dominated intermediation toward longer maturities and deeper capital markets. However, pension funds amount to about 12.6 percent of GDP, a third of the global average, while insurance assets amount to 6.6 percent of GDP, compared with 28.0 percent for the European Union. As a notable innovation, pension management in Ghana, Kenya, and Nigeria has been contracted out to privately licensed fund managers, under independent regulatory oversight. In Egypt, Libya, Morocco, Nigeria and South Africa, the combined scale of those assets is large enough to impact domestic capital markets. In 2022, Ethiopia launched its flagship Ethiopian Investment Holding company, to manage state-owned companies and prepare them for privatization.

- *Mainstream climate finance as a key component of financial architecture.* Africa’s vast renewable energy resources (solar, wind, hydro), significant carbon sink capabilities (forests, wetlands), and critical minerals for green technology make it a potentially prime destination for investment in sustainable solutions. But Africa’s climate finance flows currently meet only about 23 percent of Nationally Determined Contributions, estimated at \$190 billion a year, and often do not feature into mainstream financial systems. A financing vehicle for climate finance in Africa could provide significant returns to investors as well as mobilize resources, with associated environmental and social benefits. RDBs and MDBs as well as bilateral development partners could use their concessional resources to de-risk climate investments. The AfDB is a key player in

this ecosystem, through the issuance of green bonds. Innovative cross-border instruments—such as the AfDB’s Panda bond involving Egypt and China—and joint financing arrangements with the European Investment Bank demonstrate that Africa’s climate and development priorities could be linked to new and innovative tools of international capital. They also show that co-financing and risk-sharing mechanisms are feasible in Africa’s climate financing space.

- *Search for value in Islamic finance.* Islamic financing—rooted in principles of risk-sharing, asset-backed financing, prohibiting excess speculation, ethical investment, and social responsibility—could offer an alternative source of financing for Africa. Côte d’Ivoire, Morocco, Nigeria, and Senegal that have introduced enabling legislation and supervisory guidelines to operationalize Shariah-compliant financing within existing financial systems should serve as peer-learning for other African countries. These reforms have reduced regulatory fragmentation and encouraged participation by conventional banks and other development finance institutions. As a result, there has been a significant increase in the adoption of Islamic credit windows, Sukuk structuring, and Shariah-compliant project finance in these countries. In October 2025, the International Finance Corporation announced its first Islamic financing deal in Africa with Banque Islamique du Sénégal.
- *Search for value in real estate.* Africa faces an estimated annual housing financing gap of more than \$650 billion. Although prime real estate yields in Africa average 8–12 percent, the sector is yet to translate into large volume investment. In 2023, the latest period with data, real estate investment in Africa totaled only about \$1 billion, (0.15 percent of the \$684 billion global market), indicating large untapped potential. Investment is concentrated in a few hubs, notably Nairobi, Lagos, Accra, Cairo, and Johannesburg. Growing at 4.5 percent a year, the sector is projected to reach about \$332.3 billion by 2033. But reforms are needed to fully integrate the real estate sector with the financial system—for example, through regulatory frameworks that encourage the

Islamic financing—rooted in principles of risk-sharing, asset-backed financing, prohibiting excess speculation, ethical investment, and social responsibility—could offer an alternative source of financing for Africa

Despite the proliferation of microfinance institutions in several African countries, the majority of the population remains outside the money economy

development of real estate-backed financial products such as real estate investment trusts.

Overarching and long term: Financial agency, advocacy, and sovereignty

- *Develop credible policy and institutional strategies for projecting financial agency and sovereignty.* Policies and institutional refinements for financial agency are critical to develop a credible implementation framework. Financial agency and sovereignty imply being on the table when technical aspects of financing are being decided. So, capacities for high-level negotiations on risk management, debt acquisition and repayment must be enhanced. A major responsibility of the proposed pan-African ecosystem should be to provide opportunities for strengthening technical skills in Africa's financial systems.
- *Examine the role of international development partners and financing agencies in the emerging financial architecture.* The quest for financial agency and sovereignty calls for changes in international cooperation. A subsidiarity-based framework, where Multilateral Development Banks (MDBs) such as the African Development Bank (AfDB) channel their lending through or provide institutional technical capacity to National Development Banks (NDBs) and regional Development Financial Institutions (DFIs), offers a practical roadmap. Under this model, national DFIs could originate and structure projects close to the ground; regional institutions provide risk-sharing, technical oversight, and institutional capacity, and cross-border coordination; and continental platforms mobilize, at scale, crowd in global capital, and anchor macro-financial stability. Properly sequenced, this layered architecture would transform fragmented financial ecosystems into an integrated system capable of recycling African savings and external capital sources. However, this framework would require carefully managing the backward transmission of risk in the financial ecosystem. For this framework to succeed, it is imperative for both national and regional DFIs to strengthen prudential standards, harmonize supervisory frameworks, and improve transparency and
- governance. Strong partnerships are required as Africa navigates international regulatory requirements and prudential standards needed to meet Basel III requirements as the pan-African financial ecosystem reaches fruition.
- *Promote financial inclusion as the ultimate expression of financial agency and sovereignty.* Despite the proliferation of microfinance institutions in several African countries, the majority of the population remains outside the money economy. Constraints are related to the effectiveness of borrower monitoring and the credibility of collateral arrangements. While credit bureaus are gaining traction in several countries, they have not improved borrower identification due to the absence of reliable up to date population and address registries and impaired collateral records. Positive experiences with new digitalized approaches to collateral registries raise optimism that credit contracts can be enforceable, which would reduce credit risks and costs.
- *Build a continent-wide financial ecosystem that supports efficient cross-border capital mobilization, inclusive participation, and financing for long-term development.* This requires the development of shared digital and payment infrastructure, interoperable platforms, harmonized regulatory standards, and data governance. In this context, the Pan-African Financial Network should be seen as a coordinating architecture that consolidates, scales, and aligns existing continental and regional initiatives. Elements of such a network are already emerging. The Pan-African Payment and Settlement System enables instant cross-border payments in local currencies. AfDB-led platforms coordinate DFIs and depository services. And the expanding footprint of pan-African banks that provide integrated financial services across multiple jurisdictions. Building on these foundations, the Pan-African Financial Network would operate through a multilayered governance structure, anchored by an Africa-wide governing board with representation from central banks, finance ministries, regional economic communities, and the private financial sector.
- *Fast-track the establishment of Africa-focused financial systems.* The African Union's

proposed African Financial Stability Mechanism (AFSM), once established, will pool resources to support African countries facing liquidity gaps to refinance their debt at low cost. African countries have long been forced to turn to costlier alternatives of debt refinancing, such as loans from commercial sources, including the Eurobond market, to bridge the financing gap. The recently launched African Credit Rating Agency (CRA) and the New African Financial Architecture for Development (NAFAD) are important steps in advancing Africa's quest for financial agency and achieving aspirations of the AfCFTA.

INTRODUCTION

The contrast between the emerging financial realities and the development financing landscape, both globally and in Africa, has never been sharper. Uncertainties about external development financial flows to Africa (foreign direct investment, remittances, portfolio investments, and official development assistance) have risen markedly (see chapter 1),³ while on the other, Africa's development financing needs to meet the aspirations espoused in the UN Agenda 2030 on SDGs and African Union's Agenda 2063 have increased noticeably, post-2020, owing to a confluence of domestic and external shocks. Africa's financial systems, if appropriately strengthened and consolidated, could provide pathways for the continent to broaden and deepen its sources of development finance.⁴ However, Africa's financial system remains shallow, underdeveloped, fragmented, and dominated by banks.⁵

In a rapidly evolving world characterized by divergent global policies, trade frictions, supply chain disruptions, and geopolitical tensions, the challenge is to shift the paradigm beyond dependence on external financial flows toward strengthening and consolidating Africa's financial systems and agency to ensure that they are fit-for-purpose to provide development financing at scale.⁶ Achieving this will require optimally harnessing domestic and regional financial resources and capabilities, and where opportunities exist, to consolidate them within and across countries and

regions. In addition, it will be crucial to improve Africa's engagement with the rest of the world, carefully selecting strategic partners with shared interests, while establishing conditions at home to become a leading destination for global capital.⁷

The priority for Africa is to rally its financial agency—its capacity to influence the size, structure, and cost of its financing needs—to engender strong and responsive financial systems, expertise, and institutional presence across the continent. Most critical in creating a robust financial system is forging a reform agenda underpinned by domestic commitment and the governance of different national and regional financial systems. The financial sectors in individual countries must be amenable to consolidating to reduce fragmentation and creating stronger regional markets. Success will depend on the pace of establishing agile pan-African financial institutions to champion the continent's financial needs while intermediating international capital into domestic agencies.

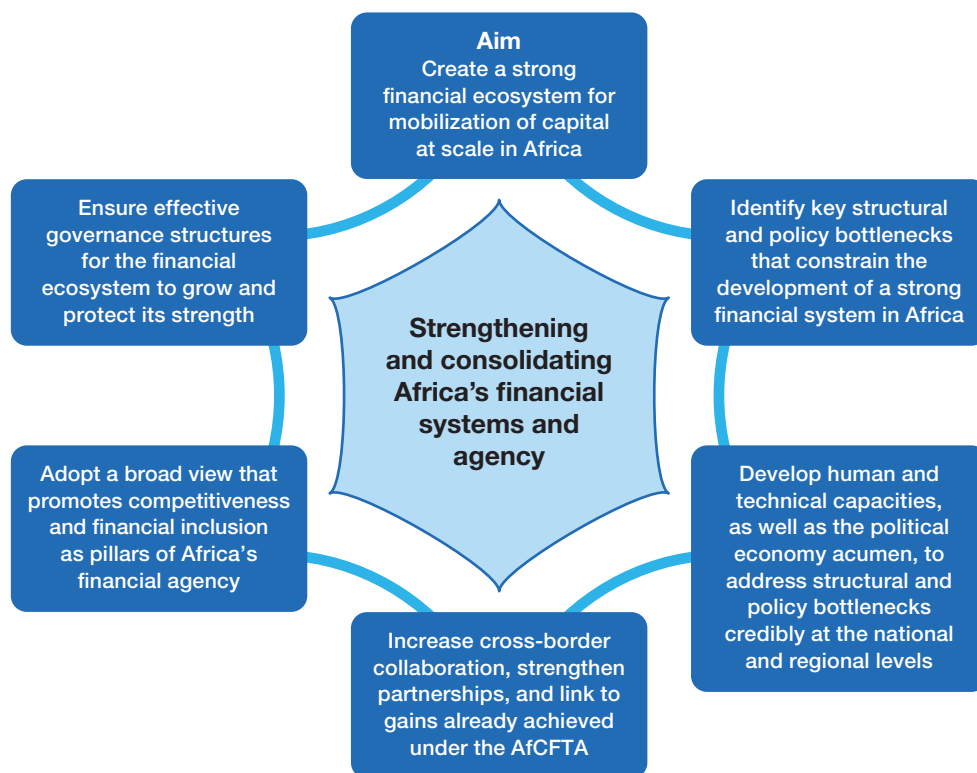
Strengthening and consolidating Africa's financial systems and agency requires the creation of a deep, accessible, and efficient financial ecosystem that can facilitate the mobilization of capital at scale for Africa's transformation (figure 3.1). Owing to resource constraints and the competing needs of public policy, strengthening and consolidating Africa's financial systems and agency will imply some trade-offs. Notably, establishing the physical and digital infrastructure required for the new financial ecosystem might be costly, competing with other urgent expenditures, and in the initial phases access to affordable financing for small businesses might be constrained.

There are five imperatives for strengthening and consolidating Africa's financial systems and agency at national, regional, and continental levels:

1. *Identify key structural and policy bottlenecks, including those of political economy, that constrain development of a robust and integrated financial system.* Africa's financial system faces several structural and policy bottlenecks. National and regional bottlenecks include insufficient aggregate savings, inadequate institutions to assess and mitigate risk, deficient financial intermediation, and constrained capacity to

Strengthening and consolidating Africa's financial systems and agency requires the creation of a deep, accessible, and efficient financial ecosystem that can facilitate the mobilization of capital at scale for Africa's transformation

FIGURE 3.1 Strategies for strengthening and consolidating Africa’s financial systems and agency



Source: AfDB staff.

Stable macroeconomic policies and regulatory environments can reduce sovereign risk, unlock capital, and boost growth. Strong and sustained economic growth is the strongest signal to investors that countries are ready for successful business expansion

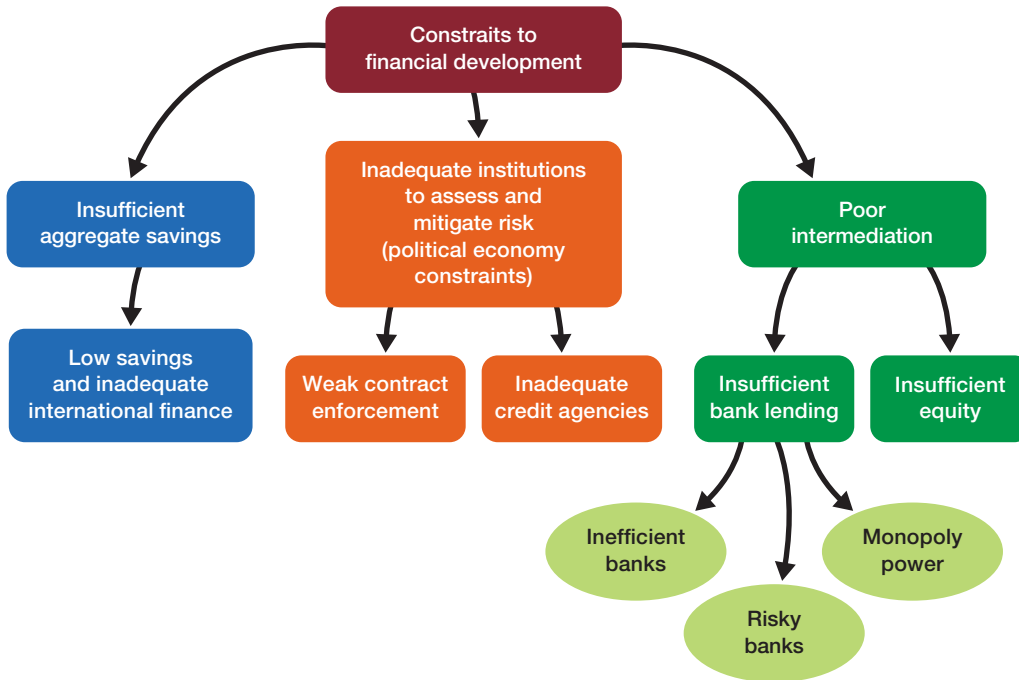
undertake cross-border financial transactions (figure 3.2). These challenges are even more severe in fragile contexts. Tackling these multifaceted challenges requires careful identification of the main structural and policy bottlenecks.⁸ Looking ahead, the solutions are twofold: First, building policy and institutional capacity and credibility is critical for strengthening and consolidating Africa’s financial system. Second, and related, stable macroeconomic policies and regulatory environments can reduce sovereign risk, unlock capital, and boost growth. Strong and sustained economic growth is the strongest signal to investors that countries are ready for successful business expansion.

2. *Develop human and technical capacities, as well as the political economy acumen at the national, regional, and continental levels.* Modern financial systems are both knowledge- and technology-intensive. Deep, accessible, and efficient pan-African financial system will require financial sector experts with increased

technical proficiencies in such emerging technologies as artificial intelligence, cybersecurity, dealmaking, and managing complex multi-country financing projects to drive strategic visions, while also showing adaptability to the changing global financial system. While several African countries have built capabilities in some of these aspects, and can scale up quickly, many others lack skills in key technical areas. Creating room for capacity building and cross-country experience will be crucial. Intercountry collaboration—including through exchanges of personnel, can provide future drivers of Africa’s financial systems hands-on experience.⁹ Africa’s financial sector development might be impeded not exclusively from the paucity of capital but also from an inability to bring bankable projects to market because of inadequate capacities.¹⁰

3. *Increase cross-border financial services.* Integrating payments systems and harmonizing regulatory standards and compliance regimes, including anti-money laundering and countering

FIGURE 3.2 Hierarchy of constraints to Africa’s financial sector development



Source: Adapted from Cheston, Cunningham, Hausman, and Tapia (2021).

the financing of terrorism legislation, are essential features of a well-functioning Africa-wide financial ecosystem. The efficiency of cross-border and trade finance flows requires compatible national, regional, and continental systems for data and information management and dissemination. DFIs and pan-African banks provide a preview of how financial institutions and host authorities (including central banks and other regulatory and prudential agencies) could agree on cross-border activities and address the multi-jurisdictional challenges of cross-border financial operations.¹¹

4. *Promote competitiveness and financial inclusion.* A cohesive pan-African financial system will help strengthen competitiveness, enhance financial inclusion, and foster innovation and efficiency, the keys to mobilizing capital at scale at lower cost. If well-fostered, microfinance institutions could grow into full-fledged financial institutions operating in several jurisdictions, under a coordinated and harmonized central bank supervisory and regulatory oversight regime. Kenya’s Equity Bank, which

started as a mortgage financier for low-income groups in the early 1980s, transformed into a microfinance institution before graduating into a commercial bank, with close to 17 million accounts, half the country’s total, and branches in neighboring countries.¹²

5. *Enhance effective governance.* Stronger governance is critical to ensure oversight, coordination, and accountability. At the national level, the authorities and financial business associations could devise local governance mechanisms. Regional development banks could devise similar governance frameworks, based on effective partnerships, at the regional level. At the apex, the African Development Bank, using its convening power, should lead efforts to create a new financial system for Africa to scale up development financing.

The rest of the chapter starts with analyzing the state of Africa’s financial system, the bottlenecks that constrain its effectiveness, and the reforms required to expand its reach and impact. It next discusses what needs to be done to consolidate

The efficiency of cross-border and trade finance flows requires compatible national, regional, and continental systems for data and information management and dissemination

Africa's financial system. It then discusses what should be done to enhance its prestige, through advocacy and financial intermediation, ensuring its financial sovereignty.

STRENGTHENING AFRICA'S FINANCIAL SYSTEM: ADDRESSING BOTTLENECKS AND EXPANDING REACH AND IMPACT

Current state of the African financial system

Starting from a low base, Africa's financial system has grown and diversified in recent decades. It holds substantial domestic financial assets, including \$2.5 trillion in commercial banking assets, more than \$1.2 trillion in equity market capitalization, \$320 billion in insurance assets, and more than \$1 trillion in assets under management in state-owned entities. Its dynamic evolution and growth reflect liberalization policies, vast changes in the global economy, and the launch of mobile and other financial technologies. Capital and current accounts have been liberalized across Africa, and the price of foreign currencies is mostly market determined and not administratively set by central bank fiat. Despite this growth, however,

Africa's financial systems remain insufficiently developed to mobilize long-term capital at the scale and cost required to meet the continent's structural transformation and development objectives. Across standard metrics, the performance of Africa's financial sector remains below global benchmarks. For example, with an average score of 0.16 (on a scale of 0 to 1) on the 2021 Financial Development Index (latest available), Africa is the least financially developed region. By comparison, the Middle East and Central Asia scored 0.28 and Europe 0.5 (figure 3.3).

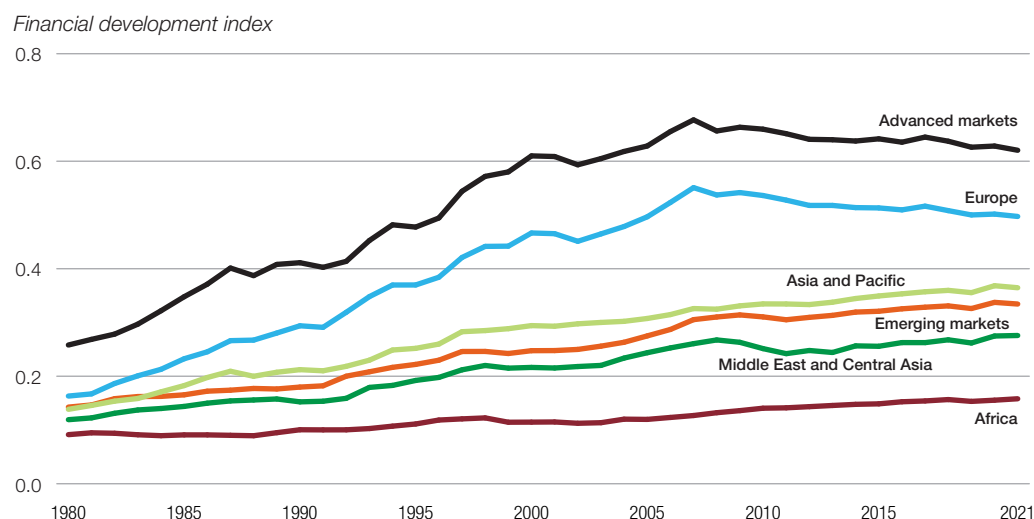
Although performance differs across countries, eight African economies remain below the global median, indicating systemic rather than isolated weaknesses. Even the continent's leading performers—South Africa, Mauritius, and Namibia—rank only 30th, 41st, and 51st globally, underscoring the need for fast progress toward stronger financial systems. The weaknesses of Africa's financial systems are more clearly reflected in limited financial depth, access, and efficiency. They stem from limited resource availability, weak financial intermediation, and inadequate institutions.

Credit mobilization, accessibility, and regulatory framework

More than 50 percent of Africa's financial system assets are in banks and not contributing enough

Despite recent growth, Africa's financial systems remain insufficiently developed to mobilize long-term capital at the scale and cost required to meet the continent's structural transformation and development objectives

FIGURE 3.3 Financial Development Index: Africa and other regions, 1980–2021



Source: AfDB staff calculations based on data from the International Monetary Fund, Financial Development Index Database.

to financing development. Most of Africa’s bank lending is concentrated in short-term and low-risk asset classes, and little in long-term projects with high development impacts. At 34.6 percent of GDP in 2020–2024, Africa’s domestic credit to the private sector is the lowest globally, having declined in the last 10 years (figure 3.4). South Asia and Latin American and the Caribbean have credit to the private sector of more than 50 percent of GDP. Major African economies such as Kenya (31.6 percent), Egypt (28.3 percent), Côte d’Ivoire (21.4 percent), and Nigeria (9.4 percent) remain well below comparable emerging lower-middle-income market economies such as Vietnam (121.6 percent), Malaysia (121.5 percent), and Chile (111.8 percent). Low intermediation implies that Africa’s financial institutions are unable to optimally support the development of the private sector and contribute meaningfully to economic growth and development.

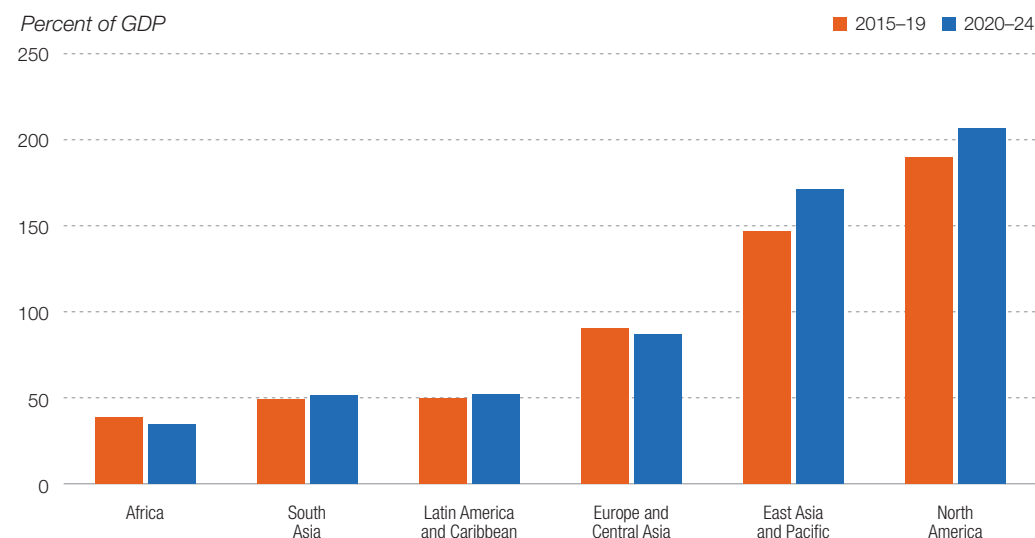
Low domestic credit to the private sector is closely associated with weak financial intermediation. In the banking sector, many African countries exhibit low deposit-to-GDP ratios in line with weak domestic savings. The median deposit ratio is below 32 percent of GDP, and in six economies—Guinea, Guinea-Bissau, Niger, Sudan, Uganda, and Zimbabwe—below 20 percent (figure 3.5). By contrast, Chile, Malaysia, and Vietnam record

deposit ratios well above 60 percent. Africa’s gross domestic savings averaged just 16.6 percent of GDP in 2021–2024, well below the global average of 27.3 percent of GDP. This gap underscores the limited mobilization and intermediation of domestic savings across many African financial systems. Low deposit mobilization constrains bank capacity to extend credit, limits balance sheet expansion, and reduces stable, low-cost funding. It can also weaken financial stability and impair monetary policy transmission, since a large share of economic activity remains outside the formal banking system.

Regulatory inefficiencies contribute to the inability of Africa’s financial systems to mobilize and provide resources at scale to finance Africa’s development. Countries with strong regulatory frameworks tend to have higher private sector credit as a share of GDP (figure 3.6). Poorly designed or enforced regulations raise compliance costs and increase uncertainty, lowering financial institutions’ lending to the private sector. Weak collateral enforcement, slow judicial processes, and stringent prudential requirements heighten the perceived credit risk, leading financial institutions to ration credit or focus on low-risk borrowers. In Africa, commercial banks and other financial institutions remain the primary holders of government securities. Bank holdings of treasury

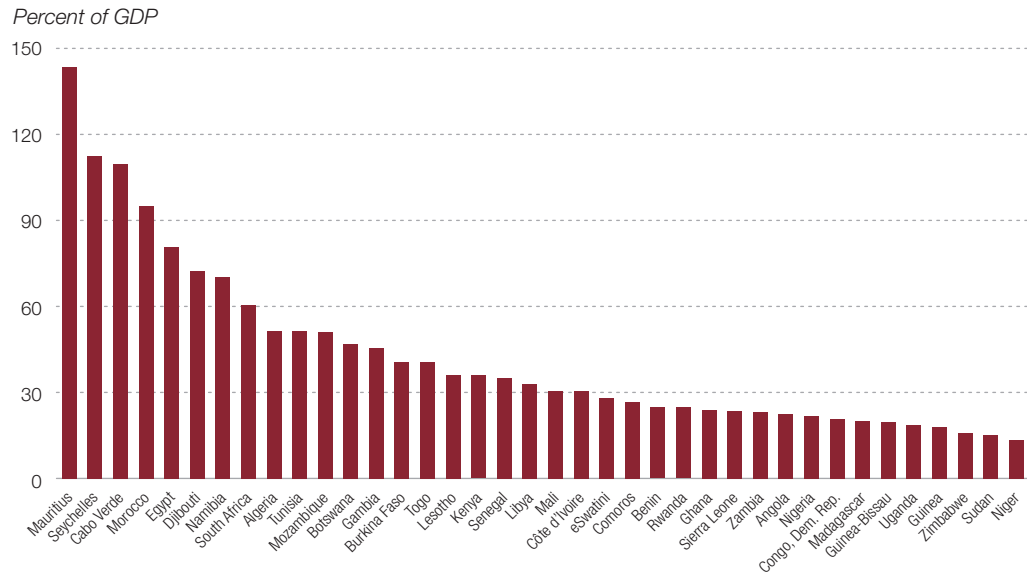
At 34.6 percent of GDP in 2020–2024, Africa’s domestic credit to the private sector is the lowest globally, having declined in the last 10 years

FIGURE 3.4 Average domestic credit to the private sector as share of GDP, 2015–24



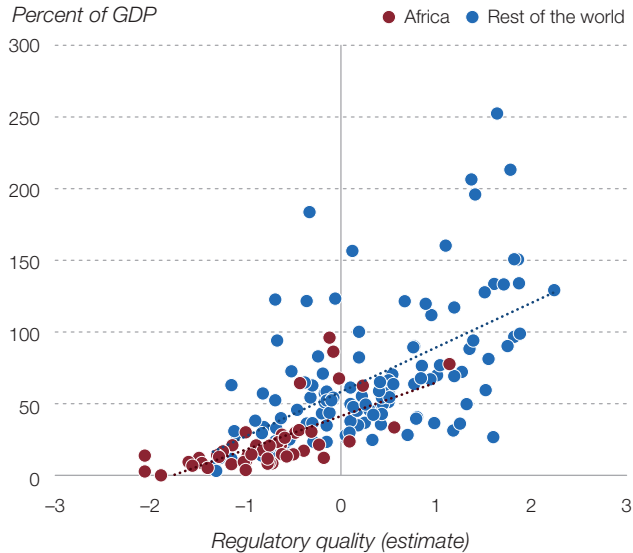
Source: AfDB staff calculations based on World Bank World Development Indicators (2025).

FIGURE 3.5 Bank deposits as a share of GDP, 2021



Source: World Bank Global Financial Development Database.

FIGURE 3.6 Regulatory quality and domestic credit to the private sector, 2020–24



Source: AfDB staff calculations based on World Bank World Development Indicators (2025).

securities bid up domestic interest rates and crowd out private sector lending and thus investment. This results in higher borrowing costs and reduced financial access. Regulatory inefficiencies are also reflected in key regulatory indicators more closely related to the financial sector, such

as measures from the World Bank's 2021 Doing Business assessment. For example, 30 African countries scored below the global average on Getting Credit, which assesses the effectiveness of collateral and bankruptcy frameworks in supporting lending. Similarly, 35 countries performed below the global average on Enforcing Contracts, which captures the quality and efficiency of judicial processes in resolving commercial disputes. These trends point to structural deficiencies in legal and institutional frameworks that underpin financial transactions in Africa.

In many countries, the financial systems hold ample liquidity or even excess liquidity but face the challenge of intermediation. Despite weak domestic savings in many African countries, financial institutions often exhibit higher liquidity ratios and stronger capitalization than global peers.¹³ So, in several cases, limited access to capital is less a reflection of funding shortages and more the result of demand-related factors, including elevated credit risk.¹⁴ In many African countries, the ratios of non-performing loans (NPLs) to total loans are above international benchmarks, with 6 ranking among the 10 highest countries globally in 2022. Structural and policy-related factors, including weak business environments¹⁵ and political uncertainty, constrain firm performance,

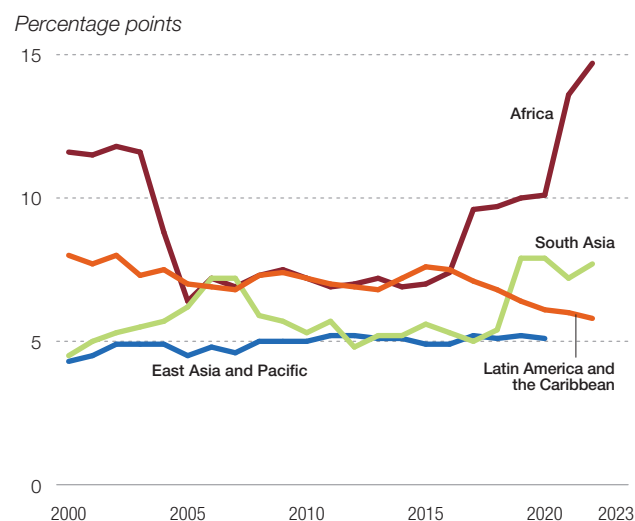
and increase default risk and NPLs. So, financial institutions adopt conservative lending practices, preferring to hold liquid assets rather than extend credit under heightened uncertainty. For firms, structural weaknesses further limit effective intermediation, including inadequate financial reporting, limited disclosure practices, and weak accounting and auditing standards. Such deficiencies raise the perceived risk of lending and constrain the ability of financial institutions to allocate resources efficiently.

These risks are priced into lending rates, and the costs are further elevated by high operating expenses: African banks' median overhead costs stood at 3.9 percent of total assets in 2021, more than twice the 1.8 percent in the rest of the world. The combined effect is a widespread wedge between lending and deposit rates, which in turn constrains credit expansion and financial deepening. Interest rate spreads in Africa rose from 7.0 percent in 2016 to 14.7 percent in 2023 and remain the highest globally (figure 3.7). By contrast, interest rate spreads in East Asia and the Pacific remained constant and those in Latin America and the Caribbean declined over this period. Wide margins point to the high inefficiencies and low competitiveness in Africa's financial markets.

Shallow financial markets owing to market and political uncertainties

The number of listed domestic companies in Africa's stock exchanges stood at 1,193 in 2024, only 2.3 percent of the global total. The combined market capitalization of these companies was more than \$1.2 trillion, equivalent to 2.5 percent of GDP. Capital market development in Africa is also heavily geographically concentrated, with South Africa accounting for a disproportionate share (figure 3.8a). In most other countries, the market capitalization of listed domestic companies represents less than 20 percent of GDP. As a result, Africa has the second-lowest level of market capitalization globally—above only that for Latin America and the Caribbean—(figure 3.8b). This indicates shallow equity markets, limited firm participation, low liquidity, high taxation, and dispersed ownership structures, all raising the cost of capital and limiting access to long-term finance.

FIGURE 3.7 Interest rate spread in Africa and selected developing regions, 2000–24



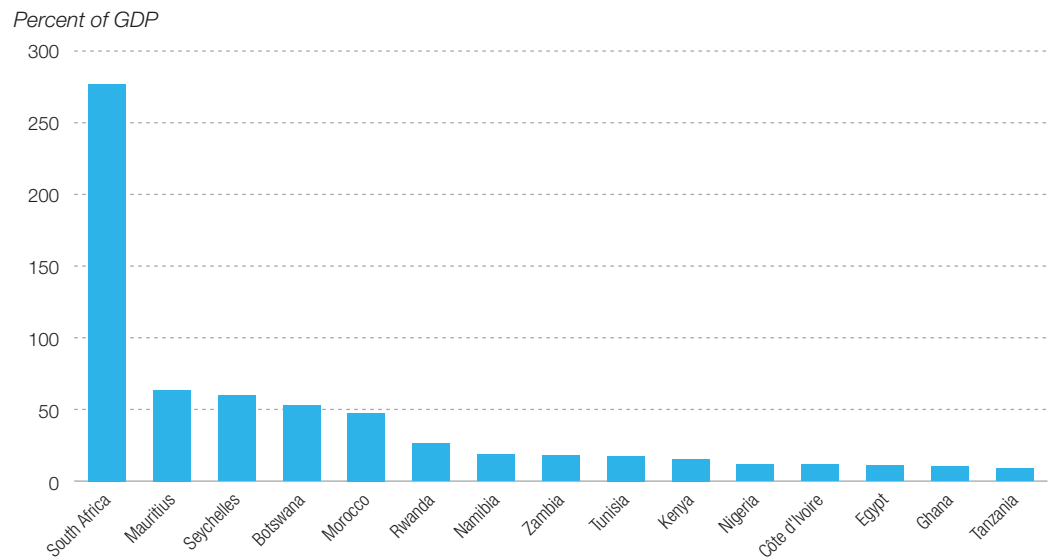
Source: World Bank World Development Indicators (2025).

Shallow capital markets also tend to be more sensitive to external shocks, so periods of global financial tightening—as in 2022–24—or risk aversion quickly translate into funding constraints for African firms.

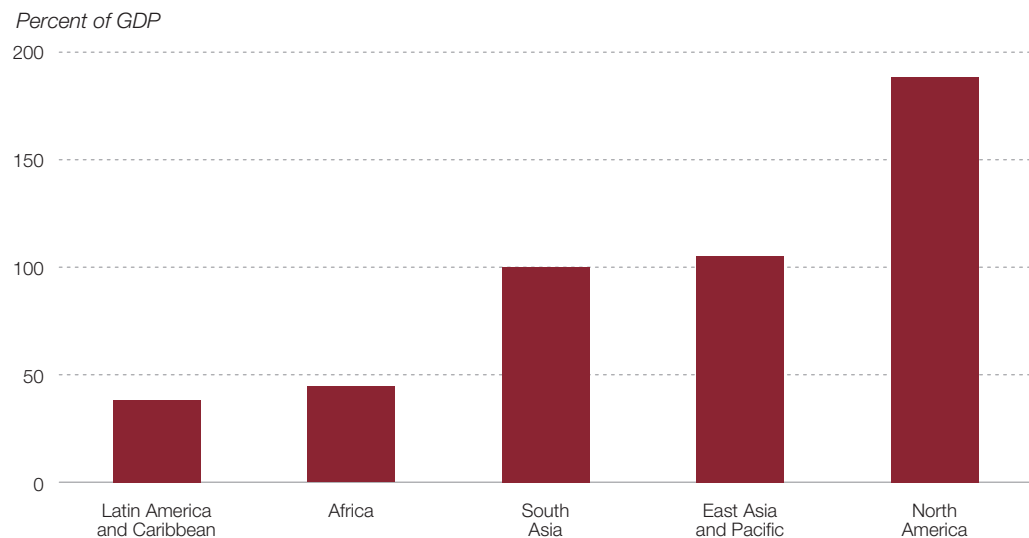
Africa's shallow financial markets, particularly its capital markets, discourage investors. High and volatile inflation, exchange rate instability, fiscal pressures, and weak monetary policy transmission have distorted price signals and undermined market confidence.¹⁶ Increases in policy rates—as in several African countries in recent years—do not translate into lower inflation or improved savings mobilization. Inflation volatility is particularly damaging to market efficiency because it undermines long-term contracting, distorts asset valuations, and shortens investment horizons. Elevated inflation in recent years in Ghana, Ethiopia, Nigeria, and Zambia coincided with sharp increases in lending rates, crowding out private sector credit and reinforcing banks' preference for short-term government securities. This reduced affordable finance for firms, especially small and medium enterprises, and their equity market participation, further constraining efficient capital allocation.¹⁷ Maintaining macroeconomic stability, with low and more predictable inflation rates and relatively stable exchange rates, will deepen domestic savings pools, support stable long-term pricing

FIGURE 3.8 Stock market capitalization of listed domestic companies, average over 2020–24

a. African countries



b. World regions



Source: World Bank World Development Indicators (2025).

Africa's shallow financial markets, particularly its capital markets, discourage investors

of capital, and boost investor confidence more broadly. Over time, deeper and more efficient financial systems can reinforce macroeconomic stability, creating a virtuous cycle between financial development and macroeconomic resilience.

Structural demand-side factors—such as limited familiarity with financial markets as vehicles for savings and wealth accumulation and high informality—also contribute to shallow capital markets. They lead households and entrepreneurs to

hold savings—already lower in Africa than in other regions—in nonfinancial assets or in short-term bank deposits rather than in capital market instruments. The combination of low savings and weak financial intermediation creates a self-reinforcing cycle in which limited participation weakens market development, and shallow markets fail to attract broader savings mobilization.

Several political economy constraints further compound the challenges and help explain the

persistence of shallow financial systems in Africa, particularly capital markets. Electoral cycles, policy discontinuities, and, in some cases, governance disruptions increase perceived risk and discourage investment. This reduces the willingness of market participants to engage in long-term contracting. In addition, misalignments of incentives between governments and market participants generate crowding-out effects. Governments that rely heavily on domestic financial systems to finance fiscal deficits incentivize financial institutions to prefer government securities over private sector lending, limiting market deepening. Addressing these constraints requires a shift to policy frameworks that strengthen institutional credibility, enhance predictability, and better align incentives across stakeholders.

Despite rapid gains driven by digital finance, financial inclusion in Africa remains constrained by fragility and structural bottlenecks

Rapid and widespread deployment of digital financial platforms such as mobile money accounts and mobile-based investment platforms has expanded financial inclusion in Africa. Between 2011 and 2024, there has been fast progress in the share of the population aged 15 and above holding an account at a financial institution or with a mobile money service provider, rising in Ghana (from 29.4 percent to 81.2 percent), Kenya (from 42.3 percent to 90.1 percent), and Senegal (from 5.8 percent to 76.5 percent). As a result, average account ownership across the continent has more than doubled, from 22.2 percent to 54.9 percent. However, further and more accelerated progress is needed as nearly half of Africa's adult population remains excluded from formal financial services, unlike other regions where account ownership exceeds 70 percent.

Limited financial inclusion deprives financial institutions of broad deposit bases and diversified demand that could support targeted financial instruments and deepen market dynamism. Among the key drivers of limited inclusion is state fragility, with weak governance, limited administrative capacity, and low institutional resilience to manage risks, often resulting in violence, severe poverty, and poor service delivery. The lowest financial inclusion—measured by account

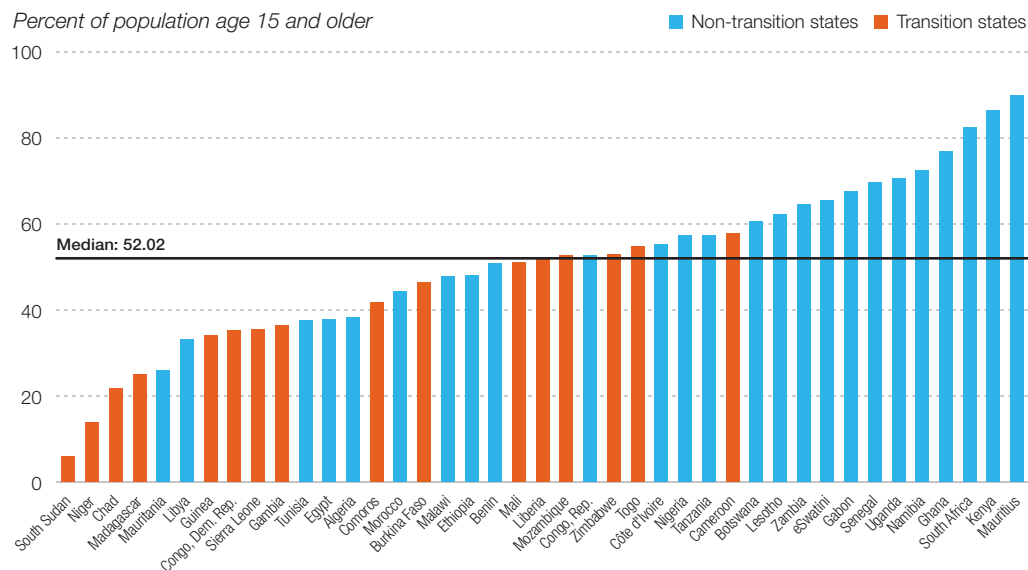
ownership—is in transition countries and those in a state of fragility (figure 3.9). Most of these countries are on the fringes of development without minimum basic services and stand below the median level of financial inclusion. Eight of the 10 African countries with the lowest share of the population holding an account at a financial institution or with a mobile money service provider belong to this group, with account ownership ranging from an average of 5.8 to 36.4 percent during 2021–24.

This suggests that historical or current increases in sociopolitical crises and a preponderance of violence and conflict have dragged growth of financial sectors in these countries. Addressing fragility requires sustained efforts to strengthen governance frameworks, uphold the rule of law and property rights, and foster peace and political stability. Because fragility lies at the core of weak financial intermediation and shallow capital markets, it demands coordinated action by national authorities, supported by regional institutions and international partners. Accordingly, efforts to strengthen Africa's financial systems must be designed and implemented in ways that do not inadvertently reinforce exclusion, particularly in fragile and conflict-affected settings. Context-specific reforms and investments can help bridge inequality gaps by deliberately targeting underserved groups. At the same time, adopting and sequencing reforms in line with country administrative capacities are essential to ensure sustainability and long-term impact.

Despite progress in deploying digital financial services, significant gaps remain. Internet penetration in Africa remains the lowest globally at 44 percent, well below the 58–93 percent in other regions. In modern financial market systems, digital infrastructure is crucial to operations, payments, and settlement systems, for credit information and data sharing, for market trading and clearing, and for supervision and reporting. It is also crucial for compliance and due diligence and for customer onboarding and risk assessment. Africa's low capacity to adopt emerging fintech innovations, including AI- and blockchain-based solutions, constrains the competitiveness of its financial systems. Kenya's M-PESA platform revolutionized the country's mobile money landscape and transformed financial intermediation. It has

Efforts to strengthen Africa's financial systems must be designed and implemented in ways that do not inadvertently reinforce exclusion, particularly in fragile and conflict-affected settings

FIGURE 3.9 Situations of fragility and financial inclusion



Note: Financial inclusion is measured as the share of the population ages 15 and older owning an account at a financial institution or with a mobile money service provider.

Source: AfDB staff calculations based on data from World Bank, World Development Indicators.

expanded financial inclusion and enabled individuals across the country to buy and sell shares on the Nairobi Securities Exchange. This lowered entry barriers, broadened retail investor participation, and reduced reliance on traditional brokerage infrastructure. Using such innovative digital channels could thus increase capital market access, improve liquidity, and enhance market efficiency.

Broadening the catchment area: Expanding the financial sector's reach and impact

In view of the continuing decline of development financing to Africa, the continent must search for new avenues of financing. A key first step is to expand the reach and impact of its financial sector, including leveraging the large unbanked population and businesses to expand savings and investment. Enhancing Africa's financial sector outreach and performance also requires strengthening the functioning and engagement of all financial institutions—including NDBs, capital market intermediaries, development finance institutions, pension and other workers' retirement funds, sovereign wealth funds, and insurance companies. These institutions must be more proactive in

mobilizing domestic savings, developing tailored financial instruments, and deepening regional linkages. Enhancing their efficiency, governance, innovation capacity, and risk management practices is essential to strengthening financial intermediation and ensuring that Africa's financial systems are fit for purpose.

Well-governed and capitalized national development banks can expand access to affordable financing for businesses, governments, and underserved sectors

Africa's 100 NDBs, representing about 19 percent of the global total, are an important feature in its emerging financial architecture (figure 3.10). Reevaluating how NDBs can expand Africa's financial sector has sparked debates over their mandates and operational and funding models. A major issue is the balance between developmental goals and commercial viability. Too much emphasis on commercialization could make NDBs resemble risk-averse private banks, while an unconstrained developmental focus could invite inefficiency and political interference. Another key debate involves whether NDBs should lend directly to underserved sectors facing significant

Enhancing Africa's financial sector outreach and performance also requires strengthening the functioning and engagement of all financial institutions—including national development banks, capital market intermediaries, development finance institutions, pension and other workers' retirement funds, sovereign wealth funds, and insurance companies

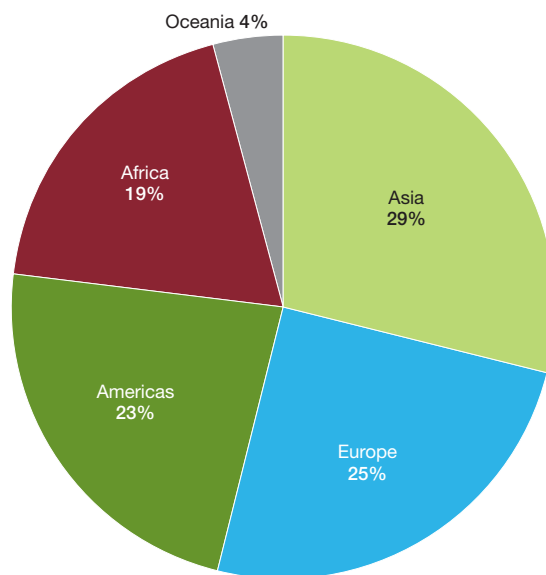
market failures or operate primarily as wholesale financiers by leveraging commercial banks through on-lending and guarantees. This choice presents trade-offs between outreach and scale.

A critical but often underemphasized dimension of this debate concerns how NDBs are funded and governed. Many African NDBs rely predominantly on government budgetary transfers and sovereign-backed borrowing, which exposes them to fiscal volatility and constrains their ability to play countercyclical roles during economic downturns. For example, despite a remarkable increase in capital from \$81.3 billion in 2018 to \$99.5 billion (22.4 percent increase) in 2025, NDBs remain undercapitalized, with less than 0.5 percent of global NDB assets. Public funding for these institutions has been inadequate in many countries—partly owing to fiscal challenges—and their low-cost financing needs have not been met. Dependence on public sector funding raises the question of whether NDBs should diversify their funding sources through capital market instruments such as bond issuance, syndicated loans, or private placements, subject to robust governance, regulatory, and transparency requirements.

A case in point is Nigeria’s Bank of Industry (BoI), which in 2023–24 secured a €1 billion syndicated loan from European investors, facilitated by the Afreximbank. The deal required credit enhancements, including guarantees from the Central Bank of Nigeria, reflecting BoI’s sub-investment grade credit profile. While the deal demonstrates that African NDBs can access international capital markets, it also underscores that sustainable countercyclical capacity depends critically on strong governance, credible balance sheets, and transparent reporting frameworks rather than episodic public guarantees.¹⁸ The focus should be on how to design and govern NDBs to complement market-based finance in extending financial services to regions and sectors often excluded from Africa’s financial systems.¹⁹

Well-governed NDBs with enforceable legislation could expand the reach of Africa’s financial sector along sectoral (small and medium enterprises, agriculture, infrastructure, green projects), spatial (secondary cities, rural and peri-urban areas), and time-based (longer tenors and countercyclical lending) dimensions. By efficiently

FIGURE 3.10 Share of national development banks by continent, 2025



Note: Figure shows the distribution of national development banks across 544 global locations.

Source: Peking University, Public Development Banks & Development Financing Institutions Database, 2025.

managing available public resources, crowding in more resources from capital markets to diversify financing sources, and embedding inclusive financing principles, rather than relying on patronage, well-governed NDBs could finance a broader range of projects while maximizing development impact. However, NDBs exhibit weak governance and transparency, reflected in infrequent annual reporting, closely held audited financial statements, and limited internal controls. This is partly because of unnecessary bureaucratic interventions that constrain their ability to intermedicate and deepen financial markets.²⁰

There is growing evidence of the evolving NDB governance model in several countries. To strengthen governance oversight and performance, reforms have introduced independent boards, external audits aligned with international financial reporting standards, clearer performance mandates, and in some cases parliamentary oversight, strengthening transparency and institutional credibility.²¹ Where such reforms have taken hold—including South Africa and

Morocco—NDBs have become better at crowding in commercial finance and intermediating resources into underserved sectors and regions (box 3.1).

Unleashing Africa's assets under management in pension and sovereign wealth funds can be catalytic in mobilizing long-term development finance

Africa's growing pool of domestic financial assets, particularly sovereign wealth funds (SWFs) and pension funds, represents an important avenue for expanding the reach and impact of the continent's financial sector. As of January 2026, Africa's

combined pension and sovereign wealth assets under management had reached more than \$485 billion. Major contributors include Egypt, Ethiopia, Libya, Morocco, Nigeria, and South Africa, where pension reforms, hydrocarbon revenues, or fiscal stabilization objectives have driven asset accumulation (table 3.1). Resources managed by institutional investors are expected to grow rapidly, with pension fund assets in the six largest African markets alone projected to reach \$7.3 trillion by 2050.²² Five new SWFs were established in 2025, including Botswana (BSWF),²³ the Democratic Republic of Congo, Eswatini (ESWF), Kenya, and Nigeria (Oyo State—OSWF). With

Africa's growing pool of domestic financial assets, particularly sovereign wealth funds and pension funds, represents an important avenue for expanding the reach and impact of the continent's financial sector

BOX 3.1 Institutional design and outcomes in selected African countries

Morocco, Nigeria, and South Africa demonstrate that although the institutional designs of national development banks (NDBs) could be vastly different, governance innovations, financial re-engineering, and client support have deepened their reach and impact.

Morocco's TAMWILCOM implemented a risk-sharing model that covers 50–80 percent of individual credit amounts to reduce downside risk for commercial banks and expand lending to small and medium enterprises. In 2024, the scheme mobilized \$4.75 billion (6 percent growth compared with 2023) in financing for 82,200 operations and is developing partnerships with key financial institutions such as the IFC to further support small and medium enterprises.¹ Aside from business guarantees, TAMWILCOM provides equity for start-ups, and has initiated financial solutions to encourage inward investment by the Moroccan diaspora. With 94 percent of its resources targeting the private sector, this model has improved credit access without raising contingent liabilities for the government.² This shows that strategic instrument choices, prioritizing risk-sharing over direct state-led lending, can enhance development outcomes by fostering a more inclusive financial ecosystem.

In Nigeria, the Bank of Industry (BoI) expanded its operational scale by leveraging international capital markets, raising the equivalent of \$2.2 billion through a 2024/25 global syndication to increase its total assets to approximately \$5.1 billion. This enabled it to increase its annual disbursements to a record \$460.9 million in 2025, directing \$129.0 million to small and medium enterprises and \$271.8 million to larger enterprises.³ The BoI, with offices in 33 states, supports projects in renewable energy and provides financing to youth and women-led enterprises. Among BoI's innovations is the MSME Intervention Fund, worth \$54.4 million, and the recruitment of business development service providers to enhance access to credit by micro, small, and medium enterprises.

In South Africa, the Development Bank of Southern Africa (DBSA) has made a strategic shift toward wholesale financing to the private sector and public entities, while strengthening its regional lending profile. Given its investment-grade rating, it has been able to mobilize long-term funding from domestic capital markets, commercial banks, and development partners. By March 2025, it provided \$5.6 billion in total infrastructure support, of which \$1.4 billion was catalyzed from external private and institutional partners. This approach allowed it to leverage each unit of public capital into multiple units of external financing. For example, in 2025, the bank disbursed \$1.1 billion

(continued)

BOX 3.1 Institutional design and outcomes in selected African countries *(continued)*

from its own balance sheet to unlock a larger pool of infrastructure development funding. At the subnational level, the bank’s municipal portfolio accounts for 28 percent of its total credit exposure, successfully unlocking \$159.2 million for under-resourced municipalities.⁴ This strategy has led to a robust credit profile, evidenced by a net profit of \$324.6 million, a reduction in the non-performing loan ratio, and a positive outlook (BB+) rating from S&P Global Ratings.⁵ New initiatives include an infrastructure fund to stimulate sustainable economic activities in townships.

These cases suggest that governance and transparency of reforms enable NDBs to extend long-term finance to underserved sectors and regions while preserving private sector participation and market incentives. At the macrofinancial level, expanding the reach of NDBs under disciplined mandates can deepen domestic financial markets by increasing long-term local-currency financing, supporting infrastructure investment, and smoothing credit cycles during downturns.

BOX TABLE 3.1.1 Governance, funding, and outcomes of selected African NDBs

Institution	Funding sources	Governance and transparency	Instruments used	Outcomes
Development Bank of Southern Africa	Domestic bonds, bilateral and multilateral loans	Independent board, audited financials, regular reporting	Wholesale lending, project finance	Higher leverage of public capital; sustained infrastructure lending
Bank of Industry (Nigeria)	Shareholder financing, syndicated loans (with guarantees)	Increasing level of information disclosure; external audits	Direct lending, on-lending	Expanded financing to small and medium enterprises and industrial sectors; reduced cyclical swings in access to credit
TAMWILCOM (Morocco)	Shareholder financing, fee income	Frequent reporting and oversight, audited accounts	Partial credit guarantees	Increased small and medium enterprise credit volumes and loan maturities

Source: OECD 2018; DSBA 2022; BOAD 2024; Afreximbank 2024; Bank of Industry 2024.

Notes

1. See <https://www.moroccoworldnews.com/2025/04/189082/tamwilcom-mobilizes-4-75-billion-in-total-financing-for-2024/>; <https://www.ifc.org/en/pressroom/2026/ifc-partners-with-tamwilcom-to-expand-access-to-finance-for-smes-in-morocco-through>.
2. PEI Group 2026.
3. BoI 2026.
4. DBSA 2025.
5. DBSA 2026.

an initial capitalization target of \$275 million for ESWF and \$6 million already committed toward the \$100 million target for the OSWF in Nigeria,²⁴ these new offerings have widened the institutional investment base in Africa.

This progress, if sustained, would be useful in mobilizing long-term development finance. But this must be carefully balanced against the primary objective of safeguarding beneficiaries’ wealth. Pension funds, in particular, are structured to deliver stable, risk-adjusted returns to pensioners (retirees) and must therefore be judiciously managed,

particularly in environments with macroeconomic volatility, shallow markets, and institutional uncertainty. From a welfare perspective, what is optimal for pensioners is not simply higher returns, but predictable and inflation-protected income streams, justifying a cautious approach to asset allocation.

Despite the progress, Africa’s footprint in the global institutional investment landscape remains small. In 2025, African pension funds and sovereign wealth funds together accounted for approximately 1 percent of global pension and SWF assets. The shortfall reflects conservative

TABLE 3.1 African countries with large sovereign and public pension assets, 2025

Country	Total funds (\$ billion)	Dominant institutions	Potential domestic capital market influence
South Africa	198	Government Employees Pension Fund, PIC-managed public funds	Scale sufficient to anchor long-dated bond markets, infrastructure finance, and domestic equity depth
Libya	68	Libya Investment Authority (LIA)	Asset size is large relative to the domestic market; post-stabilization reorientation could materially deepen capital markets
Morocco	46	CDG Group and affiliated public investment funds	Strong capacity to support infrastructure bonds, housing finance, and strategic domestic equity
Nigeria	21	Nigeria Sovereign Investment Authority and the contributory pension funds	Meaningful influence if pooled and deployed toward long-term assets such as infrastructure and housing
Egypt	19	Sovereign Fund of Egypt and public pension entities	Potential to crowd in private capital through co-investment platforms and project finance

Source: Global SWF 2025.

The shortfall in long-term development financing can partly be turned around if Africa's growing pool of pension funds, sovereign wealth funds, and other public institutional assets is deliberately reoriented from conservative, fragmented, and weakly integrated investment practices toward structured domestic and regional intermediation

investment mandates, regulatory constraints, limited domestic investment pipelines, poor governance, and underdeveloped risk-sharing mechanisms. While these funds were historically state-dominated, recent reforms have introduced greater operational autonomy, professional boards, private sector participation, and clearer mandates—separating fiscal, developmental, and stabilization objectives. Several African SWFs have adopted international best practices, including the Santiago Principles—the globally recognized framework for governance, investment, and risk management practices applicable to SWFs²⁵—to strengthen transparency, accountability, and risk management. Pension reforms in Ghana, Kenya, and Nigeria have shifted asset management to privately licensed fund managers under independent regulatory oversight. Equally important has been the gradual shift from exclusive external asset management toward greater local and regional management of African capital. As of 2023, at least 92 percent of pension fund assets were managed domestically or through regional platforms, which strengthens capital markets.²⁶

The localization of capital management has important second-round effects. It supports the development of domestic asset management industries, deepens local bond and equity markets, and strengthens institutional capacity for long-term investment. For example, South Africa's Public Investment Corporation is managing the bulk of Government Employees Pension Fund assets domestically. In Nigeria, pension

fund administrators are increasingly allocating pension fund assets, specifically retirement savings accounts funds, into alternative asset classes including private equity funds, infrastructure funds, and in some cases, real estate, through local managers, following regulatory reforms. Similarly, Morocco's CDG Group is acting as a national asset manager, anchoring the domestic capital market. This shift has encountered capacity constraints, however, particularly in deal origination, structuring, and risk assessment. Targeted investments and capacity building for asset management, capital market instruments, and infrastructure finance responsibilities.

The shortfall in long-term development financing can partly be turned around if Africa's growing pool of pension funds, SWFs, and other public institutional assets is deliberately reoriented from conservative, fragmented, and weakly integrated investment practices toward structured domestic and regional intermediation. Even modest portfolio rebalancing can have a great effect. For example, if only about 5 percent of the \$485 billion of African pension and SWF assets were strategically channeled toward infrastructure and the private sector, this would mobilize more than \$24 billion in long-term capital for the continent—sufficient to lengthen yield curves, improve price discovery in local bond markets, crowd in private and foreign investors, and expand credit availability to infrastructure and productive sectors. Regional macro-financial resilience would be greatly enhanced as a result.²⁷ By channeling these funds through

stronger financial intermediation, backed by effective regulation, risk-sharing mechanisms, and de-risked instruments that align with the inherent conservatism of institutional investors, Africa can enhance and fortify its financial systems. And by improving the connections between these funds, banks, capital markets, and development finance institutions, the continent can strengthen its financial infrastructure without exposing pensioners to unnecessary risks.²⁸

The conservative investment behavior of African institutional investors largely reflects the incentives and constraints embedded in their operating environment. So shifting institutional portfolios toward greater support for development finance requires not only regulatory adjustments but also improvements in the underlying investment ecosystem. Strengthening project preparation facilities, expanding the pipeline of bankable projects, enhancing risk-sharing mechanisms, and improving legal and institutional frameworks are essential to align investor incentives with development objectives. Absent these reforms, expectations of large-scale portfolio reallocation may be unrealistic, given the binding fiduciary and regulatory constraints faced by institutional investors.

Leveraging insurance companies will strengthen Africa's financial system through capital by mobilizing and deploying other types of finance at scale

Africa's insurance market generated just \$64 billion in 2023, representing 0.9 percent of the global insurance market premiums, compared with \$4.8 trillion (67.1 percent) in the G7 countries. Even among emerging regions, Africa's contribution remains comparatively small (figure 3.11a). This skewed distribution underscores Africa's modest standing within the global insurance landscape. Insurance assets are mostly concentrated in a few countries such as Mauritius, Namibia, and south Africa, underscoring disparities in insurance market development (figure 3.11b).

Recent developments suggest gradual but positive progress in the structure and reach of insurance markets across Africa. In Kenya, Morocco, Nigeria, and parts of the West African Economic and Monetary Union region, bancassurance arrangements are allowed, following

reforms. Banks can now provide insurance products, including health, motor, and credit-linked insurance. By the end of 2024, bancassurance accounted for 31.9 percent of the Moroccan insurance market, compared with 30.4 percent for brokerage. Index-based agricultural and weather insurance schemes have been piloted in Ethiopia, Ghana, and Senegal, often supported by public subsidies and development partners. While the uptake is still modest—ranging from the low single digits in some Ethiopian rainfall insurance pilots to around 17–32 percent in a Senegalese pilot scheme—evidence suggests that when insurance is bundled with credit and input finance, there is a marked reduction in income volatility for smallholder farmers.

Greater uptake across all segments—life, health, agricultural, and liability insurance—could help extend the financial system's reach to currently uninsured households, small and medium enterprises, and informal producers, while lengthening insurers' liability structures. Beyond firm-level effects, the expansion of agricultural, disaster, and climate insurance through index-based products and sovereign risk pools have begun to reduce the size of the governments' contingent liabilities by shifting shock-related financing away from public balance sheets toward pooled and private risk-sharing mechanisms. This, in turn, would support a gradual shift in asset allocation away from short-term bank deposits toward longer-dated bonds, infrastructure finance, housing finance, and securitized assets—strengthening domestic capital markets and improving their prospects for maturity transformation.

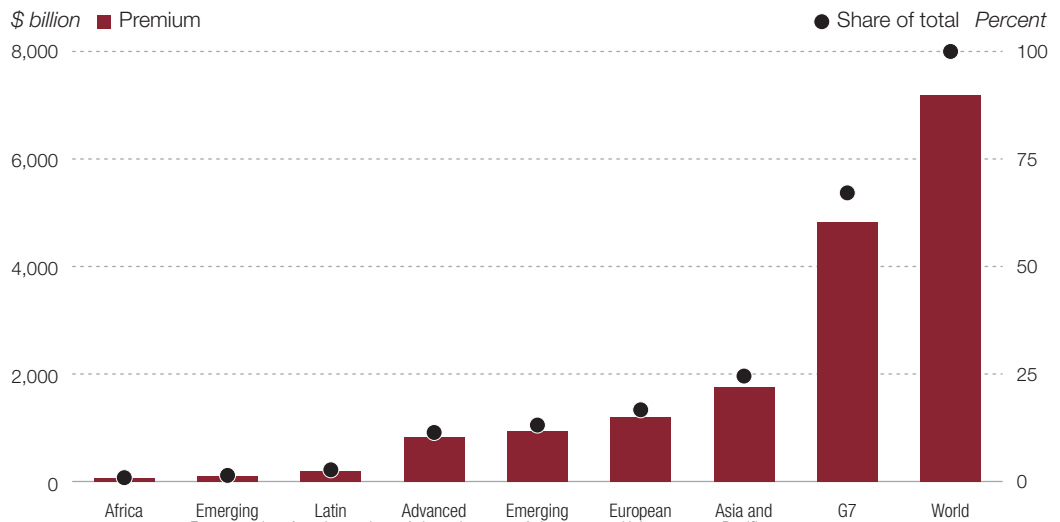
If insurance premium inflows are translated into bonds, equities, and infrastructure assets, they could boost capital market liquidity. Consolidation through mergers and acquisitions in Kenya, Nigeria, and South Africa often driven by higher minimum capital requirements and risk-based supervision, has strengthened insurers' solvency positions, governance standards, and underwriting capacity.²⁹ These developments illustrate that insurance market deepening could reinforce financial sector resilience, while crowding in private investment and supporting productivity-enhancing risk-taking.

Recent developments suggest gradual but positive progress in the structure and reach of insurance markets across Africa

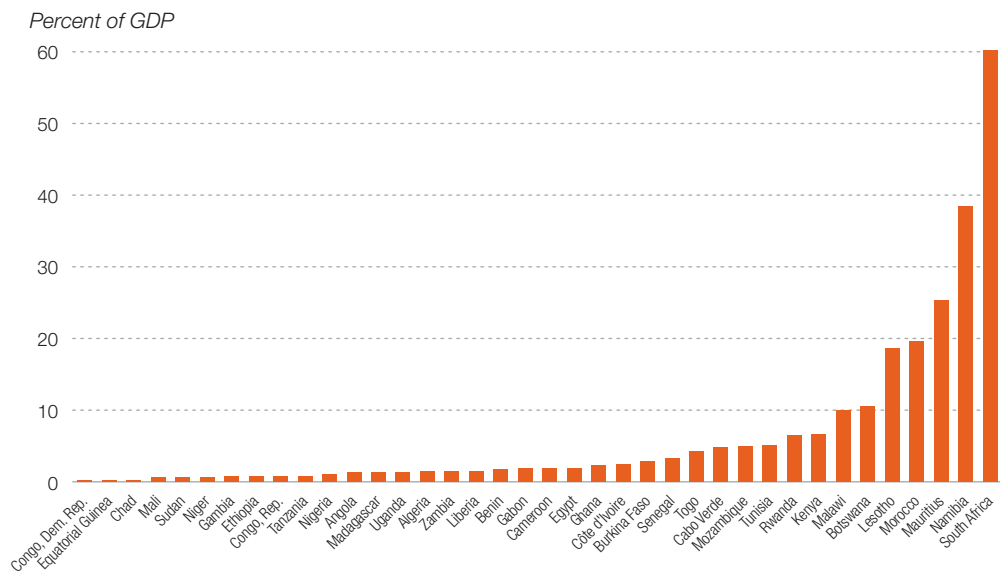
Insurance market deepening could reinforce financial sector resilience, while crowding in private investment and supporting productivity-enhancing risk-taking

FIGURE 3.11 Insurance market landscape in Africa

a. Regional distributions of global insurance premiums



b. Insurance company assets



Source: Swiss Re Institute 2026.

Risk exposure deserves great consideration in expanding the role of insurance companies in capital market development, since excessive risk-taking could lead to the opposite effects by causing destabilizing losses. Insurers' ability to allocate premium inflows into longer-term and higher-yielding assets should be aligned with robust risk management frameworks. Without appropriate safeguards, a rapid shift to illiquid or

complex instruments such as infrastructure or securitized assets could expose insurers to valuation risks and solvency pressures, particularly in volatile macroeconomic environments. Strengthening supervisory capacity and ensuring effective investment guidelines are therefore essential to ensure that the deepening of insurance markets supports financial stability and financial market development rather than undermining it.

Central banks' role in safeguarding macrofinancial stability and enabling financial deepening

African central banks have increasingly adopted development-oriented functions, including promoting sound payment systems, fostering financial inclusion, and strengthening financial market infrastructure. They have taken the lead in establishing interoperable national payment platforms, oversight frameworks for mobile money and agent banking, and introducing regulatory sandboxes that allow new financial products to be tested under controlled conditions. For example, the Central Bank of Kenya has overseen nationwide payments interoperability and mobile money regulation (including M-Pesa), the Central Bank of Nigeria has implemented a regulatory sandbox and agent banking framework to expand inclusion while strengthening oversight, and the Bank of Ghana has supported interoperable mobile payments through its national payment systems infrastructure.³⁰ The launch of the Instant Payment Interoperable Platform by the Central Bank of West African States in September 2025 will facilitate instantaneous interoperable transactions, such as fund transfers and payments, regardless of the type of account used.³¹ These instruments are key to balance financial inclusion objectives with prudential safeguards, ensuring that innovation is accompanied by consumer protection and financial stability.

The scale of central bank assets also shapes supervisory capacity and policy space. Variation in the size of central bank asset holdings across African countries reflects differences in reserve accumulation and exposure to external shocks. Available evidence highlights pronounced cross-country disparities, with implications for policy space, market stabilization capacity, and supervisory reach.³² Larger asset positions enhance the ability of central banks to provide liquidity support, stabilize markets during periods of stress, and credibly enforce supervisory standards, while smaller balance sheets constrain intervention capacity and increase reliance on external anchors, including multilateral financial institutions. These asymmetries underscore the importance of aligning supervisory ambition with institutional and balance sheet realities.

In this context, effective financial supervision is a prerequisite for mobilizing domestic and

international capital for long-term investment.³³ Central banks, through their regulatory and prudential mandates, create predictable policy environments, strengthen market infrastructure, and anchoring investor confidence. Their ability to adapt supervisory frameworks to the increasingly complex financial systems is critical to sustaining stability while supporting deeper and more inclusive financial markets.

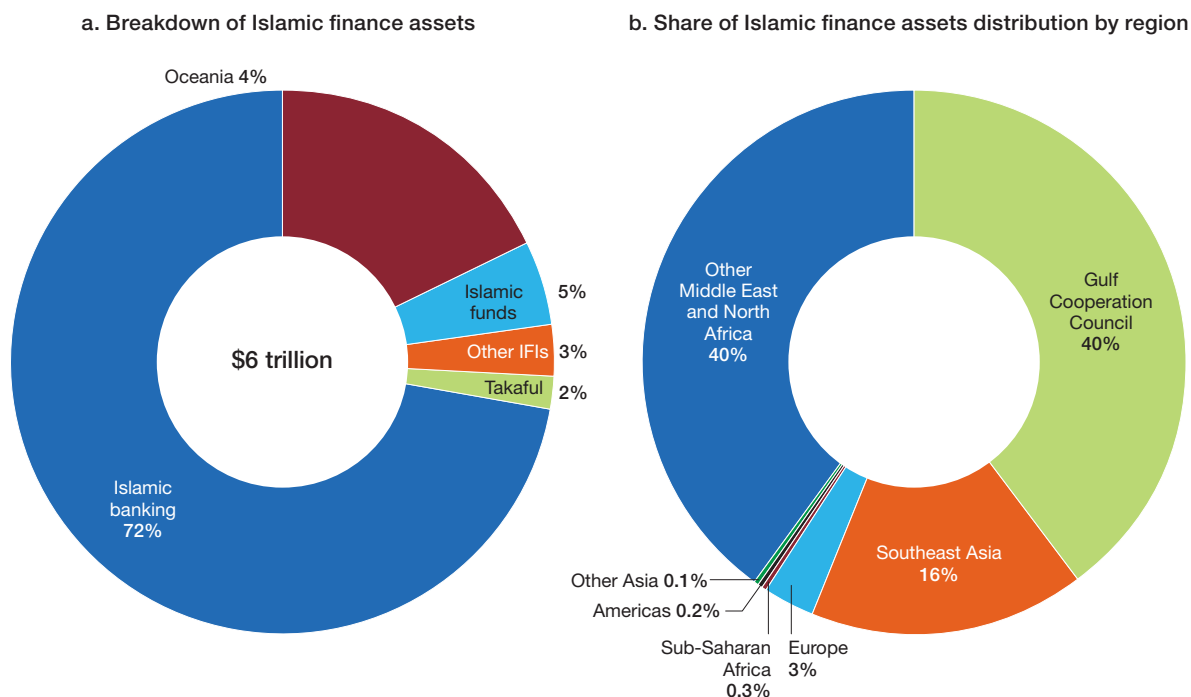
Islamic finance offers opportunities to leverage development financing

Integration of Islamic finance into the development funding landscape provides opportunities to expand the reach and depth of Africa's financial sector. Islamic finance assets are heavily concentrated in banking, Sukuk (Islamic bonds), and Islamic investment funds (figure 3.12). Several countries have introduced enabling legislation and supervisory guidelines to operationalize Shariah-compliant finance within existing financial systems. Nigeria, for example, amended its banking regulations to permit full-fledged Islamic banks and noninterest banking windows. It also issued sovereign Sukuk under a dedicated legal framework. And it established a central Shariah advisory structure. Similarly, Côte d'Ivoire and Senegal adjusted public finance laws to accommodate Sukuk issuance within the West African Economic and Monetary Union framework, while Morocco enacted a comprehensive participatory banking law covering Islamic banking, funds, and insurance (Takaful). These reforms have helped to reduce regulatory fragmentation encouraged participation by conventional banks and development finance institutions.

These institutional changes have translated into measurable market participation, if from a low base. Islamic banking assets in most African countries constitute less than 10 percent of total banking assets (figure 3.13), with notable exceptions such as Sudan, where the entire banking system is Shariah-compliant, and Djibouti, where around one-quarter of banking assets are Islamic finance. Smaller shares are reported in Libya (7.5 percent), Tunisia (6.9 percent), Egypt (5 percent), Senegal (3.2 percent), Algeria (2.4 percent), Morocco (1.9 percent), Nigeria (1.3 percent), and Kenya (1.3 percent).³⁴

Several countries have introduced enabling legislation and supervisory guidelines to operationalize Shariah-compliant finance within existing financial systems

FIGURE 3.12 Islamic finance landscape, 2024



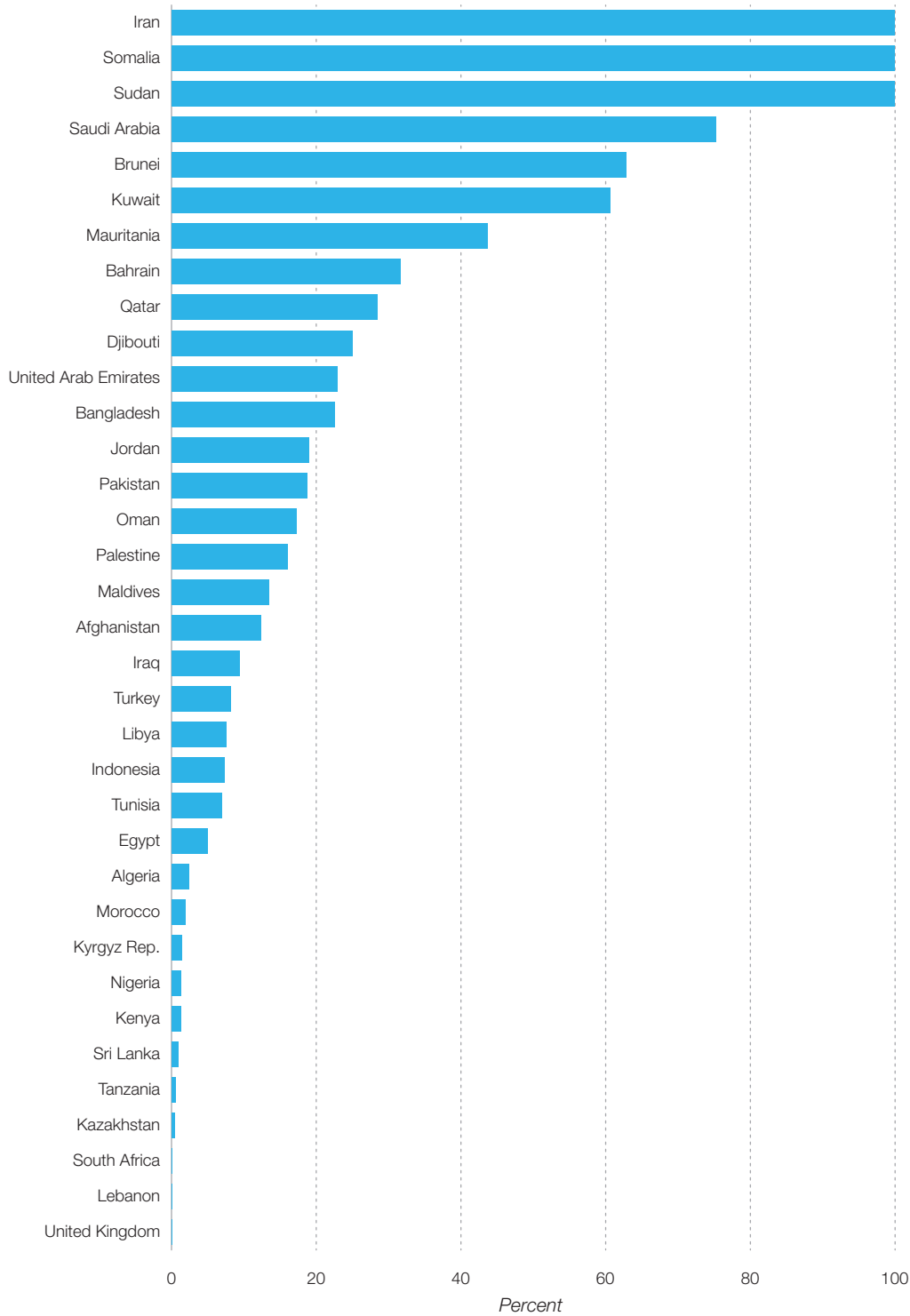
Source: London Stock Exchange Group Analysis and Islamic Finance Development Report 2025.

Although the Islamic financial services industry remains concentrated in a few regions, gradual expansion is occurring in newer markets. In 2024, the Gulf Cooperation Council (GCC) region dominated the industry with 53.1 percent of total global industry assets. The East Asia and Pacific region followed with 21.9 percent, supported by Malaysia’s and Indonesia’s advanced Islamic finance ecosystems. The Middle East and North Africa region (excluding the GCC) accounted for 16.9 percent. In contrast, Europe and Central Asia, South Asia, and Sub-Saharan Africa held less than 1 percent, highlighting untapped potential for deeper market development.³⁵ Expanding the availability of Shariah-compliant savings, credit, and microfinance products could bring more households and small and medium enterprises into the formal financial system. This will promote financial inclusion, widen the deposit base, and increase scope for domestic resource mobilization. In parallel, the asset-backed, risk-sharing nature of Islamic finance makes it well-suited to mobilizing long-term capital for major development projects, including those targeted at climate action.

At the regional and international levels, institutional participation is helping to bring Islamic banking into the mainstream financial architecture. In October 2025, the International Finance Corporation (IFC) announced its first Islamic financing deal in Sub-Saharan Africa with Banque Islamique du Sénégal. The financing is supported through the IDA20 IFC–MIGA Private Sector Window under the MSME Finance Platform, which aligns with a broader World Bank Group–Islamic Development Bank strategic partnership to mobilize up to \$6 billion by 2026 for Islamic finance to support of financial inclusion.³⁶ Deepening such partnerships would reinforce the momentum on Islamic finance. In 2026, the Arab Coordination Group and the AfDB held a consultative forum to strengthen the partnership and develop joint action on formulating new financial architecture and modes of capital mobilization. The two parties committed to “support efforts to mobilize development finance at scale through coordination on innovative financing approaches and risk-sharing mechanisms, consistent with sound debt sustainability principles.”³⁷

Leveraging the opportunities offered by Islamic finance will require addressing public

FIGURE 3.13 Islamic banking shares in total banking assets in selected countries, 2024 Q3



Note: The value represents the proportion of Islamic banking assets relative to total banking assets, with 100 percent indicating that the entire banking system is Shariah-compliant.

Source: Islamic Financial Services Board 2025.

The use of green bonds is gaining traction in Africa but remains a small segment of development financing, with roughly \$9.6 billion raised across 76 issuances by early 2025

misperceptions, especially among non-Muslims. This will require shifting the narrative from religious identity to functional value, highlighting Islamic finance as an inclusive and stability-enhancing financial model that could meet the needs of investors—as it promotes universal values and ethical investing under clear regulatory and legal frameworks.

Scaling climate finance offers a pathway to strengthen Africa's financial system while expanding its reach and development impact

The use of green bonds is gaining traction in Africa but remains a small segment of development financing, with roughly \$9.6 billion raised across 76 issuances by early 2025.³⁸ This figure represents less than 1 percent of global issuances.³⁹ Africa's climate finance flows currently meet only about 23 percent of the estimated annual funding required to implement Nationally Determined Contributions to achieve 2030 climate goals.⁴⁰ Domestic capital mobilization for climate action is also limited; international sources account for about 82 percent of climate finance, while private finance, at 18 percent, is split almost evenly between domestic (49 percent) and international (51 percent) sources, highlighting persistent structural and institutional constraints to scaling local climate finance.⁴¹ These gaps reveal the scope for mobilizing climate finance to strengthen Africa's financial systems.

Climate-related asset classes could deepen domestic financial markets while enabling credit extension to projects and borrowers traditionally perceived as high risk. The emergence of carbon markets is attracting countries such as Ghana, Kenya, Nigeria, and Rwanda to develop national frameworks, registries, and projects (forestry, clean cookstoves, waste-to-energy) to generate and trade carbon credits. Similarly, Algeria, Egypt, Morocco, and Tunisia are targeting solar and wind expansion to reduce reliance on fossil fuels. Egypt is advancing its National Climate Change Strategy 2050, doubling wind capacity and investing in water desalination. Morocco leads in renewables, targeting 80 percent decarbonized electricity by 2050.⁴² Continental initiatives such as the Africa Carbon Market Initiative aim to promote high-integrity carbon markets aligned with sustainable

development objectives. While regulatory systems are still evolving, these efforts position Africa as an emerging participant in global climate finance and offer new revenue streams that could strengthen project bankability and financial sector engagement.

The AfDB plays a catalytic role in mobilizing climate finance. In 2024, it issued \$900 million in green bonds and more than \$4.1 billion in social bonds, making it one of the largest issuers among MDBs.⁴³ Beyond bond issuance, it has launched a suite of complementary initiatives, including the Africa Adaptation Acceleration Program and the Sustainable Energy Fund for Africa, the Desert to Power initiative, the Climate Investment Funds (CIF) implementation platforms, and extensive project preparation and technical assistance facilities that support upstream capacity building. Innovative cross-border instruments, such as the AfDB's Panda bond involving Egypt and China, demonstrate how African climate and development priorities can be linked to new pools of international capital, while joint financing arrangements with institutions such as the European Investment Bank have strengthened co-financing and risk-sharing mechanisms. These initiatives enhance capital mobilization as well as institutional capacity and climate-related project readiness.

Scaling climate finance will depend on incentive-compatible mechanisms anchored by MDBs and DFIs, including concessional and blended finance platforms, sovereign guarantees and first-loss capital, carbon market revenues, and regulatory reforms enabling green bonds and climate-aligned infrastructure pipelines. Progress has been recorded in South Africa, Morocco, Kenya, and Nigeria, among others⁴⁴, where policy clarity and bankable project pipelines are more advanced. Strong regulatory frameworks—transparent, well-costed strategies and credible monitoring and evaluation systems will help to reduce uncertainty and signal viable investment opportunities in climate activities. Where such frameworks remain weak, limited institutional capacity and project preparation continue to constrain capital mobilization, underscoring the catalytic importance of AfDB-led technical assistance and capacity-building initiatives.

Real estate deepens the financial system by creating specialized tradable instruments and predictable cash flows

Africa is the world's fastest urbanizing region, with cities expanding at an average annual rate of about 3.5 percent, nearly twice the global average.⁴⁵ This rapid urbanization has sharply increased demand for real estate, boosting property yields and improving investment prospects in the sector. Prime real estate yields in Africa average 8–12 percent, exceeding those in many developed markets. The sector is projected to grow at a 4.5 percent compound annual growth rate to reach about \$332.3 billion by 2033, driven by a rising middle class and infrastructure needs.⁴⁶ Despite these strong fundamentals, real estate investment in Africa totaled only about \$1 billion in 2023 (0.15 percent of the \$684 billion global market),⁴⁷ leaving an estimated annual housing finance gap of \$650 billion.⁴⁸ This indicates large, untapped potential, which can serve as a basis for the development of financial markets by deploying targeted financing instruments.

Real estate projects require long-term finance, which underdeveloped financial systems struggle to provide, and even more advanced systems are often cautious due to high non-performing loans. Real estate investment in Africa is mostly funded by private investors, pension funds, and multilateral financial institutions in collaboration with national governments, while commercial bank participation remains limited. Notable examples of financing by multilateral financial institutions include the AfDB's \$60 million sovereign loan to Nigeria in 2021 to support affordable housing through Family Homes Funds Limited, and the \$150 million social bond investment with Nedbank Group of South Africa in 2025 to expand housing access for women and first-time homeowners.

Beyond national interventions, subnational governments can leverage real estate for financial market development. Well-governed cities can issue municipal bonds backed by property tax revenues⁴⁹ and user charges to finance urban infrastructure, including business parks, public markets and associated amenities, recreation facilities, schools, and hospitals. In financing urban development, such bonds would contribute to deepening local debt markets. Strengthening

municipal balance sheets through updated property valuation rolls, improved property rate collection, digitized land registries, and transparent fiscal reporting can enhance creditworthiness and investor confidence and crowd in resources through the financial sector. Examples of land-based financing abound globally. In Cairo, auctioned 2,100 hectares of desert land for \$3.12 billion for development of new cities, equipped with modern infrastructure.⁵⁰ In Senegal, Dakar city raised \$40 million from bond issuance for modernizing infrastructure.⁵¹ Improved urban infrastructure from such investment raises the value of land in new developments and expands the taxable base, generating a virtuous cycle in which stronger local revenues support further infrastructure investment and deepen domestic capital markets.

Africa's real estate markets can play a catalytic role in developing financial systems if they are underpinned by effective regulation and clearly defined property rights. This requires addressing the structural complexities of land tenure systems in several African countries, particularly the coexistence of statutory and customary tenure regimes, which often limit the use of land as bankable collateral. Unclear ownership rights, overlapping claims, and restrictions on the transferability of customary land constrain formal titling and reduce the willingness of financial institutions to extend real estate-backed credit. At the same time, digitalizing property registration systems offers a powerful avenue to overcome structural bottlenecks. Digitized land registries and cadastral mapping can reduce transaction costs, improve the reliability and accessibility of land records, and enhance transparency in property transactions. In doing so, digital solutions strengthen tenure security and reduce information asymmetries, which in turn facilitates the use of land and property as collateral to expand access to mortgage finance.

By transforming illiquid land and property assets into bankable collateral, real estate markets could expand access to finance for households and small and medium enterprises alike, thus support financial inclusion and stimulate long-term savings mobilization. Beyond banking, real estate offers a natural asset class for long-term institutional investors, including pension funds, insurance companies, and SWFs, whose liability

Africa's real estate markets can play a catalytic role in developing financial systems if they are underpinned by effective regulation and clearly defined property rights

Without strong debt management frameworks and credible medium-term fiscal anchors, reliance on Eurobonds can amplify macrofinancial risks and crowd out domestic market development

structures are well matched to the long-duration and inflation-hedging characteristics of property assets. Mortgage-backed securities could help channel institutional capital into housing and urban development, which would clearly support capital market deepening, improve risk diversification, and create new investable assets that broaden the financial system's reach.

International private capital markets offer lessons for developing Africa's domestic financial markets

International private capital markets broaden the investor base beyond domestic institutions and help in mobilizing foreign capital. Their design offers lessons and insights into a functional model for Africa's capital markets. These markets have established benchmarks for pricing, market discipline, and credibility.⁵² Several African countries have accessed international private capital markets, which provides lessons for the continent's efforts to expand market-based financing. Market discipline practices—including publication of timely balance sheet data aligned with international standards—can strengthen investor confidence and encourage participation in domestic capital markets. Similarly, improvement in market infrastructure and governance, including credit rating systems, legal enforcement, and trading platforms, can help replicate the transparency and efficiency observed in international markets.

Careful adaptation of these practices to domestic contexts would enable African countries to harness the benefits of global capital markets while reducing exposure to external vulnerabilities. This is particularly important given the continent's reliance on these markets, notably Eurobonds, which has exposed structural vulnerabilities in Africa's financial architecture, notably exposure to global financial shocks. Sovereign debt issuance by African countries grew from \$70 billion in 2007 to \$350 billion in 2024s. These vulnerabilities became evident after the COVID-19 shock, when African operations virtually ceased in 2022 and 2023 as perceived risks escalated. Market access resumed in 2024–25, with issuances by Angola, Benin, Cameroon, Côte d'Ivoire, Kenya, Morocco, Nigeria, Senegal, and South Africa. But borrowing costs remain high, with rising yields increasing

debt-service burdens and crowding out fiscal space (see chapter 1).

The key policy question is whether the Eurobond experience can serve as a template for developing a capital market to finance Africa's development needs.⁵³ Without strong debt management frameworks and credible medium-term fiscal anchors, reliance on Eurobonds can amplify macrofinancial risks and crowd out domestic market development. Their role should be carefully recalibrated, used strategically to complement rather than substitute for, domestic and regional capital markets, and embedded within broader debt management strategies that prioritize transparency, resilience, and sustainable financing.

CONSOLIDATING AFRICA'S FINANCIAL SYSTEM: A COHESIVE AND INTEGRATED FINANCIAL ARCHITECTURE

Africa's financial system has expanded in the last two decades. For example, bank deposits as a share of GDP increased from 33.4 percent in 2000 to 45.7 percent in 2021, and about \$220 billion (equivalent to about 7.2 percent of estimated 2025 GDP) in equity capital has been raised by African companies. This expansion reflects sustained efforts to strengthen domestic institutions, deepen capital markets, and promote regional cooperation. Yet, this growth has unfolded within a highly fragmented architecture, where multiple national, regional, and continental institutions coexist without a coordinated framework. The result is a financial ecosystem characterized by segmented liquidity pools, uneven regulatory regimes, dispersed market infrastructure, and limited cross-border intermediation.

Fragmentation weakens the ability of the financial system to channel surplus liquidity to productive investment, limits economies of scale, and reduces the collective capacity of African financial institutions to mobilize affordable long-term finance. At the same time, institutional duplication and inconsistent settlement and supervisory frameworks inhibit liquidity circulation, complicate risk pricing, and restrict market deepening. Understanding the current state of financial integration is

key for identifying structural bottlenecks, assessing systemic vulnerabilities, and clarifying the pathways to a more cohesive and interoperable financial ecosystem.

Africa's financial system integration

Africa's equity markets expanded between 2000 and 2024, but remain dispersed and fragmented

Well-developed and vibrant equity markets help reduce reliance on bank credit and external borrowing. Although the equity market landscape in Africa has grown by leaps and bounds in the last two decades—with market capitalization rising nearly six-fold, to reach \$1.2 trillion in 2024 (equivalent to about 40 percent of 2024 GDP)—activity remains highly concentrated in a handful of economies, including Egypt, Morocco, Nigeria, and South Africa.⁵⁴ The continent currently hosts 30 operational stock exchanges serving 38 countries. These include regional platforms such as the Bourse Régionale des Valeurs Mobilières (BRVM) in West Africa and the Bourse des Valeurs Mobilières de l'Afrique Centrale (BVMAC) in Central Africa, alongside newer or relaunched exchanges such as VFEX, CTSE, and ESX. Only a limited number of exchanges function as effective capital mobilization centers, while many operate with low turnover ratios. Performance gains recorded in larger markets, such as Johannesburg or Mauritius (table 3.2), remain largely localized rather than feeding into a continent-wide liquidity pool. This segmentation weakens price discovery, increases transaction costs, and constrains cross-border portfolio diversification.

Africa's equity markets show a high level of dispersion relative to other regions of the world, except Latin America and Caribbean (figure 3.14). This dispersion suggests a low level of integration of equity markets in Africa, compared with peer regions. While dispersion trends in the last two decades have declined in Emerging Asia and the European Union, consistent with increasing integration, the trend has been upward in Africa. Africa's dispersion pattern indicates persistent fragmentation, where liquidity pools remained shallow and cross-market linkages limited.

Africa's capital markets remain heavily concentrated in a small number of exchanges, particularly the South African market, while secondary market trading is thin across much of the continent. This helps explain the small value of stocks traded in Africa, about 4.4 percent of GDP in 2024, compared with roughly 120 percent globally (figure 3.15). It also underscores the lack of depth in Africa's financial markets and limits the scale and continuity of funding for productive investment and contribution to economic transformation.

The low capital mobilization of Africa's stock exchanges reflects structural constraints, including limited listing, institutional investor participation, and liquidity. Efforts aimed at improving stock exchange performance on the continent, by creating regional and continental stock exchange platforms as a means of enhancing integration, have not yet yielded the envisaged results. For example, BVMAC in Central Africa, in operation since 2022, currently has only eight listed companies. Beyond the regional exchanges is a

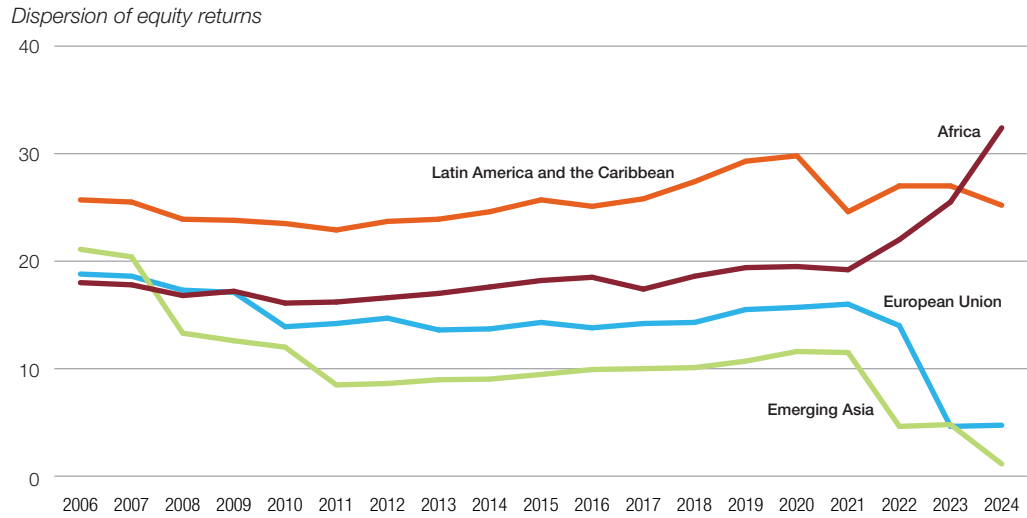
Africa's capital markets remain heavily concentrated in a small number of exchanges, particularly the South African market, while secondary market trading is thin across much of the continent

TABLE 3.2 Performance of major African stock exchanges, 2020 and 2024

Country	Stock exchange	Listed domestic companies		Market capitalization (percent of GDP)		Value traded (percent of GDP)		Turnover (percent)	
		2020	2024	2020	2024	2020	2024	2020	2024
Egypt	Egyptian Exchange (EGX)	240	246	10.60	15.60	4.19	5.22	38.89	50.24
Ghana	Ghana Stock Exchange (GSE)	31	30	13.21	9.20	0.05	0.10	0.35	1.04
Kenya	Nairobi Securities Exchange (NSE)	60	59	21.26	12.47	0.48	0.34	2.26	2.73
Mauritius	Stock Exchange of Mauritius (SEM)	93	93	53.99	61.0	2.69	1.70	5.05	2.78
Morocco	Casablanca Stock Exchange (CSE)	76	77	50.80	47.10	3.05	3.75	5.65	8.08
Nigeria	Nigerian Exchange (NGX)	177	169	12.78	21.57	0.41	0.61	4.49	2.84
South Africa	Johannesburg Stock Exchange (JSE)	264	220	311.13	245.72	86.94	47.87	35.30	25.78

Source: World Bank World Development Indicators and country reports.

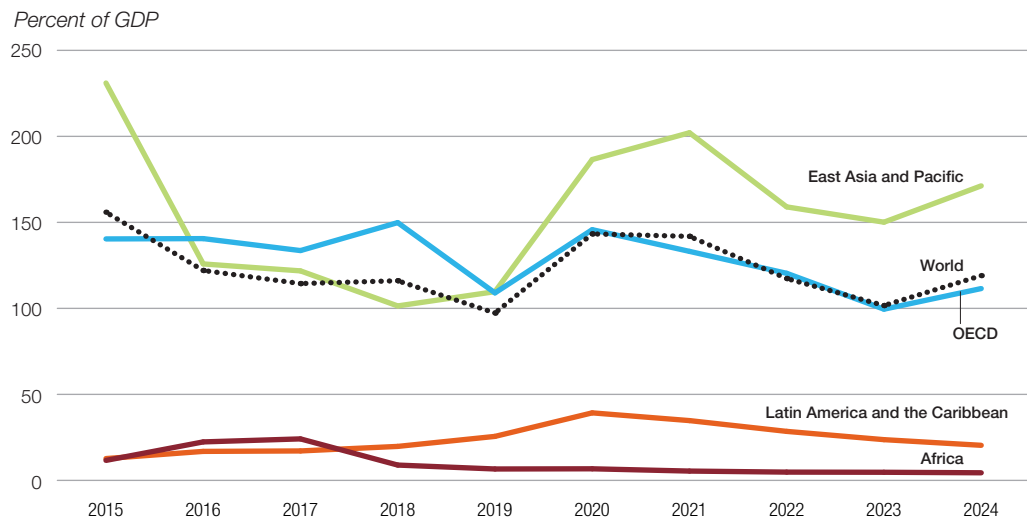
FIGURE 3.14 Dispersion of equity returns across selected regions of the world, 2006–24



Note: Dispersion is measured as the standard deviation of cross-sectional equity returns at each time t , where returns are computed as $100 \times \log \left(\frac{EP_t}{EP_{t-1}} \right)$, and EP denotes the equity price. Dispersion is expected to be lower in a well-integrated market, where investors require a smaller risk premium to compensate for idiosyncratic shocks. Conversely, dispersion would be higher in a fragmented market, where segmentation elevates uncertainty and widens risk pricing across jurisdictions.

Source: AfDB staff calculations based on data from the World Bank, Global Economic Monitor.

FIGURE 3.15 Total value of stocks traded, 2015–24



Source: World Bank World Development Indicators 2025; World Federation of Exchanges 2025.

growing push to deepen and broaden regional market integration through institutional and technological initiatives. For example, the West African Capital Markets Integration Council (WASMIC) has been spearheading efforts to integrate capital markets across Cabo Verde, Ghana, Nigeria, and Sierra Leone and countries with the BRVM. In 2013, WASMIC introduced a common broker passport, which allows intermediaries to operate across member exchanges. The East African Community launched a Capital Market Infrastructure technology platform that became operational in 2020 to connect national capital markets. The Southern African Development Community operates the Integrated Regional Electronic Settlement System, a shared payment and settlement platform enabling real-time cross-border transactions within the region using the South African rand.

Similarly, the African Exchanges Linkage Project (AELP) which was launched in 2022 represents a major step toward pan-African market connectivity and deeper liquidity. In its first phase, the AELP platform helped to link seven of Africa's largest exchanges—BRVM, Casablanca, Egypt, Johannesburg, Nairobi, Nigeria, and Mauritius—these exchanges together account for more than 90 percent of the continent's total market capitalization. With subsequent expansion planned to additional markets, including Botswana, Ghana, and Uganda, the expectation is that this will further broaden market integration. While these initiatives illustrate growing efforts to connect financial infrastructure across borders, limited capacity and gaps in infrastructure, interoperability, governance, stakeholder engagement, regulatory harmonization, and standards alignment continue to hold back progress.

The banking sector in Africa, although increasing in depth, remains fragmented

The banking sector in Africa differs markedly in size, infrastructure, and banked population, depending on which part of region or country is analyzed. For example, there are sharp differences in bank liquidity-to-asset ratios across countries. Large swaths of surplus liquidity on bank balance sheets are often symptomatic not only of small market size and weak cross-border integration of Africa's banking sector due to regulatory

impediments that restrict cross-border interbank activity, but also the riskiness of the operating environment. Macroeconomic volatility, institutional weaknesses, and elevated political uncertainty exist in some parts of Africa and tend to discourage cross-border lending and incentivize banks to adopt precautionary liquidity hoarding behavior. This risk combination restricts the flow of funds, constrains investment expansion, and represents missed opportunities for market depth. In some countries liquidity ratios exceed 100 percent of total assets, as in Libya and Mozambique, reflecting structural weaknesses, while in others, liquidity ratios are about 50 percent (figure 3.16).

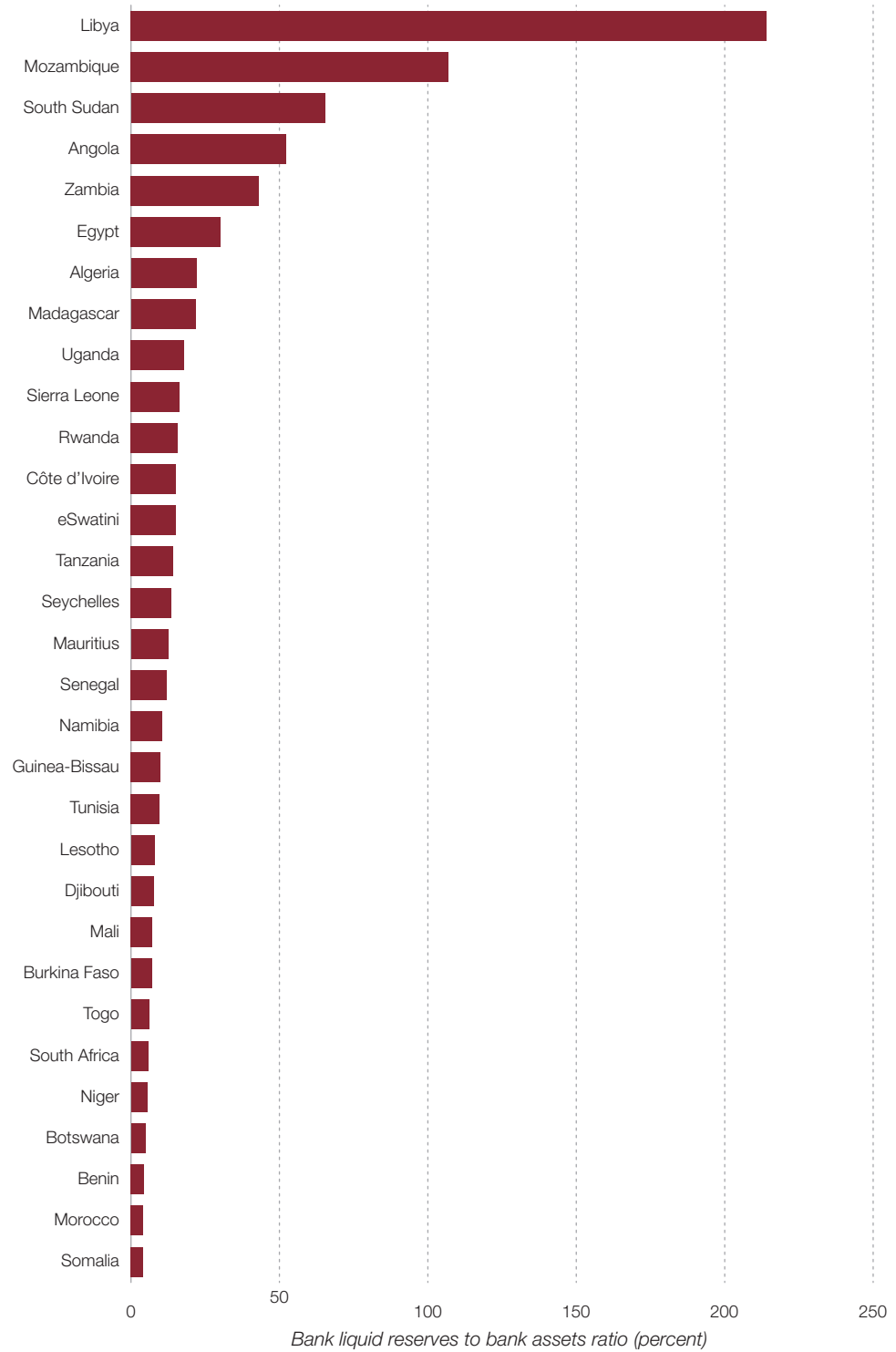
Within this ecosystem, pan-African banks are playing a critical role in strengthening Africa's banking sector. The growing role of Ecobank, Standard Bank Group, United Bank of Africa, ABSA Group, Attijariwafa Bank, and Banque Misr demonstrates the steady penetration of Africa's banking sector and is contributing to improving integration, competition, and financial inclusion. In 2025, 14 pan-African banks with subsidiaries in at least five countries had a total assets value of \$657 billion (figure 3.17). The pan-African banks combine their large balance sheets with managerial capacity and expertise, innovation, and extensive cross-border networks to expand trade finance, payment systems, remittance flows, and credit to the private sector. This helps to strengthen financial intermediation and regional financial integration.

To leverage the growing role of the pan-African banks, the authorities need to strengthen regulatory cooperation and cross-border banking supervision, harmonize prudential standards across regional economic communities, and deepen regional capital markets to expand long-term funding. Partnerships with DFIs and NDBs will help crowd in private investment for infrastructure and other productive sectors. Such measures will enable pan-African banks to expand domestic savings mobilization, provide credit to the private sector, and strengthen financial integration and regional value chain development.

Similarly, the regional development banks (RDBs) provide a complementary layer to Africa's financial system that could be harnessed to expand capital mobilization for long-term

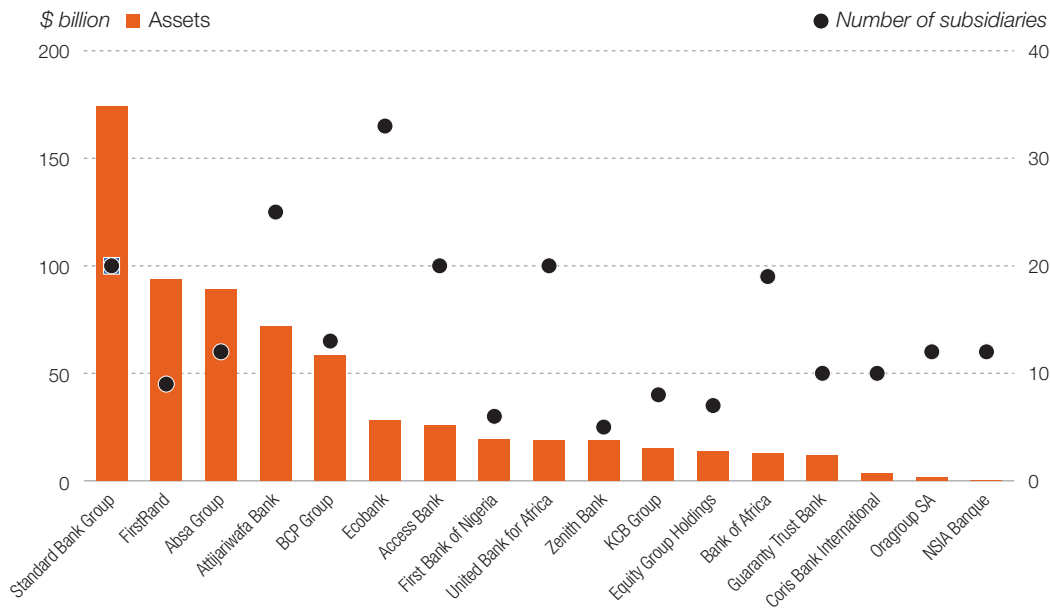
Pan-African banks are playing a critical role in strengthening Africa's banking sector

FIGURE 3.16 Ratio of bank liquidity to bank assets, 2024



Source: World Bank World Development Indicators 2026.

FIGURE 3.17 Scale and footprint of major pan-African banking groups, 2024



Source: AfDB staff calculations based on bank websites and annual reports.

investment. They include the ECOWAS Bank for Investment and Development, the West African Development Bank, the Development Bank of Central African States, the Arab Bank for Economic Development in Africa, Banque Maghrébine d'Investissement et de Commerce Extérieur, the East African Development Bank, the Trade and Development Bank, and the Development Bank of Southern Africa.

With a combined asset base of almost \$40 billion and covering all African countries, the RDBs are increasingly investing in infrastructure development, regional integration and capital markets, regional bond issuance, trade finance, and blended finance.⁵⁵ Through co-financing and risk-participation agreements with MDBs, RDBs can help to reduce transaction risk, facilitate cross-border capital flows and expand resource mobilization. Building on their operations and local knowledge of regional economic blocs, RDBs can, with the support from MDBs, tap international capital markets and mobilize long-term project finance. Their financing of small and medium enterprises, trade corridors, energy, ICT, and value chains will help to expand employment opportunities and climate-resilience.

Fragmented cross-border payment and monetary architecture impede financial transactions and trade

Despite the creation of the Pan-African Payment and Settlement System (PAPSS) in 2022, Africa's cross-border payment systems remain highly fragmented and thus impeding financial transactions and trade. The persistence of fragmentation in cross-border payments is partly due to the multiplicity of currencies, regulatory frameworks, and payment infrastructures. Africa has more than 40 national currencies without a unified or dominant settlement framework. This multiplicity fragments liquidity pools, weakens interbank connectivity, and complicates cross-border settlement processes. Nearly half of intra-African payments are routed through correspondent banks outside the continent using the dollar or euro as settlement currencies. This means high transaction costs, averaging between 7.4 and 8.4 percent against the global average of 6.4 percent and more than twice the SDG target of below 3 percent.⁵⁶ It also slows down settlement, increasing counterparty risk. Correspondent banking also exposes African countries to external conditionality. Financial integration will help to expand financing opportunities

The persistence of fragmentation in cross-border payments is partly due to the multiplicity of currencies, regulatory frameworks, and payment infrastructures

Consolidating Africa's financial system will require aligning national, regional, and cross-border financial infrastructure to facilitate greater collaboration and leveraging of each tier's strengths and reach

by promoting financial sector competitiveness and innovation and redirecting capital toward the private sector, improving cross-border capital allocation and market access.

Policy pathways to consolidate Africa's financial system

Consolidating Africa's financial system is crucial for closing the development finance gaps for meeting the SDGs and Agenda 2063. This will require building a coordinated national and regional financial architecture. Key pathways to consolidating Africa's financial system could include the following.

Establishing a coordinated and interoperable continental financial architecture

Consolidating Africa's financial system will require aligning national, regional, and cross-border financial infrastructure to facilitate greater collaboration and leveraging of each tier's strengths and reach. At the core of this effort is developing interoperable payment and settlement systems that enable liquidity to circulate efficiently across jurisdictions, reduce fragmentation, and strengthen systemic resilience. The PAPSS presents a practical foundation for this architecture, demonstrating how operational integration could proceed incrementally while preserving domestic monetary autonomy.

Scaling this infrastructure will require coordinated onboarding domestic banks through regional clearing systems, harmonized regulatory standards, and technology compatibility frameworks. Subregional monetary unions can act as catalytic nodes by linking domestic payment and settlement mechanisms to the PAPSS, accelerating continent-wide adoption and expanding network coverage. A mature interoperable ecosystem would enhance settlement finality, reduce latency, and support more sophisticated financial functions, including regional securities settlement, cross-border collateral management, and liquidity netting arrangements.

To institutionalize and govern this expanding ecosystem, a Pan-African Financial Network can provide a structured coordination layer linking payment systems, supervisory frameworks, liquidity management arrangements, and capital market

platforms. Rather than acting as a supranational regulator, such a framework would facilitate macrofinancial dialogue, harmonize prudential and operational standards, and enable interoperability across jurisdictions. Embedding national systems within this coordination architecture would generate scale economies, reduce institutional duplication, and improve cross-border risk oversight.

Importantly, successful expansion depends on addressing legitimate concerns raised by countries yet to participate, including issues related to monetary sovereignty, exchange rate volatility, capital flow management, and regulatory or technological compatibility with existing systems. Targeted technical support, regulatory alignment, and sustained policy dialogue are essential to broadening participation. Strengthening supervisory cooperation, improving institutional credibility, and facilitating regional liquidity coordination would reinforce confidence in the system and lay the groundwork for deeper financial market integration.

Harmonizing the supervision of financial institutions and prudential standards

Achieving an integrated financial system has long been a central objective of African leaders as part of Agenda 2063. In this regard, the African Union envisaged three continental financial institutions: the African Central Bank, the African Monetary Fund, and the African Investment Bank. While these financial institutions are yet to be operationalized, continental financial integration can precede their formal establishment. In practice, existing subregional monetary unions and supervisory arrangements provide a foundation upon which deeper financial integration can be built. Consolidation requires gradual convergence of regulatory frameworks governing capital adequacy, liquidity management, resolution protocols, and crisis response. Existing subregional monetary unions provide institutional laboratories for supervisory coordination, but differences across regions require continent-wide alignment mechanisms. Supervisory colleges, structured information-sharing platforms, and peer review frameworks could reduce regulatory arbitrage and strengthen oversight of the financial system. The harmonized supervision would improve risk

transparency, reduce compliance friction, and enhance confidence in cross-border financial transactions. A coordinated supervisory architecture would also strengthen crisis management capacity, enabling collective responses to systemic shocks.

Leveraging regional platforms as transitional integration anchors

Subregional monetary unions such as those in the CFA zones and the Common Monetary Area—formerly the Rand Monetary Area—already embody advanced forms of financial coordination, including common currencies, shared central banking frameworks, and elements of harmonized banking supervision and prudential regulation. These platforms present functioning laboratories for regional financial integration, offering practical institutional experience in managing cross-border liquidity, regulatory convergence, and macrofinancial coordination. Leveraging these platforms as transitional anchors can provide Africa with a pragmatic pathway toward broader financial consolidation grounded in tested institutional arrangements rather than purely aspirational continental frameworks.

The strategic value of these regional systems lies in their operational maturity and ability to reduce transaction costs, mitigate currency and settlement risks, and facilitate cross-border banking activity. Shared supervisory structures would enhance regulatory consistency, improve information exchange, and strengthen crisis management coordination, thereby reinforcing financial stability. However, regional platforms were not originally designed as interoperable components of a continent-wide financial architecture, and tensions would need to be addressed. Supervisory mandates, regulatory standards, capital adequacy frameworks, and macroeconomic convergence criteria differ across subregions. A deliberate approach is needed to align the supervisory and regulatory frameworks across regions as one of the ways to strengthen the capacity of financial institutions to finance development and improve regional capital mobility. Consolidation requires structured convergence efforts that translate regional progress into continent-wide compatibility.

A forward-looking strategy involves establishing cross-regional equivalence frameworks that harmonize core prudential standards, supervisory protocols, and operational rules while respecting institutional diversity. This includes aligning payment settlement standards, anti-money laundering frameworks, capital market regulations, and resolution mechanisms for cross-border financial institutions. By linking regional payment systems, securities depositories, and liquidity facilities into interoperable networks, Africa can progressively create a unified financial ecosystem and connectivity to facilitate liquidity circulation, cross-border trade, and collateral management, as well as regional risk-pooling arrangements and resilience to shocks.

Leveraging regional anchors must be embedded within a coordinated continental governance framework that ensures coherence, minimizes duplication, and aligns incentives. A structured oversight mechanism connecting regional institutions to continental bodies would facilitate policy dialogue, technical standard-setting, and crisis coordination. This layered architecture, with regional execution supported by continental coordination, would allow integration to proceed through cumulative convergence rather than abrupt institutional centralization.

Consolidating African stock market and risk assessment frameworks

Emerging institutional initiatives and policy instruments provide a foundation for consolidating African stock markets. Existing regional exchanges already enable smaller economies to participate in equity markets that would otherwise be too small to sustain independently, thus avoiding the inefficiencies associated with fragmented national exchanges. Rather than pursuing wholesale mergers, policymakers can adopt a layered integration model that harmonizes listing standards, disclosure rules, clearing systems, and investor protection frameworks. Interoperable trading platforms and shared post-trade infrastructure would allow securities listed on one exchange to be accessed seamlessly by investors across jurisdictions. Regional liquidity pools—modeled on the BRVM experience—could be expanded through ‘passporting’ arrangements, mutual recognition of

By linking regional payment systems, securities depositories, and liquidity facilities into interoperable networks, Africa can progressively create a unified financial ecosystem and connectivity to facilitate liquidity circulation, cross-border trade, and collateral management, as well as regional risk-pooling arrangements and resilience to shocks

Consolidating Africa's financial system requires a pan-African safety net mechanism capable of absorbing shocks arising from the tightening global financial conditions

brokers, and cross-listing incentives. Such measures would concentrate liquidity, improve price discovery, and broaden investor participation. Digital integration and linking stock exchanges through unified settlement systems, aligned with continental payment infrastructure, will reduce settlement risk and transaction costs.

On the risk assessment front, consolidation requires both institutional innovation and governance reform. The creation of the African Credit Rating Agency, alongside stronger local agencies, offers an opportunity to diversify analytical perspectives while improving data transparency and methodological rigor. Standardized disclosure protocols, enhanced statistical capacity, and coordinated engagement between sovereign issuers and rating bodies would reduce informational asymmetries that currently magnify subjective judgment. These reforms should complement global rating mechanisms, rather than replacing them, for transparency. A hybrid architecture that integrates local analytical depth with international comparability could help correct risk mispricing while preserving market credibility. Regional peer review platforms and data-sharing arrangements would reinforce accountability and consistency across jurisdictions.

Building a Pan-African financial safety net as a pillar of financial system consolidation

Consolidating Africa's financial system requires a pan-African safety net mechanism capable of absorbing shocks arising from the tightening global financial conditions. Regional financing and stability arrangements offer another layer of protection by providing financial support to their member countries during balance of payments crises. Examples of such regional arrangements include the European Stability Mechanism for the Euro area and similar arrangements for members of the Arab Monetary Fund. In the context of a global financial architecture faced with inequities and vulnerabilities, stronger regional financing arrangements are key to reinforcing the global financial safety net—a multilayered system of institutions and mechanisms that provide insurance and financing to countries facing crises.⁵⁷ The International Monetary Fund (IMF) is the lender of last resort and sits at the center of the global

financial safety net, providing global risk-sharing and financial support to its membership.

As the first line of defense during crises, building international reserves has been a key priority to bolster Africa's financial safety net. A key advantage of foreign exchange reserves is that countries have full discretion over their use: they are immediately available, not subject to conditionality, and provide a reliable liquidity buffer. Pooling resources through regional financing arrangements provides an efficient and cost-effective way for countries to insure against financial crises, while simultaneously advancing regional financial consolidation by institutionalizing shared risk-management mechanisms. This is the approach the African Union is pursuing through the planned establishment of the African Financial Stability Mechanism, which aims to provide enhanced, complementary financial stability tools for African nations, thereby embedding crisis response capacity within Africa's evolving consolidated financial framework.

With the current international financial architecture inadequate to address Africa's debt refinancing challenges, and no international financial institution mandated to directly refinance Africa's debt, the AFSM could fill this gap by providing debt refinancing at scale and at a lower cost. The AFSM toolkit will include primary and secondary purchases of member states' bonds—an instrument not currently available through any international financial institution for African countries—alongside debt refinancing loans, guarantees, and specialized financial instruments. By providing macrofinancial stability and facilitating access to low-cost international capital, the AFSM will help African nations navigate their constrained fiscal space while strengthening the institutional foundations necessary for deeper financial consolidation.

The AFSM presents an effective model for expanding both the coverage and accessibility of the global financial safety net, ensuring that African economies have the financial support they need to weather future shocks and sustain long-term stability. Even so, strong macroeconomic and debt management frameworks must remain the cornerstone of financial stability. The AFSM should be structured in a way that avoids moral hazard, ensuring that access to its resources does not weaken incentives for prudent fiscal and

macroeconomic management. Clear eligibility criteria, appropriate conditionality, and robust monitoring frameworks will be essential to align incentives and safeguard discipline. Otherwise, the mechanism risks becoming a substitute for sound policy, potentially undermining progress toward sustainable financial development and regional integration.

Creating a well-coordinated ecosystem of regional development financial institutions, while mitigating risks, will foster regional financial integration

Regional financial integration in Africa must move beyond institutional coexistence toward a functionally coordinated architecture in which capital is allocated efficiently across borders. The objective is not simply to multiply institutions, but to ensure that savings generated in one jurisdiction can flow predictably and at scale to productive investments elsewhere on the continent. Such coordination would lower financing costs, lengthen maturities, improve risk diversification, and deepen capital markets in ways comparable to more integrated regions.

A subsidiarity-based framework, where MDBs, including the AfDB, channel part of their lending through or provide institutional technical capacity to NDBs and regional DFIs offers a practical roadmap. Under this model, national development finance institutions could originate and structure projects close to the ground. Regional institutions would provide risk-sharing, technical oversight, and cross-border coordination. And continental platforms would mobilize scale, crowd in global capital, and anchor macrofinancial stability. Properly sequenced, this layered architecture would transform fragmented financial ecosystems into an integrated system capable of recycling African savings within Africa. By clarifying institutional mandates and reducing duplication, it would enhance allocative efficiency, strengthen transmission mechanisms across markets, and position the financial system as a unified engine for cross-border investment.

However, such a rebalancing of roles carries important balance sheet implications for participating institutions. Consider a model in which regional and NDBs concentrate on financing small-scale

and early-stage private sector activities—where informational asymmetries and perceived risks are highest—while continental institutions such as the AfDB prioritize large-ticket, cross-border, and transformational projects. In this configuration, continental institutions would increasingly shift from direct retail-style lending to smaller private actors and toward wholesale interventions, capitalizing and de-risking national and regional DFIs through guarantees, subordinated capital, and concessional credit lines. This approach could strengthen the overall ecosystem by absorbing upstream risks and catalyzing downstream investment. By enhancing the capitalization and credibility of national and regional institutions, it would expand their lending headroom, reduce their cost of funds, and crowd in domestic institutional investors. Over time, such leverage effects could increase credit penetration to small and medium enterprises and other underserved sectors, while strengthening the financial system.

This model entails trade-offs, however. De-risking operations and concessional on-lending typically generate lower margins than direct market-based lending. As concessional resources expand relative to ordinary capital operations, profitability indicators—such as net income and return on equity—may decline for the continental institution. That underscores the need to balance catalytic impact with long-term financial sustainability. In addition, risk transmission would need to be carefully managed. Capitalizing institutions with weak governance frameworks, limited risk management capacity, or low credit ratings could elevate contingent liabilities and affect the supporting financing institution's own risk profile. In extreme cases, rating agencies may reassess capital adequacy metrics or asset quality, possibly putting pressure on the institution's credit rating and funding costs. Strengthening prudential standards, harmonizing supervisory frameworks, and improving transparency and governance at national and regional DFIs are key to scaling a subsidiarity-based architecture. Risk-sharing instruments must be appropriately priced, backed by adequate provisioning, and embedded within a clear capital adequacy framework to preserve the financial integrity of the apex institution.

Regional financial integration in Africa must move beyond institutional coexistence toward a functionally coordinated architecture in which capital is allocated efficiently across borders

Better coordination of existing public debt management frameworks, monetary and fiscal authorities and oversight institutions will help to address sovereign risk pressures that stem from institutional capacity gaps, exposure to global interest rate cycles and foreign currency borrowing

Consolidating Africa's financial system through stronger sovereign risk governance

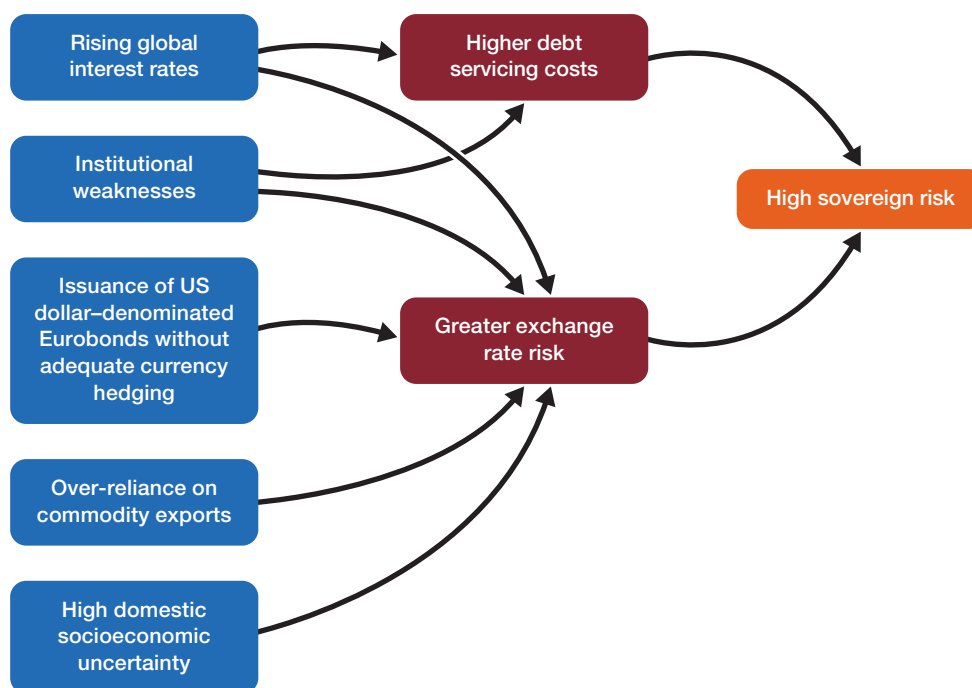
Consolidating Africa's financial system requires strengthening sovereign risk governance so that current fiscal, debt, and financial institutions operate more cohesively across jurisdictions. Better coordination of existing public debt management frameworks, monetary and fiscal authorities and oversight institutions will help to address sovereign risk pressures that stem from institutional capacity gaps, exposure to global interest rate cycles and foreign currency borrowing (figure 3.18). Institutional reforms aimed at improving debt transparency, inter-agency coordination, and fiscal–monetary alignment will help to integrate the financial governance structures into a more coherent system that supports cross-border financial activity and strengthens the credibility of Africa's financial architecture.

Commodity-dependent economies illustrate how sovereign financing strategies affect the stability of the broader financial ecosystem. Episodes in Zambia and Ghana show that when fiscal planning, debt restructuring, and revenue expectations

are not well aligned, pressures can spill into domestic financial markets and regional investor sentiment. Therefore, embedding stronger risk management practices within existing fiscal and debt institutions is vital. By stabilizing sovereign balance sheets through better debt composition, transparency, and macroeconomic coordination, countries can enhance the reliability of financial instruments and support cross-border investment and intermediation.

Regional economic communities provide a natural platform for embedding sovereign risk discipline within the continent's current financial framework. Existing fiscal surveillance arrangements, debt coordination initiatives, and peer review mechanisms, when effectively implemented, enhance the predictability and credibility of sovereign financing practices. Strengthening these regional processes consolidates the operational links between domestic and cross-border financial markets, reducing uncertainty and enabling the existing system to function as a more unified whole. As sovereign risk management improves, confidence effects extend across jurisdictions,

FIGURE 3.18 Institutional weaknesses and other factors increasing Africa's sovereign risk



Source: AfDB staff.

lowering financing costs and reinforcing the capacity of Africa's established financial institutions to mobilize long-term capital within an integrated continental environment.

TOWARD FINANCIAL AGENCY AND SOVEREIGNTY

Africa's financial agency refers to the capacity of African countries, individually and collectively, to exert meaningful influence on the size, structure, and cost of their financing needs—from all sources, including their own capacity for domestic resource mobilization. Increased financial agency will strengthen Africa's engagement in the global financial system for broader international credibility. With enabling policy and institutional frameworks anchored in sound governance, macroeconomic stability, and effective financial regulation at national, regional, and continental levels, Africa can build a financial system that is fit-for-purpose—one that advances sustainable development through greater financial sovereignty.

Imperatives of Africa's financial agency

Advancing Africa's financial agency goes beyond improving access to funding; it entails reshaping the institutional and market architecture making financing decisions, assessing and pricing risks, and mobilizing and allocating capital. This requires a coherent package of institutional, regulatory, and market-building reforms that enhance credibility, deepen domestic financial markets, and allow African countries to exercise greater influence over the size, structure, and terms of their financing needs.

Financial agency requires a deep and integrated pan-African financial system capable of mobilizing and reallocating capital across borders at scale. Such a system would consist of a network of autonomous but coordinated continental and regional financial institutions working toward the shared objective of making Africa's financial architecture fit-for-purpose. Beyond improving financial connectivity, a pan-African system would enable timely, Africa-led responses to critical financing challenges—including sovereign debt distress—and reduce reliance on fragmented and externally intermediated financing channels. It

would also provide a credible institutional interface for African countries to engage global capital markets with greater confidence, transparency, and bargaining power.

The effectiveness of such a system will depend on sustained macroeconomic stability and growth trajectories, which form the foundation of financial agency. Evidence from the Absa Africa Financial Markets Index consistently indicates that countries with stronger fiscal and monetary frameworks tend to exhibit deeper, more liquid, and resilient financial markets. Macroeconomic discipline enhances investor confidence, supports sovereign creditworthiness, and reduces the sovereign risk premiums embedded in borrowing costs. In parallel, strengthening domestic expertise in debt management, sovereign liability structuring, corporate bond issuance, and cross-border financial operations is critical to expanding Africa's influence over the terms and structure of its financing. Today, many African sovereign bond issuances and Eurobond roadshows are predominantly arranged by non-African financial institutions, limiting domestic participation in structuring financing terms and negotiating pricing conditions. Expanding the role of African banks beyond co-arrangers into lead management positions would enhance local ownership of financing processes and strengthen institutional bargaining power in capital markets.

Strengthening institutional and policy expertise to respond to public and private sector financing needs is critical. Financial agency requires strengthening Africa's technical and institutional capacities for addressing its financing needs and debt management issues. Capacity building, including through regional twinning programs of local financial institutions, to enable them to play more prominent roles in high-level financing arrangements, will be critical.

Complementing these efforts, compatible systems for data and information management and dissemination are needed to facilitate trade finance and cross-border capital flows. Operationalizing trade and financial integration protocols under the African Continental Free Trade Area framework, alongside investments in regional transport and logistics infrastructure, will help lower transaction costs and improve the financing of intra-African trade. Within the West African Economic and

Advancing Africa's financial agency goes beyond improving access to funding; it entails reshaping the institutional and market architecture making financing decisions, assessing and pricing risks, and mobilizing and allocating capital

Weak sovereign risk management frameworks continue to inflate borrowing costs across the continent and limit access to long-term development financing

Monetary Union region, the common currency (the CFA), gross settlement system, and a regional automated clearing house have strengthened systems alignment.

At the same time, weak sovereign risk management frameworks continue to inflate borrowing costs across the continent and limit access to long-term development financing. The measurement of sovereign risk for African countries has been controversial because of the general feeling that the risks are often exaggerated.⁵⁸ Individual country assessments are associated with neighborhood effects arising from Africa being considered as one country, and there are long lags in rewarding good performance but punishing economic adversity in real time. The creation of the African Credit Rating Agency is a major milestone in Africa's quest for financial agency. But this alone will not be the solution to raising Africa's sovereign ratings from below-investment-grade. Several African countries have dedicated units in their ministries of finance and central banks to manage sovereign risk. These need to be strengthened to improve the countries' risk profiles and information sharing to improve risk perceptions as opposed to relying on historical trends.⁵⁹

Abiding with international regulatory frameworks and codes and strengthening prudential measures will further enhance supervisory effectiveness, strengthen financial stability, and improve the credibility of African financial markets. Africa's quest for financial agency will be validated by how well it aligns with international regulatory and prudential measures. In 2019, the Basel Committee on Banking Supervision issued guidance on domestically systemically important banks (D-SIBs).⁶⁰ And the Financial Stability Board has heightened the need to incorporate nonbank financial institutions more firmly in countries' supervisory and regulatory frameworks.⁶¹ These recommendations touch on the key features of financial architecture and how African countries respond to them will have implications for financial systems development and the continental quest for financial agency. In this regard, the impact that the presence of countries on the "grey list" of the Financial Action Tax Force has had on authorities' efforts to improve policies demonstrates the power of incentive-compatible global action (box 3.2).

Institutional structures for a resurgent and impactful financial sector

In the past two decades, Africa's financial sector has become increasingly autonomous, with numerous actors, driven by national and regional responses to opportunities in the regional and global economies. Hence, strengthening national and regional institutional capacities and engendering cross-border links between businesses have become key features of Africa's emerging financial architecture.⁶²

Effective financial system supervision demands institutional governance reforms

An important innovation following the 2008–09 financial crisis was the G20's introduction of a global financial supervision regime based on the concept of globally significant banks (G-SIBs), whose failure would have significant global financial consequences. Except for South Africa, there are no G-SIBs in Africa. The Basel Committee for Bank Supervision calls on countries without G-SIBs to deploy a risk-weighted approach to supervising their financial sectors. This requires identifying D-SIBs and establishing a resolution regime for those identified to minimize contagion risks. Depending on local circumstances, the authorities would have discretion in supervising the less systemically important institutions in their jurisdictions. Several African countries including Egypt, Malawi, and South Africa have undertaken steps to comply with the Basel III requirements, such as formulating and posting relevant financial governance and regulatory codes on authorities' websites. South Africa is in the process of identifying D-SIBs.

The rules-based approach to financial management underscores the importance of good data as part of the governance framework, indeed the 2008 crisis was partly blamed for poor or inadequate data. Enhancing financial data quality through better collection but also by designing new methods of capture has thus become an important area of policy focus. But collecting and analyzing financial data, and creating new ways of capturing it, would be prohibitive for financially hard-pressed governments.

Liberalizing the financial environment in Africa has come with the proliferation of new financial products, such as cryptocurrencies, even before

BOX 3.2 Responding to international demands for transparency and anti-money laundering: Implications of getting off the “Grey List” of the Financial Action Tax Force

In recent years, Burkina Faso, Morocco, Mozambique, Nigeria, South Africa, Uganda, and Zimbabwe have been removed from the grey list of the Financial Action Tax Force following measures to address deficiencies in combating money laundering, financing of terrorism and associated proliferation financing (financing weapons of mass destruction). This is probably because the task force’s engagement with the country starts with a high-level political commitment, while the mutual evaluation report outlining what needs to be done is prepared as a statement of intent by the country.

Getting off the grey list involves preparation or strengthening of a national anti-money laundering and counterterrorism (AML/CFT) strategy and action plan. This process identifies where the country is in terms of AML/CFT legislation and what more needs to be done to improve its robustness. For example, ensuring that law enforcement authorities are able to apply the relevant laws unhindered. Crucial for the process is developing and implementing a risk-based supervision structure for financial institutions and designated nonfinancial businesses (such as casinos and dealers of precious metals). Additionally, countries commit to developing mechanisms to collect and maintain accurate data and updated information on beneficial ownership structures. Capacities to investigate and prosecute money laundering and terrorism financing as well as for maintaining statistics are also emphasized. Countries also develop an outreach and risk-based oversight plan to protect their nonprofit organizations from potential terrorism financing. At the national level, the process of getting off the grey list is often given cabinet-level attention, with steering committees comprising leading ministries and agencies focused on fulfilling commitments. All countries that got off the grey list passed new AML/CTF legislation or revised previous laws.

When these commitments are met and the country no longer poses a money laundering and terrorist financing threat to the international financial system, it is removed from the grey list. This comes with several benefits. For example, the recent credit rating upgrade for South Africa could be ascribed to its exit from the grey list. Morocco’s removal from the grey list was followed by a simultaneous removal from the list of countries sanctioned by the European Union Commission over inadequate AML/CTF frameworks. Morocco also indicated that its exit from the grey list would enhance its negotiating position with international financial agencies and could partly explain the low coupon/interest (less than 5 percent) that it received for its Eurobond issue. The removal of the countries from the grey list also had spillover effects in neighboring jurisdictions, with other countries seeking to undertake similar processes to “clean up their systems.”

The Financial Action Tax Force process illustrates that improvements in domestic financial architecture can be achieved if the goals are clear and the views of the governments are fully taken on board. The process is mostly driven by moral suasion and a broad coalition of like-minded and uniformly distributed regional agencies.

Source: AfDB staff.

Liberalizing the financial environment in Africa has come with the proliferation of new financial products, such as cryptocurrencies, even before appropriate legislation and controls have been designed

appropriate legislation and controls have been designed. Global exposure has also heightened cybersecurity threats and attendant risks, calling for measures to protect payments and settlement systems. In addition, nonbank financial institutions (NBFIs), including trust companies, finance

companies, insurers, pension funds and companies offering structured finance, have attracted the attention of the authorities all over the world—including concerns over intended beneficiaries. For Africa, telecoms and fintech businesses are among the most significant NBFIs but not necessarily

The increased deepening of Africa's financial sector, with much of it happening outside formal banks, is challenging its supervision models, still largely based on variants of the traditional banking supervision infrastructure, even as digital technologies have taken over the operational side of the financial sector

identified as systemically important institutions.⁶³ Although NBFIs have grown faster than the banking sector, they are currently not exposed to the same rigorous supervisory regime as the banks. Effective financial governance relies on good supervision and regulatory enforcement. Establishing fit-for-purpose supervisory regimes is a key challenge in Africa's quest for financial agency, tackled through deliberate policy action as well as by strengthening human and technical capacities.

In several African countries, the supervisory and prudential roles for the financial sector were traditionally assumed by the central banks.⁶⁴ But with the growth of the financial sector, physical or on-site supervision has become increasingly precarious. In the new supervisory regimes, the use of virtual technologies, at least for the non-systemically important banks, has become important for cost and feasibility reasons. Although off-site or e-supervision has mitigated some of the pressure, its coverage is limited. Aware of the technical challenges, many African central banks have introduced virtual "regulatory sandboxes" on their websites where fintech companies are allowed to demonstrate technologies that could be used to supervise aspects of the financial sector.⁶⁵ The new technologies will require upfront expenditures on acquisition and training. The increased deepening of Africa's financial sector, with much of it happening outside formal banks, is challenging its supervision models, still largely based on variants of the traditional banking supervision infrastructure, even as digital technologies have taken over the operational side of the financial sector.⁶⁶ Addressing this requires constant innovation to stay ahead of the curve.

For the corporate governance of banks, pressure from markets, where several banks are listed, is sharpening the focus on due diligence. The entrance of more compliant pan-African banks into several regions of Africa—and the demand of clients for better service delivery and that of the regulatory and prudential authorities for meeting standards—have also been important. In some jurisdictions, the authorities have also increased their focus on the performance of bank boards, including, notably, on the suitability of members sitting on them. This is an interesting incursion in an area which in the past was left entirely to the

discretion of shareholders.⁶⁷ In several countries, including Kenya, the authorities have allowed a degree of self-supervision of the banks through their national bank associations. This has proven to be cost-effective, bringing peer pressure to bear on members but also helping to provide early warning on emerging crises. In turn, the authorities acquire room to attend to more systemically important banks in their jurisdictions.

The governance of DFI is different from that of banks at the national level because the former are not exposed to client demands or those of the host country on a regular basis, nor are they listed on stock exchanges. When the DFI is decentralized, with a footprint all over Africa or a region, the pressure to deliver becomes all the greater. Boards at DFIs hold considerable power, and how they function reflects the broader governance of the institution. But while the authorities at the country level can sometimes determine the suitability of board candidates, DFIs accept whoever is nominated by the shareholders. In large boards, this might have few consequences in terms of the quality of board deliberations and decisions. But in smaller DFIs, board composition could have immense consequences on decision making, with considerable attention paid to "managing the board." Ownership concentration, especially involving the host country, can compromise the DFI's decision making. This could be mitigated by the introduction of new members, including from the private sector. It also suggests the need for institutional strengthening along the financial systems chain, since the implementation of governance frameworks requires commitment to work well.

Financial agency must promote inclusivity to be sustainable

While Basel III does not explicitly address financial inclusion as part of its bank supervision architecture, there has been considerable debate on its implications for access to credit by underprivileged socioeconomic groups. This would contribute to realizing SDG 8—Decent work and economic growth.⁶⁸ For example, if large financial conglomerates lend more for global infrastructure and related investment, the trickle-down effects will eventually reach small and medium enterprises and households that depend on them for

sustenance. Despite the recent progress of African countries in reforming their financial sectors, making them more dynamic and attractive for investors, large sections of the population and businesses remain unbanked.

Two key obstacles to financial inclusion in Africa have been a general lack of data on current and potential customers and inability to enforce credit contracts for lack of verifiable collateral registries. The challenges also reflect the broader know-your-customer deficiencies, including for combating anti-money laundering and counterterrorism activities. Several African countries are addressing the lack of data and assessing the possibility of scaling data on potential customers across the continent.

Credit bureaus. The demand for credit bureaus has grown in tandem with the expansion of the financial sectors in Africa and the increasing prominence of digital technologies in financial service delivery. Bureaus were introduced to eliminate information asymmetries between lenders and borrowers, but traction has been limited. Credit bureaus were promoted by governments in the West African Economic and Monetary Union and the Central African Economic and Monetary Community, but in other parts of Africa, notably Eastern and Southern Africa, they are run by private firms. Across Africa, credit bureaus face the same type of constraints. Applicants often have no credit history or have borrowed too few times in the past to establish one. The information generated by the bureaus is not linked to population and address registries, making it difficult to trace applicants. Where land registries are poorly kept, information on potential collateral can also be impaired. These factors might explain why average bank lending rates have not reduced by much even with the introduction of credit reference bureaus. To be effective and relevant, credit bureaus should be linked more closely to other registries, such as that of the population.

Collateral registries. Contract enforcement is the backbone of the credit industry and, where they are well-designed and credible, collateral registries help to boost business and the economy. However, as with population registries, collateral registries in Africa are often incomplete. In several African

countries, the time and cost related to the creation, perfection, and enforcement of a security interest in movable and immovable property are prohibitive. The solution partly lies in simplifying the process by removing unnecessary steps and deploying digital technologies. Using tailored software, such as, the Bank of Ghana's Collateral Registry, enables clients to register security interest in movable and immovable assets, search on assets pledged as collateral, and realize security interest, upon default, without court order.⁶⁹ The bank's portal has streamlined the process, lowered its costs and time requirements by eliminating middlemen, and raised the transparency of the process overall.

Looking ahead, strengthening financial Africa's agency will necessitate the creation of a cohesive and agile financial sector network capable of intermediating cross-border capital and trade flows, thus lowering transactions costs and the cost of capital by helping African countries to better manage risk.⁷⁰ This will require an enabling environment, including targeted policy reforms, institutional innovations, a good analytical basis, and enhanced capacity for information collection and dissemination. Note that stronger financial agency for Africa and a more integrated financial system (at continental and global levels) will be beneficial to the rest of the world, by creating opportunities for investors and lowering transactions costs.⁷¹

CONCLUSIONS AND POLICY RECOMMENDATIONS

The characterization of Africa as being capital rich but investment poor is less about the dearth of development financing than the deficit of the infrastructure and conditions to deploy available capital to the right areas. In this regard, a robust, consolidated and more integrated financial system is critical to mobilizing Africa's capital at scale and intermediating it to critical areas of investment. Africa has large pools of untapped resources, including pensions, insurance, and social wealth fund assets, and its natural resource wealth is abundant. The continent has also witnessed emerging areas of funding such as Islamic finance, while its abundant land, if monetized, presents immense potential of the pool of funding for real estate

The characterization of Africa as being capital rich but investment poor is less about the dearth of development financing than the deficit of the infrastructure and conditions to deploy available capital to the right areas

As financial systems are increasingly interconnected, fragility conditions easily propagate through bank credit and capital flows. Domestic and regional action will require risk pooling and policy harmonization

development. With these assets, Africa has an autonomous base to build its financial agency.⁷² Leveraging this requires measures to address the bottlenecks that prevent the integration of various segments of the financial system from mobilizing and intermediating domestic capital at scale. It will also require improving domestic and cross-border payment systems and infrastructure as well as updating and harmonizing regulatory and prudential frameworks. These changes will catalyze the pooling of funding to create a critical mass of resources to finance Africa's development.

Proposed here are several recommendations for building a robust financial markets architecture to drive Africa's economic development. The first set of recommendations focuses on the urgent issues of addressing bottlenecks to strengthen and consolidate domestic and regional financial systems, without which not much can be achieved. The second focuses on expanding the financial sector's economic reach and impact as the business and institutional environments improve; and the third addresses overarching and longer-term concerns, including system sustainability. At the country level, however, implementation should be tailored to specific contexts. Importantly, long-term reforms should not be deferred simply because they take time to yield results; they should be initiated early to ensure timely and effective outcomes.

In the short term: Address bottlenecks impeding the strengthening and consolidation of domestic and regional financial systems

- *Address structural and institutional bottlenecks that constrain effective functioning of Africa's financial systems.* As financial systems are increasingly interconnected, fragility conditions easily propagate through bank credit and capital flows. Domestic and regional action will require risk pooling and policy harmonization. Strengthening macrofinancial surveillance to facilitate early detection of financial stress and coordinate preventive measures will be critical. South Africa and Mauritius provide valuable lessons on how to develop robust macrofinancial surveillance systems.
- *Strengthen the institutional framework for domestic debt management.* Stronger coordination of public debt policies, and transparent disclosure of debt stocks will help to improve accountability, debt sustainability assessments, and investor confidence. Separating debt management offices from ministries of finance could help to strengthen accountability. Some African countries such as South Africa, Mauritius, Egypt, Namibia, and Morocco with transparent domestic debt practices could provide useful peer-learning experiences for others where these practices are still lacking.
- *Build a strong domestic capital market by developing local-currency debt markets, expanding credit guarantees, blended finance, and political risk insurance, and adopt new debt management technologies and risk dashboards.* Countries that have strengthened their domestic capital markets—such as Botswana, Egypt, Kenya, Mauritius, Morocco, Namibia, Nigeria, South African, and Uganda—regularly offer local-currency bonds with maturities of 10 to 20+ years and could provide lessons for others aiming to develop their local-currency debt markets.
- *Enhance sovereign and overall credit risk management and address the shortfalls in current ratings.* Better systems for borrower vetting, including through increased digitalization, to reduce non-performing loans default risks will help lower interest rate spreads and lower the cost of capital. Sovereign risk assessments in many African countries do not fully reflect cross-country heterogeneity in the economies' financial depth, or institutional capacity, and that neighborhood effects pervade the sovereign credit ratings. Estimates show that mispricing of risk costs African countries about \$74.5 billion a year in unmet savings and financing.⁷³ The African Credit Rating Agency will help to alleviate information asymmetry. Countries need, however, to conduct supplementary analyses of their credit risk and debt distress while simultaneously ensuring readily available and quality data that can aid fair rating.⁷⁴ This will enhance market confidence and agency.
- *Address pockets of fragility and conflict to improve risk perceptions.* Spillover effects from fragility and conflict in a few countries can dampen investor appetite even in otherwise more stable economies. Accelerating regional

financial integration and fully realizing the benefits of expanded financial inclusion therefore require deliberate reforms and investments that tackle structural drivers of fragility, bridge infrastructure gaps, particularly in digital technologies, and strengthen administrative capacity in the most vulnerable countries.

- *Deepen and integrate domestic and regional financial markets.* Operationalizing the pan-African financial ecosystem to create economies of scale and facilitate smooth cross-border capital flows, while reducing transaction costs and risk of contagion, will require harmonizing regulatory frameworks, prudential standards, payment systems, and cross-listings of stock exchanges cross-border insurance coverage and regional pooling of pension funds and further deepen Africa's financial markets. Regional financial integration would help mitigate adverse effects of fragility. Africa's stock market capitalization represents only 43.3 percent of GDP, very low relative to global and peer-region benchmarks and the continent's own development financing needs. Efforts to integrate Africa's stock markets could help to leverage this component of the financial sector. In 2022, the AfDB, in collaboration with the African Securities Exchanges Association, launched an initiative aimed at converting African stock exchanges into a single, interoperable trading network, which is needed to improve market depth, liquidity, and access to capital. The expansion of pan-African banks such as Ecobank, United Bank of Africa, Standard Bank Group, Attijariwafa Bank, Bank of Africa and Banque Misr is creating dynamism in many African economies through innovation and raising local competition in the financing of country and regional projects and trade finance as well as fostering financial inclusion.

In the medium term: Expand the financial sector's economic reach and impact

- *Strengthen regulatory frameworks and risk management systems.* Information asymmetries are perverse in Africa's financial markets and undermine contract enforcement and the incentive structure. This is due to regulatory weaknesses and high credit risk, which

undermine market discipline and underwriting standards, encourage imprudent investment practices and contribute to high non-performing loans. These vulnerabilities, in turn, constrain financial intermediation. Addressing these constraints requires strengthening the independence and enforcement capacity of regulatory agencies (central banks, securities and exchange commissions, pensions and insurance authorities, and other financial watchdogs) while modernizing prudential frameworks and supervisory tools in line with international standards and best practice. It also calls for stronger credit risk management (credit reference bureaus and collateral registries) and improved data quality and transparency.

- *Reform and empower NDBs and regional DFIs.* Reforming and capitalizing NDBs, DFIs, and RDBs will help to strengthen Africa's financial architecture and expand financial inclusion and development financing. The participation of NDBs and DFIs in bond issuances, syndicated loans, and private placements could help broaden market activities. Consider Nigeria's Bol, which secured a €1 billion syndicated loan from European investors, facilitated by Afreximbank, during 2023–24. Morocco's Caisse Centrale de Garantie and the West African Development Bank's joint financing of green and regional infrastructure with Africa50 suggest that long-term financing by NDBs, DFIs and RDBs has enormous potential. Improvements in governance and transparency are needed for these institutions to reach underserved sectors and regions. Stronger coordination between the regulators, and the national and regional DFIs, is critical to promoting the development of innovative financial instruments.
- *Incorporate pensions, insurance, sovereign wealth funds, and social welfare fund assets as key means of enhancing capital markets depth and liquidity.* Amending the asset allocation frameworks of pension, insurance, and social welfare funds to emphasize more domestic investments in Africa could expand the pool of institutional funding for Africa's development. For African SWFs, this will involve a shift from focusing on fiscal stabilization to a hybrid model that prioritizes investing in infrastructure, local private equity, and sectors like agriculture,

Information asymmetries are perverse in Africa's financial markets and undermine contract enforcement and the incentive structure

Reforms are needed to fully integrate the real estate sector with the financial system—for example, through regulatory frameworks that encourage the development of real estate-backed financial products such as real estate investment trusts

energy, and healthcare. When deployed with adequate safeguards, these assets could shift the focus of Africa's financial systems from short-term, bank-dominated intermediation toward longer maturities and deeper capital markets. However, pension funds amount to about 12.6 percent of GDP, a third of the global average, while insurance assets amount to 6.6 percent of GDP, compared with 28.0 percent for the European Union. As a notable innovation, pension management in Ghana, Kenya, and Nigeria has been contracted out to privately licensed fund managers, under independent regulatory oversight. In Egypt, Libya, Morocco, Nigeria and South Africa, the combined scale of those assets is large enough to impact domestic capital markets. In 2022, Ethiopia launched its flagship Ethiopian Investment Holding company, to manage state-owned companies and prepare them for privatization.

- *Mainstream climate finance as a key component of financial architecture.* Africa's vast renewable energy resources (solar, wind, hydro), significant carbon sink capabilities (forests, wetlands), and critical minerals for green technology make it a potentially prime destination for investment in sustainable solutions. But Africa's climate finance flows currently meet only about 23 percent of Nationally Determined Contributions, estimated at \$190 billion a year, and often do not feature into mainstream financial systems. A financing vehicle for climate finance in Africa could provide significant returns to investors as well as mobilize resources, with associated environmental and social benefits. RDBs and MDBs as well as bilateral development partners could use their concessional resources to de-risk climate investments. The AfDB is a key player in this ecosystem, through the issuance of green bonds. Innovative cross-border instruments—such as the AfDB's Panda bond involving Egypt and China—and joint financing arrangements with the European Investment Bank demonstrate that Africa's climate and development priorities could be linked to new and innovative tools of international capital. They also show that co-financing and risk-sharing mechanisms are feasible in Africa's climate financing space.
- *Search for value in Islamic finance.* Islamic financing—rooted in principles of risk-sharing,

asset-backed financing, prohibiting excess speculation, ethical investment, and social responsibility—could offer an alternative source of financing for Africa. Côte d'Ivoire, Morocco, Nigeria, and Senegal that have introduced enabling legislation and supervisory guidelines to operationalize Shariah-compliant financing within existing financial systems should serve as peer-learning for other African countries. These reforms have reduced regulatory fragmentation and encouraged participation by conventional banks and other development finance institutions. As a result, there has been a significant increase in the adoption of Islamic credit windows, Sukuk structuring, and Shariah-compliant project finance in these countries. In October 2025, the International Finance Corporation announced its first Islamic financing deal in Africa with Banque Islamique du Sénégal.

- *Search for value in real estate.* Africa faces an estimated annual housing financing gap of more than \$650 billion. Although prime real estate yields in Africa average 8–12 percent, the sector is yet to translate into large volume investment. In 2023, the latest period with data, real estate investment in Africa totaled only about \$1 billion, (0.15 percent of the \$684 billion global market), indicating large untapped potential. Investment is concentrated in a few hubs, notably Nairobi, Lagos, Accra, Cairo, and Johannesburg. Growing at 4.5 percent a year, the sector is projected to reach about \$332.3 billion by 2033. But reforms are needed to fully integrate the real estate sector with the financial system—for example, through regulatory frameworks that encourage the development of real estate-backed financial products such as real estate investment trusts.

Overarching and long term: Financial agency, advocacy, and sovereignty

- *Develop credible policy and institutional strategies for projecting financial agency and sovereignty.* Policies and institutional refinements for financial agency are critical to develop a credible implementation framework. Financial agency and sovereignty imply being on the table when technical aspects of financing are being decided. So, capacities for high-level

negotiations on risk management, debt acquisition and repayment must be enhanced. A major responsibility of the proposed pan-African ecosystem should be to provide opportunities for strengthening technical skills in Africa's financial systems.

- *Examine the role of international development partners and financing agencies in the emerging financial architecture.* The quest for financial agency and sovereignty calls for changes in international cooperation. A subsidiarity-based framework, where Multilateral Development Banks (MDBs) such as the African Development Bank (AfDB) channel their lending through or provide institutional technical capacity to National Development Banks (NDBs) and regional Development Financial Institutions (DFIs), offers a practical roadmap. Under this model, national DFIs could originate and structure projects close to the ground; regional institutions provide risk-sharing, technical oversight, and institutional capacity, and cross-border coordination; and continental platforms mobilize, at scale, crowd in global capital, and anchor macro-financial stability. Properly sequenced, this layered architecture would transform fragmented financial ecosystems into an integrated system capable of recycling African savings and external capital sources. However, this framework would require carefully managing the backward transmission of risk in the financial ecosystem. For this framework to succeed, it is imperative for both national and regional DFIs to strengthen prudential standards, harmonize supervisory frameworks, and improve transparency and governance. Strong partnerships are required as Africa navigates international regulatory requirements and prudential standards needed to meet Basel III requirements as the pan-African financial ecosystem reaches fruition.
- *Promote financial inclusion as the ultimate expression of financial agency and sovereignty.* Despite the proliferation of microfinance institutions in several African countries, the majority of the population remains outside the money economy. Constraints are related to the effectiveness of borrower monitoring and the credibility of collateral arrangements. While credit bureaus are gaining traction in several

countries, they have not improved borrower identification due to the absence of reliable up to date population and address registries and impaired collateral records. Positive experiences with new digitalized approaches to collateral registries raise optimism that credit contracts can be enforceable, which would reduce credit risks and costs.

- *Build a continent-wide financial ecosystem that supports efficient cross-border capital mobilization, inclusive participation, and financing for long-term development.* This requires the development of shared digital and payment infrastructure, interoperable platforms, harmonized regulatory standards, and data governance. In this context, the -African Financial Network should be seen as a coordinating architecture that consolidates, scales, and aligns existing continental and regional initiatives. Elements of such a network are already emerging. The Pan-African Payment and Settlement System enables instant cross-border payments in local currencies. AfDB-led platforms coordinate DFIs and depository services. And the expanding footprint of pan-African banks that provide integrated financial services across multiple jurisdictions. Building on these foundations, the Pan-African Financial Network would operate through a multilayered governance structure, anchored by an Africa-wide governing board with representation from central banks, finance ministries, regional economic communities, and the private financial sector.
- *Fast-track the establishment of Africa-focused financial systems.* The African Union's proposed African Financial Stability Mechanism (AFSM), once established, will pool resources to support African countries facing liquidity gaps to refinance their debt at low cost. African countries have long been forced to turn to costlier alternatives of debt refinancing, such as loans from commercial sources, including the Eurobond market, to bridge the financing gap. The recently launched African Credit Rating Agency (CRA) and the New African Financial Architecture for Development (NAFAD) are important steps in advancing Africa's quest for financial agency and achieving aspirations of the AfCFTA.

Strong partnerships are required as Africa navigates international regulatory requirements and prudential standards needed to meet Basel III requirements as the pan-African financial ecosystem reaches fruition

NOTES

1. UNDP 2023.
2. APRM 2025.
3. The OECD (2025a) projects a decline of up to 17 percent in official development assistance in 2025, following a 9 percent decrease in 2024, with a highly uncertain outlook beyond 2025. This drop has been further exacerbated by a freeze on USAID funding since January 2025, which resulted in the termination of 86 percent of global contracts, amounting to \$27.7 billion (USAID cuts). While developing countries, particularly least developed countries and those in Africa, will be disproportionately affected by aid cuts, the consequences will be especially severe for African nations that heavily depend on official development assistance for development projects, including crucial humanitarian support in health and education.
4. AfDB (2025d) undertook an examination of Africa's diverse capital assets potential.
5. AfDB 2025d.
6. Abedin et. al. 2024.
7. Africa Expert Panel 2025.
8. Calice and Demekas 2024; Cheston, Cunningham, Hausmann and Tapia 2021.
9. The African Economic Research Consortium model (<https://aercafrica.org>), which has trained hundreds of economists for African governments and the private sector could be used as a model for training employees for the new financial system.
10. The "binding constraints" literature (see Cheston, Cunningham, Hausmann, and Tapia 2021) argues that because bottlenecks to financial development are interlinked (the removal of one bottleneck could cause another, for example, a foreign exchange devaluation could lower profitability in the nontradable sectors) the identification of binding constraints calls for several diagnostic tests: High price—if finance is a constraint the cost to borrowers should be high; Consequential—a change in the financing situation should reflect in the growth problem; Camels and Hippos—if financing is a problem there will be fewer businesses depending on formal finance, so don't expect a Hippo in the desert; Circumvention—business will try to circumvent the financing constraint.
11. Christensen 2014.
12. Our History | Equity Bank Kenya.
13. Beck et al. 2019; Beck et al. 2025.
14. The potential for financial loss incurred when a borrower fails to repay a loan or meet contractual financial obligations, such as interest payments or principal repayments.
15. See chapter 2 of AEO (2025).
16. IMF 2023.
17. IMF 2025.
18. Afreximbank 2024; Bank of Industry 2024.
19. See, for example, Amoussou et al. (2024); World Bank (2018).
20. AfDB 2025d.
21. AfDB 2021.
22. AfDB 2025d.
23. This is different from the well-known Pula Fund. While the Pula Fund, managed by the Bank of Botswana, primarily serves as a stabilization and savings vehicle investing surplus foreign exchange reserves, notably from diamond revenues, the BSWF is structured as a separate, growth-oriented vehicle aimed at economic diversification, active asset management, and domestic development objectives.
24. https://globalswf.com/news?tag_id=49&view=list#
25. See <https://www.ifswf.org/santiago-principles> for details.
26. UNCTAD 2025.
27. BIS 2021; AfDB 2025c.
28. AfDB 2025b.
29. ENS Africa 2025.
30. See Pazarbasioglu et al. (2020); Ricci et al. (2024).
31. <https://www.bceao.int/fr/communique-presse/lancement-de-la-plateforme-interoperable-du-systeme-de-paiement-instantane-de>.
32. Global SWF 2025.
33. UNCTAD 2025.
34. IFSB 2025. See annex for the Cross-Country Figure.
35. IFSB 2025.
36. IFC 2025.
37. AfDB 2026.
38. AfDB 2023.
39. FSDAfrica 2025.
40. Meattle et al. 2024.
41. Climate Policy Initiative 2024.
42. IRENA 2024.
43. AfDB Sustainable Bond Newsletter (May 2025 edition).
44. AfDB 2024.
45. OECD 2025a.
46. The Exchange 2025.

47. Estate Intel 2024.
48. IFC 2024.
49. World Bank 2020.
50. Petersen 2008.
51. Paice 2016.
52. Smith 2021.
53. Smith 2021.
54. <https://doi.org/10.1787/7d26e1d3-en>.
55. EADB 2024; Clifton et al. 2021; CGD 2011; see also respective institutional websites.
56. AfricaNenda 2025.
57. IMF 2025.
58. Controversy beyond sovereign rating also exists, such as the recent termination of Afreximbank's credit rating relationship with Fitch (<https://www.afreximbank.com/afreximbank-announces-termination-of-its-credit-rating-relationship-with-fitch/>).
59. Patrick Njoroge, former governor of the Central Bank of Kenya, argues in an opinion piece for the *Financial Times* (September 4, 2025) that low ratings are increasing Africa's debt burden and its capacity to invest productively. This and the constrained flow of resources to the continent threaten a continental meltdown that will have consequences for the global economy. "There will be no winners," he concludes.
60. SCO50—Domestic systemically important banks.
61. Non-Bank Financial Intermediation—Financial Stability Board.
62. While the push to strengthen and consolidate Africa's financial systems derives from institutions within the spectrum of the financial system, previous efforts were led by the African Union. Article 19 of the Constitutive Act of the African Union (July 2000) envisages the creation of three continent-wide financial institutions: African Central Bank (ACB), African Monetary Fund, and the African Investment Bank (AIB) to promote investment and strengthen the private sector. In the 2020s, two other institutions were added to the list, the African Credit Rating Agency (AfCRA) that was launched in January 2026, and the pan-African Stock Exchange (PASE). If these institutions could be constituted, they could become strong anchors for the pan-African financial ecosystem.
63. For example, Kenya's Safaricom, owner of M-PESA, the first mobile money platforms in the world, has a market capitalization of \$1.2 billion (about 1 percent of GDP), but its influence far exceeds its market cap.
64. Exceptionally, South Africa, which has a large financial sector, has six regulatory authorities, ranging from a prudential authority to an information regulator. But as noted earlier, these watchdogs have not always prevented system slippages and erosion.
65. See, for example, the websites of Bank of Ghana, Central Bank of Kenya, Bank of Nigeria, Bank of Uganda and Bank of Zambia.
66. For example, the Bank of Tanzania uses the traditional CAMELS (capital adequacy, asset quality, management quality, earnings capacity, liquidity, and sensitivity to market risk) supervision model and electronic surveillance and supervision (Bank of Tanzania 2026).
67. In the case of the Corporate Governance Disclosure Directive of the Bank of Ghana (2022), directors had to obtain a certificate from a reputable institution stating that they undertook courses in corporate governance.
68. Proportionality and financial inclusion: implications for regulation and supervision.
69. Collateral Registry Ghana | Home.
70. Elbadawi et. al. 2022.
71. Hardy (2021) noted, in a piece assessing the role of DFIs after the COVID-19 pandemic, that "by harnessing support from international investors and deploying lending proceeds towards sustainable development goals and other sustainable outcomes, as their roles continue to evolve, African DFIs can achieve a potentially exciting outcome."
72. For example, ECOWAS (2016) designed a Charter for its capital markets already in 2026.
73. UNDP 2023.
74. APRM 2025.

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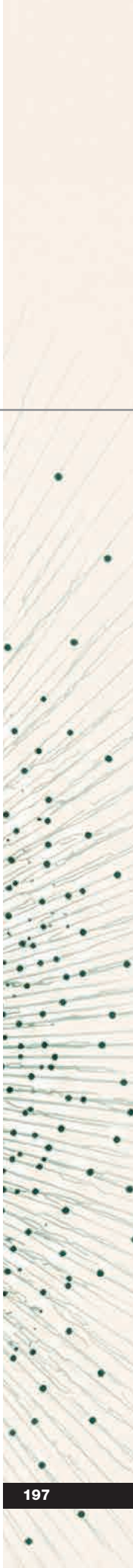
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COUNTRY NOTES



CENTRAL AFRICA

Cameroon

Recent macroeconomic developments

In 2025, economic growth was 3.7%, up from 3.5% in 2024. On the supply side, growth was driven by the nonoil sector (up 4.1%), supported by energy production with the new Nachtigal dam (up 420 megawatts); construction; agrifood industries; and container traffic (up 333.3%) at the Port of Kribi's new wharf. In contrast, oil production contracted 8.82% in 2025 due to lack of oil investment projects. On the demand side, growth was driven by consumption and public investment (up 15.5%). Inflation fell to 3.4% from 4.5% in 2024, in line with lower food and oil prices. The budget deficit decreased to 1.2% of GDP from 1.5% in 2024 due to fiscal consolidation efforts resulting from reforms. Public debt remains sustainable (39.4% of GDP in 2025), but the International Monetary Fund sees high risk of debt distress. The current account deficit widened to 3.9% of GDP in 2025 from 3.3% in 2024, as exports declined more sharply than imports. Foreign exchange reserves declined to 6.1 months in 2025, compared with 6.5 months in 2024. The banking system has been resilient, with non-performing loans at 14.9% in June 2025.

Social developments

In 2022, poverty had stagnated at 37.7%, down from 38.6% in 2021; inequality, with a Gini coefficient of 0.4, reflected this low inclusivity. Declining employment opportunities (down 13.1% in 2024) have been the result of inadequate consideration of labor-intensive approaches in investment project design. In 2025, unemployment was projected to be 9.8%, compared with 9.5% in 2024. In the first two quarters of 2025, 199,997 poor households received cash transfers, and 15,300 young entrepreneurs received support. Cameroon ranked 155 out of 193 on the 2025 Human Development Index, keeping it in the medium human development category.

Outlook and risks

The 2025 growth rebound is expected to continue in 2026 (4.0%) and 2027 (4.1%), supported by agricultural production facilitated by improved access to inputs; manufacturing and extractive industries; transportation, public investment; and public consumption. Inflation is projected to rise to 3.5% in 2026 due to higher oil prices and then fall to 2.7% in 2027 as agricultural production increases. The budget deficit is projected to widen in 2026 (1.9% of GDP) as a result of stagnant government revenue resulting from declining trade flows and from the crisis in container scanning operations at the Port of Douala but to narrow in 2027 (0.7%) as a result of reforms including Trésor Pay, electronic invoicing, the elimination of common budget

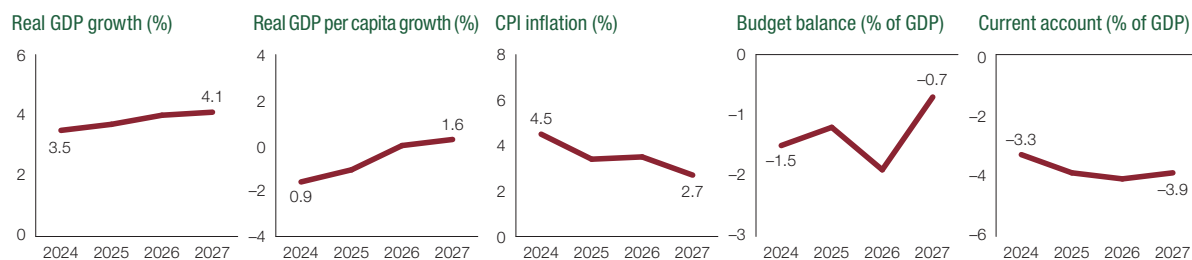
chapters, the institutionalization of unforeseen expenditures, the elimination of direct interventions, and a new mechanism for the payment of duties and taxes on mobile phones. The current account deficit is projected to widen in 2026 (4.1% of GDP) due to rising import costs but to narrow in 2027 (3.9% of GDP) with completion of the 2024–26 import substitution plan and local processing of products. Risks—specifically insecurity, climate shocks, and Middle East conflict—could affect these outlooks. Diversification, oil refining reforms, and development initiatives in insecure areas should mitigate these risks.

Mobilizing development financing at scale in a fragmented world

The financing need is projected to reach CFAF 3,104.2 billion in 2026. The ability to mobilize large-scale financing is limited. Tax revenue (13.3% of GDP in 2025, compared with a floor of 17% of GDP) is low. Slow oil investment is a concern. Financial development is weak: credit to the economy in 2025 was 17.5% of GDP, compared with 31% in Senegal. Public companies face difficulties listing on the stock exchange because they have not disclosed their financial statements. The informal sector is dominant (49.2% of GDP). Illicit financial flows cost \$97.7 billion over 1970–2022. Insecurity persists. The public investment efficiency gap is high, at 60% compared with 40% in Sub-Saharan Africa. In a more fragmented international financial environment, liquidity in the regional financial market (24.2% of borrowing in 2026) is shrinking, which explains Cameroon's reliance on the international financial market (60.6% of borrowing).

In a fragmented world, mitigating financing risks calls for diversifying partners and financial instruments. Guarantees from multilateral development banks and revision of the Public–Private Partnership Law are crucial. The government launched a Non-Deal Roadshow for international investors in March 2025 and the Global Green Bond program in April 2025. The 2025–2030 National Integrated Financing Strategy includes innovative instruments (diaspora bonds, fintech) and plans to integrate the carbon market (a national forest inventory is scheduled for 2026–28).

To bridge the financing gap, the country must accelerate priority actions: strengthen the public financial management framework by enhancing budget discipline; improve governance by publishing the financial statements of public enterprises, creating a single Treasury account, and expanding the digitization of public services; and diversify funding sources through private placements, public–private partnerships, and multilateral development bank guarantees.



Source: Data are as of March 2026 and are from domestic authorities; figures for 2025 are estimates and figures for 2026 and 2027 are projections by the African Economic Outlook team.

Central African Republic

Recent macroeconomic developments

The economy continues its recovery, supported by a return to security. Real GDP growth has accelerated, standing at 3.3% in 2025, compared with 1.8% in 2024 and 0.7% in 2023. Growth was driven by a strong primary sector (agriculture, forestry, mining), secondary sector (processing of local products, construction), and tertiary sector (trade and distribution, telecommunications) and was bolstered by improvements to the road network and the rollout of 4G. On the demand side, the main drivers of growth were investment (15.8% in 2025, compared with 10.8% in 2024) and final consumption (16.8% in 2025, compared with 12.6% in 2024). Annual inflation in 2025 remained moderate at 1.5%, the same as in 2024, due to greater agricultural and energy supply and government measures. The overall budget deficit narrowed to 3.5% of GDP in 2025 from 5.2% in 2024, due to improved domestic revenue mobilization. This helped slow rising public debt (59% of GDP in 2025, compared with 58% in 2024). The current account deficit narrowed to 7.4% of GDP in 2025, supported by increased mining revenue. The deficit is financed by grants, capital transfers, and net inflows from financial transactions.

Social developments

In 2025, the Central African Republic was still classified as low human development, with a Human Development Index value of 0.414. Per capita income reached \$550. Monetary poverty affects 65% of the population (60% in urban areas and 72% in rural areas), while underemployment stood at 62%.

Outlook and risks

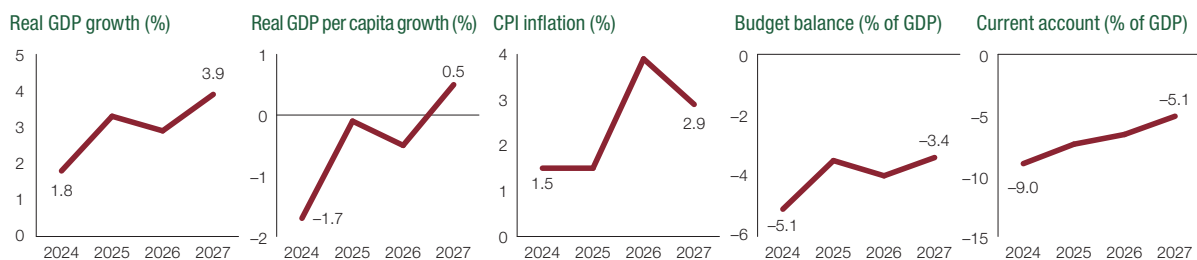
The medium-term outlook is favorable, with real GDP growth expected to reach 2.9% in 2026 and 3.9% in 2027. Inflation is projected to stand at 1.5%, while the budget deficit will increase to 4.0% in 2026 before slowing to 3.4% in 2027, in line with the reduction in budget support. These projections are based on increased mining output, expanded forestry operations, accelerated implementation of externally financed infrastructure projects (FINEX), and rising exports, which are the main drivers of growth on the demand side. However, several risks remain to be addressed relating to insecurity, electricity and petroleum product supplies, structural reforms of public financial management, incomplete road and energy infrastructure projects, and climate change impacts. To mitigate these risks, recommendations

include continuing inclusive political dialogue, deepening discussions with stakeholders in the petroleum sector, maintaining structural reforms, strengthening coordination around FINEX-funded projects, and intensifying actions against the effects of climate change. Moreover, the country must adopt innovative strategies to mobilize more external financing to achieve the objectives of its 2024–2028 National Development Plan (NDP) and continue refining structural projects.

Mobilizing development financing at scale in a fragmented world

The current global context is marked by increasing fragmentation, leading to heightened competition for access to available resources. In this new environment, the Central African Republic must urgently mobilize the financing needed to implement the projects outlined in its NDP, estimated at \$12.8 billion. Despite a debt margin of 70% relative to the community debt ceiling, persistent uncertainty regarding interest and exchange rates, linked to the international economic climate, encourages a focus on endogenous solutions, such as increased mobilization of domestic resources. The tax burden remains low (10% of GDP), and the country's financial system shallow and vulnerable. To address this, the country is committed to modernizing and improving governance of its public finances, specifically through digitalization and strengthening of human and institutional capacities. However, projected efficiency gains remain inadequate for covering all short- and medium-term financing needs. Furthermore, the country's fragility limits access to financing to concessional resources and grants, which have restrictive ceilings.

Faced with these constraints, several avenues are open to the government: optimizing the leverage effect of various financing sources; expanding partnerships to include nontraditional multilateral actors such as the Arab Bank for Economic Development in Africa, the Inter-American Development Bank, and the OPEC Fund for International Development; using innovative solutions based on natural capital, such as green bonds or public–private partnerships in agricultural and mining value chains; and continuing to improve country risk. The Central African Republic has adopted a forestry code and regulations for REDD+ mechanisms and can also rely on BGFIBank Centrafrique—identified for accreditation to the Green Climate Fund—to mobilize climate finance.



Source: Data are as of March 2026 and are from domestic authorities; figures for 2025 are estimates and figures for 2026 and 2027 are projections by the African Economic Outlook team.

Chad

Recent macroeconomic developments

The economy continued to grow in 2025, with real GDP growth at 3.4%, compared with 5.0% in 2024, supported by recovery in agricultural production following the 2024 floods. Due to containment in food prices and stable fuel prices on the domestic market, inflation fell to 3.9%, from 5.1% in 2024. Public finances improved slightly in 2025. The budget deficit reached 2.3% of GDP, down from 2.7% in 2024, due to an increase in current spending (defense and security and costs associated with the growing number of refugees from Sudan), which were largely offset by higher nonoil tax revenue. The deficit remained below the Economic and Monetary Community of Central Africa's 3% benchmark. On the external front, a current account deficit emerged at 2.5% of GDP in 2015, compared with a surplus of 0.4% of GDP in 2024.

Social developments

Chad ranked 190 out of 193 on the 2025 Human Development Index, well below the average for Sub-Saharan African countries (0.568) and for the least developed countries (0.560). The poverty rate stands at 42.3%. Extreme poverty had risen due to the COVID-19 pandemic, from 31.2% (2018), to 34.9% (2021), to 35.4% (2023). The social situation is deteriorating, due primarily to population displacement. The crisis in Sudan increased the influx of refugees from neighboring countries (estimated at over 1.5 million in January 2026), thereby increasing pressure on public services, and disrupting market operations and agricultural production activities. The country has a maternal mortality rate of 860 deaths per 100,000 live births and an infant mortality rate estimated at 78 per 1,000.

Outlook and risks

The outlook for 2026–27 is generally favorable, although it remains subject to significant risk factors. Supported by the agricultural sector, real GDP growth is expected to continue at 3.6% in 2026 and 3.5% in 2027. Global

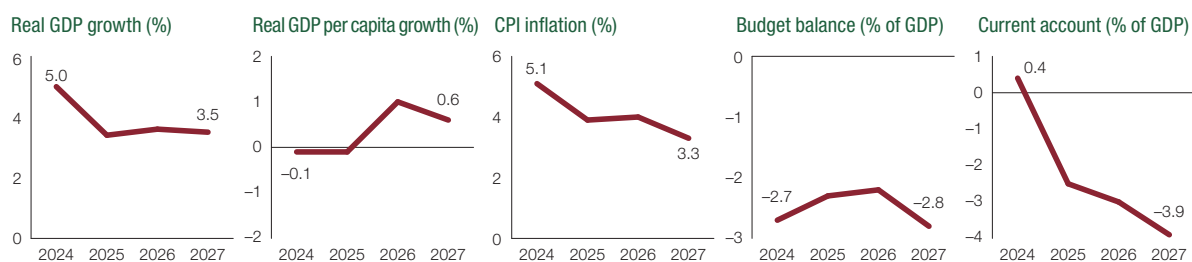
inflationary pressures could push inflation up to 4.0% in 2026 and 3.3% in 2027. Implementation of Chad's National Development Plan (NDP) should enable recovery in investment to support growth. However, significant risks remain, including potential escalation of conflicts, fluctuations in oil prices and shifts in global energy demand, and increasing frequency of climate shocks.

Mobilizing development financing at scale in a fragmented world

Implementation of Chad's NDP is based on a total financing need of \$30 billion. The private sector's contribution accounts for 46% of this total. By November 2025, the country had secured financing commitments worth \$20.5 billion from private and international investment sources (\$16.4 billion) and 40 signed agreements and memorandums of understanding (\$4.1 billion).

In the face of global fragmentation, the country is diversifying its funding sources, including South–South and Middle East partnerships, through a diplomatic initiative that has strengthened ties with the United Arab Emirates and the Islamic Development Bank, multilateral support through the Islamic Development Bank, the International Monetary Fund, and the World Bank, which are assisting the country in creating favorable fiscal conditions, and initiatives with the Green Climate Fund aimed at mobilizing the private sector for resilient development.

The country aims to pursue three key priorities: attracting more private capital, particularly in the form of equity; diversifying public financing, with a focus on concessionary resources; and maintaining fiscal sustainability with moderate debt at 32% of GDP by the end of 2024. To improve domestic resource mobilization, Chad is implementing significant reforms to broaden the tax base, especially outside the oil sector, and improve tax collection (through digitization and digitalization). Efforts are also focused on attracting private investment, which remains a major challenge.



Source: Data are as of March 2026 and are from domestic authorities; figures for 2025 are estimates and figures for 2026 and 2027 are projections by the African Economic Outlook team.

Democratic Republic of Congo

Recent macroeconomic developments

In 2025, against a backdrop of conflict in the eastern part of the Democratic Republic of Congo real GDP growth slowed to 5.5% from 6.1% in 2024. This was due to decline in the extractive sector, viewed as the engine of growth, to 8.2% from 11.9% in 2024. On the demand side, growth was driven by exports and investment. Inflation fell to 8.0% in 2025, down from 17.7% in 2024, due to prudent monetary policy: maintaining a high policy rate (albeit reduced from 25.0% to 17.5%) and a reserve requirement ratio of 12%, stabilization and nominal appreciation of the Congolese franc, and a decline in food prices. The budget deficit rose to 2.6% of GDP, from 2.1% in 2024, due to increased security spending. Public debt remained sustainable, estimated at 18.1% of GDP, compared with 20.9% in 2024. The current account deficit continued to improve, narrowing from 4.1% of GDP in 2024 to 3.3% in 2025, due to strong performance in mining exports and reserves (equal to 3 months of imports). The financial sector continued to support the economy in 2025, with a 20% increase in lending to the economy and improved asset quality; non-performing loans were 5.2%, compared with 6.0% in 2024.

Social developments

Per capita growth declined from 2.7% in 2024 to 2.1% in 2025, with weak job creation leading to endemic unemployment. Some 67% of the population lives in extreme poverty. Furthermore, growth is noninclusive, with a high Gini coefficient (approaching 0.5 in 2024). Security spending crowds out social spending, and the deterioration of the security situation triggers humanitarian displacement, exacerbating the vulnerability of the population.

Outlook and risks

Growth is expected to exceed 5% in 2026–27, driven by continued development in the mining sector, investment in nonextractive activities, and the deepening of reform. Inflation is expected to remain under control (6.5% in 2026–27), in line with prudent monetary management. The priority given to strengthening domestic revenue mobilization and improving spending efficiency should help reduce the budget deficit.

The current account deficit is expected to continue declining, moving from 3.3% to 2.9% in 2026, the result

of an improved trade surplus, driven by mineral exports, and lower oil product prices. The current account deficit should be financed primarily by foreign direct investment, concessionary financing, and support from multilateral partners.

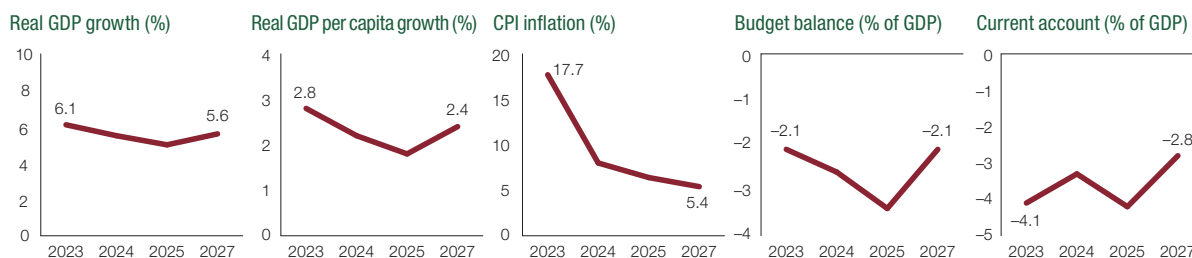
Risks related to resource mobilization for implementation of the country's development program primarily concern deterioration in the security situation, increased volatility in commodity prices, and the accelerating loss of foreign aid. Significant and sustainable improvement in security conditions within the framework of ongoing discussions, coupled with expedited structural and governance reform, should strengthen investment, economic diversification, and productivity gains.

Mobilizing development financing at scale in a fragmented world

Development financing remains a major constraint, with a 2025 tax burden of 13.5% due to a narrow tax base, pervasive informality, and limited financial inclusion. Addressing this requires continued broadening of the tax base, streamlining tax exemptions, strengthening tax and customs administration, and substantially improving governance.

In a more fragmented, international financial environment, and with estimated annual financing needs of \$16.7 billion through 2030, external financing remains important but is becoming more volatile, more selective, and more costly. Multilateral concessionary financing will need to be complemented by other sources of financing, through deeper partnerships with regional and multilateral development banks, mobilization of financial markets and insurance, and increased mobilization of climate finance. All of these will depend on tangible progress in governance, transparency, legal certainty, and effective risk-sharing mechanisms.

Three priorities emerge: strengthening implementation of programs and projects to improve resource absorption, further digitizing domestic revenue collection and spending management, and strengthening the regulatory framework for economic financing instruments (creation of the Caisse des Dépôts et Consignations and the Development Bank, deepening the bond market and establishing a capital market, and establishing a sustainable finance framework).



Source: Data are as of March 2026 and are from domestic authorities; figures for 2025 are estimates and figures for 2026 and 2027 are projections by the African Economic Outlook team.

Republic of Congo

Recent macroeconomic developments

Economic recovery is gradually gaining momentum, with 2025 growth estimated at 3.1%, up from 2.6% in 2024 and 2.0% in 2023. Growth has been driven by the primary sector (up 3.7%) in the revitalization of the agricultural sector bolstered by Protected Agricultural Zones. On the demand side, net exports have been the primary drivers of growth. In 2025, inflation edged down to 2.7% from 3.1% in 2024. This was due to the restrictive monetary policy of the Central Bank, which raised the key interest rate to 4.75%, and to strong performance in the agricultural sector. The country is struggling to maintain its fiscal consolidation policy: the budget surplus fell from 2.9% of GDP in 2024 to 1.4% in 2025, due to the effect of falling oil prices on oil revenue. Public debt is in a downward trend, falling from 102% of GDP in 2023 to 97% in 2025, but the country remains heavily indebted. Debt service remains over 85% of government revenue, exacerbating cash flow pressures and significantly reducing fiscal space. The decline in oil prices in 2025 led to a current account deficit (–1.1% of GDP) for the first time since 2020. Hydrocarbons account for more than 90% of exports, thereby heightening vulnerability to oil price shocks.

Social developments

The Republic of Congo needs stronger and more inclusive growth to reduce the poverty rate, estimated at 46.8% in 2023. Excessive debt is crowding out social spending, and this is likely to worsen with the reduction in official development assistance. The country ranked 138 out of 193 on the 2025 Human Development Index. The unemployment rate remains high (19.8% in 2024), particularly among young people, 41% of whom are looking for work.

Outlook and risks

The economic outlook is favorable, with stronger growth projected in 2026 (3.3%) and 2027 (3.4%) because of soaring oil prices and the expected strong performance of the hydrocarbons sector, specifically with rising gas exports. Inflation is projected to increase to around 3.4% in 2026 and 2027, due to imported

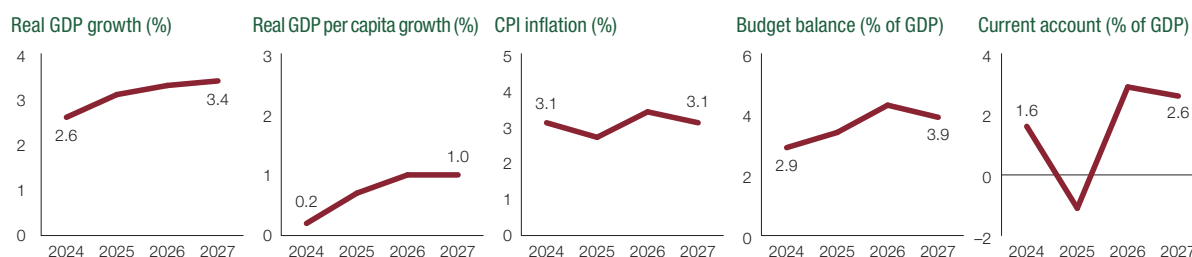
inflation resulting from the Middle East conflict. The country is expected to maintain its fiscal consolidation policy, which should result in a budget surplus of over 4% of GDP in 2026–27, due to revenue mobilization efforts aimed at restoring fiscal balance. These efforts will help reduce public debt, which is projected to fall to 85% of GDP in 2027. A return to a current account surplus of 2.9% of GDP is projected for 2026, due to the startup of new oil fields. This economic outlook remains subject to several major risks, including the country's heavy dependence on hydrocarbons, persistent geopolitical tensions, and adverse weather conditions.

Mobilizing development financing at scale in a fragmented world

The mobilization of external financing is hampered by high public debt and dependence on hydrocarbons. Capital mobilization efforts must therefore prioritize nonhydrocarbon revenue (accounting for only 12% of GDP). Moreover, rationalizing spending (particularly debt service, which absorbs 85% of revenue) is essential for macroeconomic stability, a prerequisite for mobilizing capital to accelerate diversification and reduce vulnerability to shocks.

Domestically, the country is highly active in the regional financial market due to the massive issuance of treasury securities. Outstanding treasury securities accounted for 30% of GDP in 2024, with interest rates reaching 11%, further exacerbating the debt burden. However, the country has significant potential to become a hub for the issuance of thematic securities (green and blue bonds). As a key player in the Congo Basin, it can monetize its ecosystem services, structuring financial products backed by forest conservation, to reduce dependence on external financing.

To mobilize resources commensurate with the country's ambitions, actions are proposed to accelerate digitization of tax administration to increase domestic revenue, restructure domestic debt to restore liquidity in the banking sector and stimulate lending to the private sector, and highlight the law governing public–private partnerships to attract more foreign direct investment outside the extractive sector.



Source: Data are as of March 2026 and are from domestic authorities; figures for 2025 are estimates and figures for 2026 and 2027 are projections by the African Economic Outlook team.

Equatorial Guinea

Recent macroeconomic developments

In 2025, the economy contracted by 6.0%, following 0.9% growth in 2024. On the supply side, this was due to a 16.8% decline in oil production caused by temporary production shutdowns, aging fields, and lack of new production sites. The nonoil sector remained dynamic, with growth of 2.3% in 2025. On the demand side, the economy was affected by a decline in exports and investment. Inflation fell to 3.1% from 3.4% in 2024, as pressure from international food prices and supply chains eased. The budget deficit widened to 2.1% of GDP, increasing from 0.6% in 2024, due to declining oil revenue and limited capacity to adjust spending. Public debt in 2025 was estimated to be 37% of GDP; although sustainable, it remains vulnerable due to declining hydrocarbon revenue. The current account deficit grew to 1.9% of GDP from 0.7% in 2024, due to weak hydrocarbon exports and rising imports. On the financial front, the non-performing loan ratio remained high at 30.0%, compared with 32.5% in 2023.

Social developments

Per capita GDP continued to decline in 2025 (down 4%) as poverty remained high (50.7% in 2024), with the number of people living in extreme poverty estimated at 8%. Authorities have taken measures to increase public spending in the health and education sectors. The 2025 Human Development Index value (0.674) reflected significant inequalities driven by high unemployment (8.3%).

Outlook and risks

The economic outlook is unfavorable for 2026, with the economy projected to contract by 1.7%. This is driven by ongoing contraction in hydrocarbons (down 2.6%), despite stronger performance in nonextractive activities (up 2.9%) led by fisheries and construction. In 2027, the economy is expected to contract further, by 1.4%, still linked to the decline in oil production. Inflation is expected to decline gradually from 3.1% in 2026 to 2.9% in 2027. The budget deficit is projected to widen from 2.1% of GDP in 2025 to 2.4% in 2026, due to declining oil revenue. The situation is projected to worsen in 2027, with a budget deficit of 3.4% of GDP. The current account deficit is also expected to widen,

reaching 2.4% of GDP in 2026, despite rising oil prices, and 3.3% in 2027.

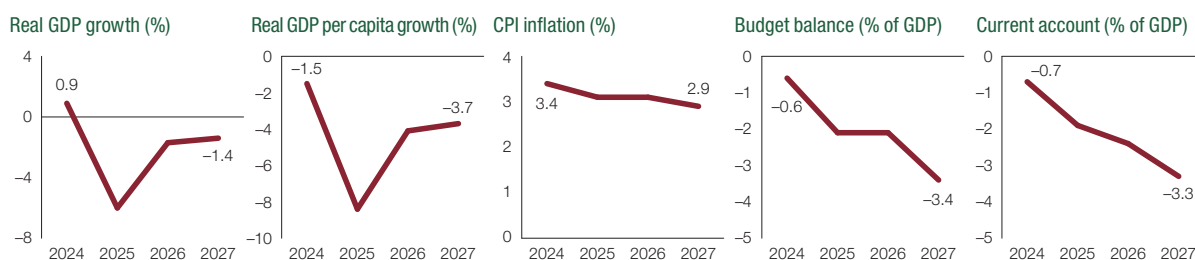
These projections remain subject to major risks related to a decline in hydrocarbon production and delays in implementing nonhydrocarbon reforms. The discovery or exploitation of new hydrocarbon resources, rigorous implementation of structural reforms, and rising hydrocarbon prices amid the intensifying Middle East conflict would improve the outlook.

Mobilizing development financing at scale in a fragmented world

Mobilizing long-term financing is a major challenge. Approximately 80% of government revenue and 95% of exports come from the hydrocarbon sector, making government revenue highly volatile. The low nonhydrocarbon tax burden (3.7% of GDP in 2025) and recurring deficits limit fiscal margins and predictability, restricting the government's ability to sustainably finance public investment. Furthermore, the limited depth of the financial system and poor access to capital markets hinder mobilization of domestic private resources. Compounding these issues, an unfavorable business climate and the perception that the country is high risk are reducing its attractiveness to investors and increasing the cost of external financing.

The financial system remains weakened by the banking sector's undercapitalization and the low level of financial inclusion (0.122 between 2017 and 2021). The development of financial infrastructure (modern payment systems, capital markets, risk-hedging instruments) would improve intermediation and access to credit. Cooperation with international financial institutions should be strengthened, including providing partial guarantees to facilitate access to affordable external financing.

To mobilize more financing, the country should strengthen its macroeconomic framework and financial governance to gain investor confidence, strengthen capitalization of financial institutions and use innovative financial instruments (green and blue bonds) to diversify sources of finance, upgrade existing infrastructure with concessions and public-private partnerships, and expedite implementation of planned reform in the new tax law to broaden the tax base.



Source: Data are as of March 2026 and are from domestic authorities; figures for 2025 are estimates and figures for 2026 and 2027 are projections by the African Economic Outlook team.

Gabon

Recent macroeconomic developments

Economic growth slowed to 2.7% in 2025 from 3.4% in 2024, due mainly to contractions in oil production (down 2.9%), mining (down 2.1%), timber (down 23.7%), and transportation (down 3.5%). However, the decline was partly offset by greater production in construction and public works (up 25.4%), other manufacturing industries (up 8.8%), and services (up 4.4%), and by recovery in total consumption and public investment. Inflation remained contained at 1.8%, compared with 1.2% in 2024, due to measures in support of purchasing power. The Bank of Central African States's moderate easing of monetary policy had a limited impact, although it fostered expansion of loans to the economy, particularly to the government (up 116.9%). This trend increased the exposure of banks to sovereign risk amid a rise in non-performing loans (from 9.28% to 9.86%). The budget deficit widened to 5.3% of GDP from 3.8% in 2024, under the combined effect of expansionary policy and high debt burden, bringing debt to 78.9% of GDP and leading to a further downgrade of Gabon's sovereign rating in December 2025. The current account balance shifted from a surplus of 3.4% of GDP to a deficit of 1.5% of GDP despite a decline in imports (down 5.6%), due to the disproportionately greater decrease in exports (down 20.7%), combined with structurally high deficits in the services and income balances.

Social developments

The poverty rate has stagnated, rising from 32.8% in 2024 to 33.1% in 2025 against a backdrop of weak growth in GDP per capita (0.6% in 2025, compared with 1.2% in 2024). The unemployment rate also remains high (20.2% in 2025), particularly among young people (36.3%) and women (28.6%).

Outlook and risks

Gabon's economy is expected to experience moderate recovery, with growth projected at 3.0% in 2026 and 3.1% in 2027, driven by consolidation of construction, agriculture (palm oil, poultry farming), industry (agrifood and manufacturing), and services. On the demand side, economic activity is expected to be stimulated by public and private investment and rising total consumption. Creation of a central purchasing agency would help keep inflation at 3.1% in 2026 and 2.3% in 2027 by reducing speculation on imported goods. The budget deficit is expected to widen further, due to current and investment spending, despite the rise in nonoil revenue.

The current account balance is projected to improve to a surplus of 1.1% of GDP in 2026, before contracting to a deficit of 2.4% of GDP in 2027.

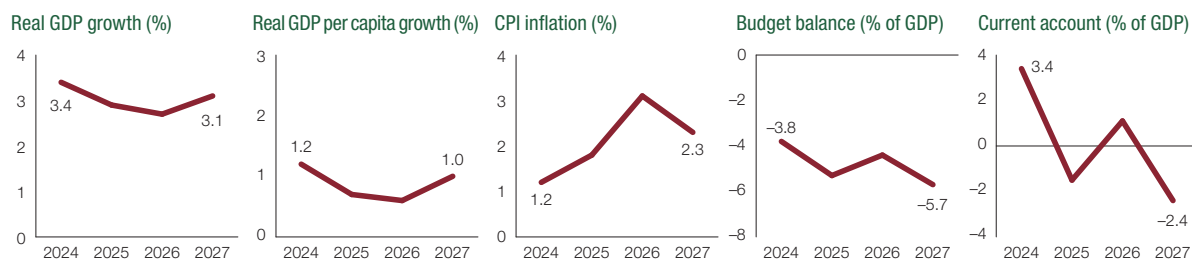
These prospects remain vulnerable to deteriorating social conditions in sensitive sectors (education, health, oil); worsening fiscal pressures; shifts in global demand and commodity prices, linked to geopolitical tensions; and climate shocks. The government's commitment to social dialogue, macroeconomic reforms, and diversification should help mitigate these risks and consolidate the recovery.

Mobilizing development financing at scale in a fragmented world

Persistent fiscal tensions and imbalances have contributed to the deterioration of the debt profile, thus limiting capacity to mobilize resources by restricting access to international and regional financial markets, narrowing borrowing margins, and weakening attractiveness to private capital. Sharp expansion in public spending has undermined recent efforts to mobilize domestic resources (digitalization, electronic invoicing, property taxes, and green taxes), which remain constrained by shortcomings in governance, the prevalence of the informal economy, and the level of fiscal spending (3.2% of GDP in 2024)—thereby facilitating fraud and illicit financial flows.

The financial system remains shallow, with an embryonic regional financial market and a banking sector that lacks long-term resources (accounting for 1% of loans in 2025), maintaining high interest rates (16.5% in the first quarter of 2025). The Caisse des Dépôts et Consignations and the Gabonese Strategic Investment Fund are playing an increasingly important role but still have limited capacity, and the coexistence of several sector funds reduces overall coherence.

To mobilize resources on a large scale, Gabon will need to accelerate economic and financial reforms to restore macroeconomic balances and improve perceived risk, organize a donor roundtable to finance the National Growth and Development Plan 2026–2030, involving nontraditional partners and using alternative and innovative instruments (public–private partnerships, guarantees, credit lines, green and blue bonds, carbon credits), accelerate digitalization to strengthen domestic resource mobilization and investment efficiency, and combat the informal economy, fraud, and illicit financial flows, and strengthen the financial system.



Source: Data are as of March 2026 and are from domestic authorities; figures for 2025 are estimates and figures for 2026 and 2027 are projections by the African Economic Outlook team.

EAST AFRICA

Burundi

Recent macroeconomic developments

In 2025, Burundi's estimated economic growth reached 4.6%, up from 4.1% in 2024, despite persistent shortages of fuel and foreign currency shortages. On the supply side, the main drivers of growth were mining, supported by favorable prices; electricity production, with the commissioning of new dams; and services (public administration, banking, and insurance). On the demand side, growth was driven by public investment. Despite restrictive monetary policy, inflation rose to 34% in 2025, mainly driven by the monetization of the budget deficit. However, this was reduced from 4.7% of GDP in 2024 to 3.9% in 2025, due to greater total revenue (up 42.1%). Public debt remains sustainable, estimated at 45.5% of GDP at end-2025, compared with 52% at end-2024, although the International Monetary Fund has flagged a high risk of overindebtedness. The current account deficit narrowed from 8.7% of GDP in 2024 to 7.7% of GDP in 2025, owing to a reduction in the trade deficit. Official foreign exchange reserves rose to 2.06 months of imports in 2025 from 1.6 months in 2024, but this is still far from the standard of 4.5 months required by the East African Community. Financial sector performance remains fragile, marked by an increase in loans to the economy (up 25.4%) and in non-performing loans (up 14.3%) in 2025.

Social developments

In 2025, extreme poverty remained widespread, with 76% of the population living on less than \$1.90 a day. This is the result of weak economic growth, high inflation, and the arrival in 2025 of 142,000 Congolese refugees fleeing insecurity in the eastern Democratic Republic of Congo. With the support of technical and financial partners, the government is implementing social and humanitarian programs to support the most vulnerable.

Outlook and risks

The economic outlook remains fragile, with real GDP growth projected at 4.3% in 2026 and 4.6% in 2027, driven by agriculture, mining, electricity generation, construction, public investment, and public consumption. Inflation is expected to decline to 22.1% in 2026 and further to 13.7% in 2027, due to reduced monetization of the budget deficit. The public deficit is projected to narrow to 3.6% of GDP in 2026 and to 3.1% in 2027,

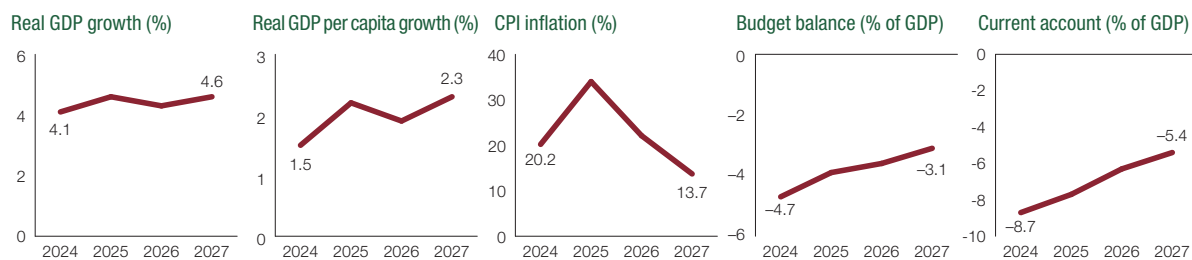
supported by greater digitalization of revenue and better control of current spending. The current account deficit is projected to improve to 6.3% of GDP in 2026 and to 5.4% in 2027, driven by growth in gold and coffee exports. However, these prospects remain vulnerable to worsening insecurity in eastern Democratic Republic of Congo, disruptions in global supply chains, a decline in foreign aid, falling global prices for coffee and gold, and climate-related risks. Continuing reforms under the 2025–2027 Macroeconomic Stabilization Program and mediation efforts in the Congolese crisis would help mitigate these risks.

Mobilizing development financing at scale in a fragmented world

With access to concessionary resources only, Burundi has limited resources to finance Vision 2025, “Burundi, emerging country by 2040 and developed country by 2060.” Its fiscal space is narrow, with a 2025 tax burden of 13.6%, exacerbated by an informal sector that accounts for approximately 40% of GDP. Capital markets and governance remain fragile. In this context, public–private partnerships, remittances from the diaspora, and innovative financing are key levers to be activated with support from principal partners, including the World Bank.

There is not a sufficiently robust and integrated national financial system to support Burundi's development. Banks account for 80% of the financial sector. The Burundi Stock Exchange began operations officially in December 2025 and currently focuses on trading debt securities, especially treasury bonds. Moreover, in 2024 only 19.7% of the population had a bank account or an account with a microfinance institution. Revitalizing the stock market and strengthening financial inclusion through implementation of the 2026–2030 National Financial Inclusion Strategy is critical.

To mobilize large-scale financing, the government should accelerate implementation of the 2025–2027 Medium-Term Fiscal Strategy reforms intended to improve tax revenue collection, enhance public spending efficiency, combat fraud, strengthen governance, and fight corruption, and should develop blended finance (guarantee instruments, in particular) to attract more private capital on favorable terms to put toward the energy and infrastructure sectors.



Source: Data are as of March 2026 and are from domestic authorities; figures for 2025 are estimates and figures for 2026 and 2027 are projections by the African Economic Outlook team.

Comoros

Recent macroeconomic developments

In 2025, the economy remained centered on the services sector, accounting for nearly 50% of GDP; agriculture accounted for approximately 35%. Real GDP growth increased from 3.3% in 2024 to 3.8%. On the supply side, this was due to increased agricultural production and strong performance in services and construction. On the demand side, the primary drivers of growth were private consumption and public investment. The Central Bank maintained its restrictive monetary policy initiated in 2023 to anchor disinflation. Combined with falling food and energy prices, this brought inflation down to 3.5% in 2025 from 5.0% in 2024. On the fiscal front, the deficit narrowed to 2.3% of GDP from 3.3% in 2024, reflecting both improved revenue collection and tighter control over public spending. The deficit was financed primarily from external support. Public debt in 2025 was projected to decline to 32.9% of GDP from 35.1% in 2024. Nevertheless, there is high risk of overindebtedness due to structural revenue weakness and external vulnerability. The external position remains resilient despite the widening of the current account deficit from 2.3% of GDP in 2024 to 3.0% in 2025, which was driven by imports rising faster than exports.

Social developments

The social impact of economic growth remains limited, with the poverty rate estimated at 38.4%, the unemployment rate at 6.5%, and persistent underemployment. There is marked income inequality in Comoros (Gini coefficient below 0.45); the country ranks 152 out of 193 on the 2025 Human Development Index and has an infant mortality rate of approximately 43 deaths per 1,000 births.

Outlook and risks

The economic outlook remains favorable, with growth projected at 3.4% in 2026 and 4.0% in 2027, driven by investment and the 2027 Indian Ocean Island Games. On the supply side, activity is expected to be supported by agricultural expansion, a dynamic construction sector, and resilience in the services sector. On the demand side, growth is expected to be driven by rising investment and improved private consumption. However, these prospects are subject to significant downside risks. Escalation of the Middle East conflict and disruption of the Strait of Hormuz are major

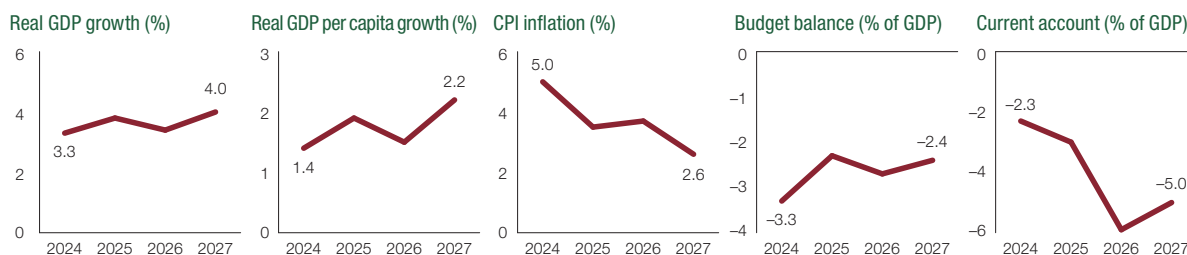
external shocks. For Comoros, an island economy that is a net energy importer, these crises translate into soaring hydrocarbon and fertilizer prices, higher freight costs, and imported inflation that will widen the current account deficit. Climate-related uncertainties and the global economic slowdown are additional factors. On the fiscal front, consolidation is expected to continue, supported by reforms aimed at increasing tax revenue. The current account deficit is projected to widen under pressure from energy imports, although foreign exchange reserves are expected to strengthen. Social conditions are expected to improve gradually with stronger growth and reform.

Mobilizing development financing at scale in a fragmented world

The mobilization of financing for development remains inadequate, due to weak institutional and governance capacities. Tax revenue accounts for less than 10.0% of GDP, compared with 21.5% in Mauritius and 28.0% in the Seychelles. With a savings rate of 6% of GDP, the bank deposits-to-GDP ratio stands at only 25%, well below that of Mauritius (over 100%) and the Seychelles (75%). External public financing, mostly in the form of grants, remains below 10% of GDP, while foreign direct investment inflows are about 1% of GDP. Remittances from the diaspora remain a key pillar, accounting for nearly 20% of GDP.

Beyond the imperative to strengthen fiscal resource mobilization, Comoros faces the major structural challenge of deepening its financial sector to better channel domestic financing and attract foreign capital. The financial system remains underdeveloped; only 12 institutions are governed by banking law, and there is an absence of organized financial and monetary markets. This limited structure, combined with the sector's fragility, hinders attraction of foreign capital, which is essential for the country's development.

To address these challenges, Comoros must broaden the tax base and modernize the financial sector. It must also diversify its sources of financing by leveraging climate finance, public-private partnerships, and thematic bonds, while maintaining prudent debt management. Strengthening budget transparency is an essential prerequisite for building donor confidence. Finally, micro-finance institutions serve as a strategic lever for financial inclusion and the financing of the informal economy.



Source: Data are as of March 2026 and are from domestic authorities; figures for 2025 are estimates and figures for 2026 and 2027 are projections by the African Economic Outlook team.

Djibouti

Recent macroeconomic developments

In 2025, the economy maintained robust growth, estimated at 6.7%, compared with 6.8% in 2024, amid an uncertain regional context marked by persistent tensions. On the supply side, growth was driven mainly by port and logistics activities, telecommunications, energy, trade, and public works, despite the decline in containerized traffic. On the demand side, activity was driven by domestic consumption, exports, and foreign investment. Inflation fell sharply, to -0.3% from 2.1% in 2024, as international energy and food prices fell. On the fiscal front, consolidation of public finances continued. The overall budget balance turned into a slight surplus of 0.1% of GDP in 2025, compared with a deficit of 2.5% of GDP in 2024. This was due to increased tax revenue (up 0.2% of GDP) and nontax revenue (up 0.8%) and better control of current spending. Despite a decline in public debt from 69.6% in 2024 to 64.0% in 2025, the country has remained in excessive debt. The current account surplus strengthened to 16.8% of GDP in 2025, reflecting strong export performance. Fiscal consolidation helped bolster official reserves, estimated at 2.6 months of imports. The financial sector remained solid and well-capitalized, with a low non-performing loans ratio (2.7%), though access to credit was limited.

Social developments

Growth has led to a slight decline in poverty, estimated at 33.8% in 2025, and a modest improvement on the 2025 Human Development Index (0.513). However, social inequality has remained high (the 2017 Gini coefficient was 0.416); unemployment has also remained structurally high, particularly among young people (73% in 2017). The government increased cash transfers to vulnerable households and maintained targeted subsidies for food and fuel to mitigate social inequalities.

Outlook and risks

The macroeconomic outlook remains generally favorable, with projected growth of 6.5% in 2026 and 6.8% in 2027, supported by continued investment in infrastructure and the services sector. Inflation is expected to jump to 2.4% in 2026 but then return to 1.7% in 2027, which depends on international prices. The fiscal position is expected to deteriorate, with a deficit of 1.9% of GDP in 2026 and 1.0% in 2027. The current account surplus is expected to narrow to 14.1% of GDP in 2026

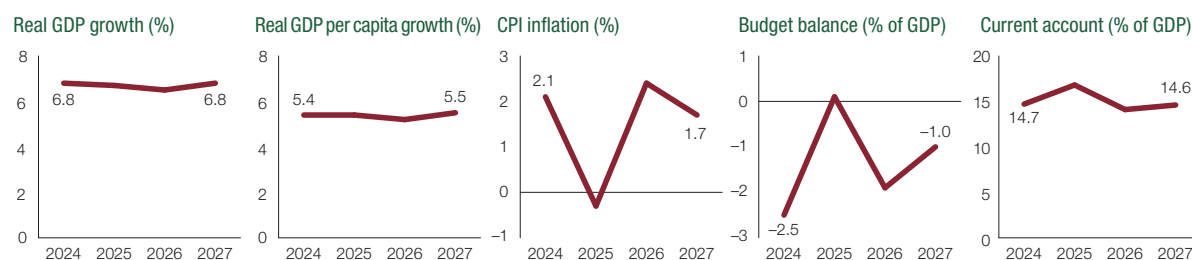
and rise to 14.6% in 2027, driven by higher investment-related imports. Downside risks have intensified amid the Middle East conflict and persistent tensions in the Red Sea. Should these disruptions continue, maritime traffic will be affected, logistics costs will increase, and port revenue will fall, directly impacting growth and external balances. Added to this are risks related to Ethiopian trade shifting toward competing ports, climate shocks, and volatile external financing. Strengthening resilience requires economic diversification, improved competitiveness in logistics, and prudent debt management.

Mobilizing development financing at scale in a fragmented world

Mobilization of large-scale financing remains limited due to a narrow tax base (11.2% of GDP), a large informal sector (60% of GDP), heavy reliance on external financing, and fiscal space constrained by debt. The growing fragmentation of trade and financial flows exacerbates these vulnerabilities because of increased capital volatility and the selectivity of concessionary financing. Domestic priorities to address these challenges include broadening the tax base, improving efficiency in public spending, and reforming state-owned enterprises. Externally, diversifying partners, strengthening public-private partnerships, and mobilizing the diaspora are the key levers.

Developing an integrated national financial system requires addressing several structural constraints. The absence of a domestic financial market limits mobilization of local savings and private sector financing. Limited access to long-term financing and the high cost of capital hinder productive investment. Moreover, global financial fragmentation and the requirements of sovereign ratings make access to external resources more costly and more complex. Reforms are needed to strengthen financial supervision, improve debt management, and combat illicit financial flows.

Three priority actions can catalyze large-scale development financing in Djibouti: sustainably broadening the tax base, modernizing the tax administration, and improving the efficiency of public spending to create additional fiscal space, strengthening public-private partnerships, particularly in the logistics, energy, and climate adaptation sectors, further mobilizing diaspora savings and green financing to support productive, sustainable, and resilient infrastructure.



Source: Data are as of March 2026 and are from domestic authorities; figures for 2025 are estimates and figures for 2026 and 2027 are projections by the African Economic Outlook team.

Eritrea

Recent macroeconomic developments

Economic growth improved from 2.9% in 2024 to 3.2% in 2025, driven by mining and services, alongside household consumption and public spending. Monetary policy remained tight, reflecting administrative controls. Inflation eased from 7.5% to 5.3%, supported by improved domestic supply and lower imported inflation. The exchange rate remains fixed at 15 Nakfa per US dollar. Fiscal discipline kept the deficit at 2.5% of GDP in both years, while external debt averaged 36.1% of GDP over the past decade, with low debt service due to concessional borrowing. The most recent Debt Sustainability Analysis (2019) is not publicly available, underscoring data and transparency gaps. The external position remains strong, with current account surpluses of 12.4% of GDP in 2024 and 13.2% in 2025, supported by mineral exports and stable imports. The financial sector remains narrow and state-dominated, limiting intermediation and private sector credit, and constraining investment-led growth

Social developments

With an estimated 53–60% of the population in poverty, income inequality remains low but reflects widespread shared poverty. Youth unemployment declined to about 9.4% in 2024 from over 11% in 2020. Advancing human development requires human capital investment, labor market reforms, and stronger linkages, including mining and broader economy.

Outlook and risks

The economic outlook remains positive, with real GDP growth projected at 2.8% in 2026 and 3.2% in 2027, driven by mining and services on the supply side and private consumption and investment on the demand side. Inflation is expected to ease to 5.1% in 2026 and 4.9% in 2027, reflecting improved food availability following favorable harvests and continued price stability under tight monetary conditions. The fiscal deficit is projected to widen to 3.3% in 2026 before narrowing to

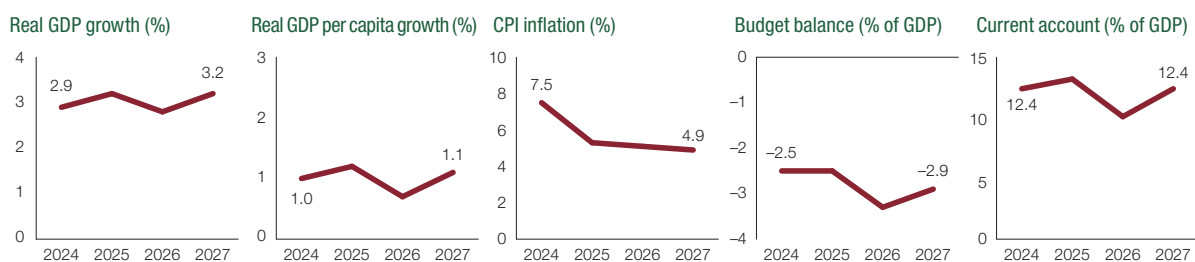
2.9% in 2027, reflecting fiscal pressures alongside gradual consolidation. The operations at Sheba Mine are expected to moderate to 10.1% of GDP in 2026 before strengthening to 12.4% in 2027, supported by mining exports, including higher gold output. Downside risks include commodity price volatility and regional tensions, while stronger gold prices present an upside for export earnings and fiscal revenue.

Mobilizing development financing at scale in a fragmented world

Capacity to mobilize large-scale development finance is constrained by limited private sector participation and weak domestic resource mobilization, reflecting a narrow economic base, limited financial intermediation, and institutional capacity gaps. Addressing these constraints requires broadening the tax base, expanding financial inclusion, and strengthening the regulatory environment to attract domestic, diaspora, and foreign investment. The informal economy, estimated at 58% of employment, further limits effective taxation. Expanding fiscal space will require a gradual, incentive-based approach to formalization, including simplified business registration, licensing, and presumptive tax regimes for micro and small enterprises, linked to improved access to finance and markets.

Eritrea can benefit from an integrated financial system through a gradual, well-sequenced expansion of private sector participation. Modernizing the financial and banking system, alongside digital payment platforms, can strengthen intermediation, mobilize domestic savings, and channel resources to productive investment. Engagement with multilateral development banks and participation in frameworks such as the African Continental Free Trade Area can support risk mitigation and unlock blended finance.

Three priority actions stand out: strengthen mining revenue stabilization and transparency frameworks, modernize the financial sector to expand domestic savings mobilization, and leverage infrastructure financing.



Source: Data are as of March 2026 and are from domestic authorities; figures for 2025 are estimates and figures for 2026 and 2027 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 developments

The economy maintained strong momentum, growing by 7.6% in 2023/24 and 9.8% in 2024/25, supported by improved agricultural productivity and expansion in construction and mining on the supply side. Demand-side growth was driven by household consumption and import compression. However, about 80% of the workforce is still engaged in low-productivity agriculture and informal services. Monetary policy remained tight, with the policy rate between 15–17% to curb inflation. Inflation, while still elevated, declined from 26.6% in 2023/24 to 15.8% in 2024/25, driven by exchange rate market liberalization and persistent supply bottlenecks. Fiscal consolidation efforts slightly reduced the fiscal deficit from 2.0% of GDP in 2023/24 to 1.7% in 2024/25. Vulnerabilities persist due to a very low tax-to-GDP ratio (7.3%) and high social spending needs. Public debt was 42.8% of GDP, while external debt reached 220% of exports in 2025. The current account deficit narrowed from 2.9% of GDP to 0.2% , supported by higher export revenue, rising remittances, and favorable terms of trade. Ongoing financial sector reforms include the introduction of a market-based foreign exchange framework, the launch of the Ethiopian Securities Exchange, the entry of foreign banks, and digitalization. Risks remain, including liquidity concentration, rising cyber threats, and a slight increase in non-performing loans from 3.7% to 3.9% of gross loans, above the regulatory target of 5.0%.

Social developments

Ethiopia's poverty rate was 27% in 2024, the Gini coefficient reached 0.455, unemployment was at 8% (with 27.2% youth unemployment), and the 2025 Human Development Index value remained low at 0.497 due to multiple, interconnected structural and socioeconomic factors. The government is working to reduce poverty through macroeconomic reforms, expanded social protection, targeted safety nets, and agricultural resilience programs.

Outlook and risks

Ethiopia's economic outlook remains strong, with GDP growth expected at 7.8% in 2025/26 and 8.5% in 2026/27, supported by ongoing reforms to liberalize the economy, expected external debt treatment, renewed external financing, and a reduction in internal conflict. Continued tight monetary policy and exchange rate

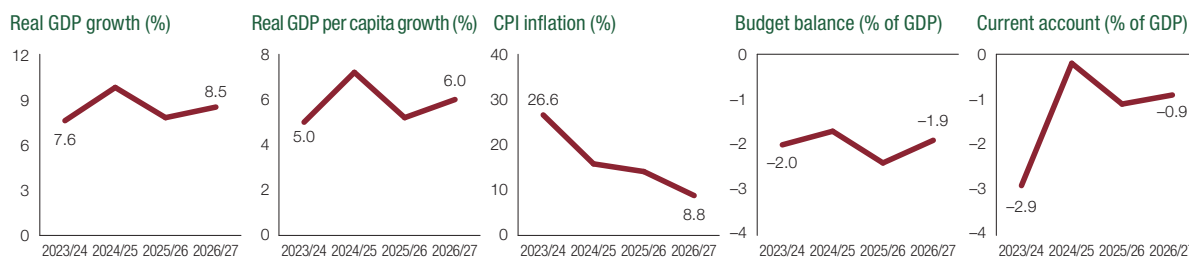
stability are expected to reduce inflation further to 8.8% in 2026/27, while fiscal deficit persists at 2.4% of GDP in 2025/26 and 1.9% in 2026/27, due to social spending pressure. The current account deficit is projected to narrow slightly, from 1.1% of GDP in 2025/26 to 0.9% in 2026/27, driven by fuel and machinery import costs. The main downside risks to the outlook include debt distress situations, inflationary pressures, local and global geopolitical uncertainties, and climate-related shocks. Ethiopia can mitigate these risks by advancing reforms and completing debt restructuring. Enhancing security and strengthening institutions will further support stability, investment, and sustained growth.

Mobilizing development financing at scale in a fragmented world

Ethiopia can benefit from an integrated and inclusive financial system by ensuring macroeconomic stability through further foreign exchange liberalization, sustained implementation of modern monetary policy, and effective debt restructuring. Strengthening regulatory frameworks to global standards is essential for financial stability and competition. Opening the financial sector to foreign banks and advancing capital market development will expand credit and long-term financing. Expanding digital finance and financial inclusion will widen access, while improved governance, state-owned enterprise reform, and deeper global financial integration will boost investor confidence and support sustainable growth.

Ethiopia faces severe financing constraints rooted in weak export performance, unsustainable external debt, and limited domestic revenue. External debt service gobbled up 26.3% of government revenue in 2024/25, while the restrictive Eurobond default in December 2023 underscores acute liquidity pressures. Domestically, constrained fiscal space, chronic foreign exchange shortages, and vulnerabilities within the banking sector further limit the country's ability to mobilize development financing at scale.

To scale up development finance, Ethiopia will require sequenced actions: completing debt treatment, prioritizing concessional finance, and accelerating domestic revenue mobilization, while sustaining foreign exchange and energy reforms. Scaling public-private partnerships in energy, logistics, and digital infrastructure alongside institutional reforms can unlock concessional and private capital, delivering more reliable, lower-cost financing.



Source: Data are as of March 2026 and are from domestic authorities; figures for 2025 are estimates and figures for 2026 and 2027 are projections by the African Economic Outlook team.

Kenya

Recent macroeconomic developments

Economic growth remained resilient in 2025, with real GDP expected to expand by 5.0%, up from 4.7% in 2024, driven by rebounds in industry and services, while weaker agricultural performance moderated the momentum. Private consumption and investment, supported by rising household income and continued fiscal spending on infrastructure and social programs, sustained demand. Inflation declined to 4.1% in 2025 from 4.5% in 2024, reflecting lower food and energy inflation alongside exchange rate stability. To support growth, the monetary policy rate was reduced by 225 basis points to 9.0% by December 2025. Fiscal pressures persisted as the deficit widened to 5.9% of GDP in 2025 from 5.6%, with revenue shortfalls and higher wage costs, and public debt rose to 67% of GDP from 64%. The current account deficit widened to 1.7% of GDP from 1.3%, amid higher imports of intermediate and capital goods. Despite these pressures, the external position strengthened, with reserves rising to \$12 billion (5.4 months of import cover). Financial sector conditions improved, with credit growth rebounding to 6.4%, lending rates declining, and asset quality strengthening.

Social developments

Welfare outcomes remain weak despite modest human development gains. Kenya's Human Development Index value rose to 0.628 in 2023 from 0.598 in 2022, but poverty remains high (39.8%), alongside moderate inequality (Gini coefficient of 0.377) and elevated unemployment (13.9%; youth about 30%). Effective implementation of the Bottom-Up Economic Transformation Agenda could support job creation and inclusive growth.

Outlook and risks

Real GDP growth is projected at 4.6% in 2026 and 4.7% in 2027, supported by resilient services and industry and a gradual agricultural recovery but constrained by elevated oil prices and supply disruptions linked to the Middle East conflict. GDP per capita is expected to follow a similar path. Inflation is projected at 5.4% in 2026, within the Central Bank's 2.5–7.5%

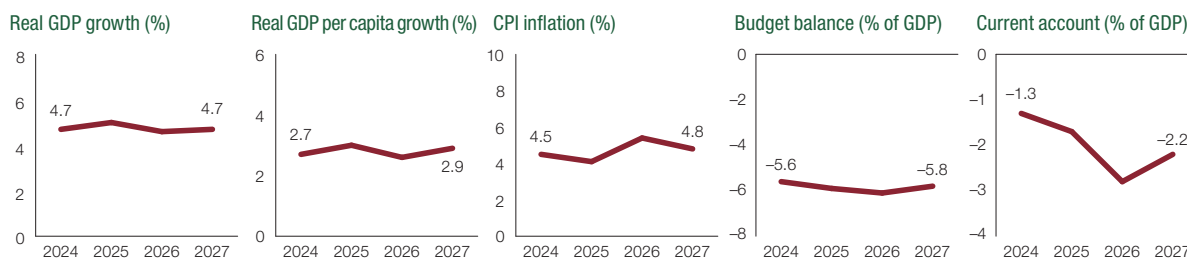
target range. The fiscal deficit is forecast to widen to 6.1% of GDP, exceeding the 4.0% medium-term target, underscoring the need for stronger revenue mobilization and spending discipline to place debt on a sustainable path toward the 55% benchmark by 2028. The current account deficit is projected to widen to 2.8% in 2026 before narrowing to 2.2% in 2027. Downside risks include climate shocks, global volatility, high debt, and political uncertainty ahead of the 2027 elections. Policy priorities include social protection, job creation, sectoral resilience, and fiscal consolidation.

Mobilizing development financing at scale in a fragmented world

Domestically, Kenya's development financing is constrained by low revenue (14.4% of GDP), a large informal sector (82.7% of employment), high debt service, and governance risks. Expanding fiscal space requires sustained reforms in revenue mobilization, public financial management, and investment efficiency. Externally, volatile markets, shifting trade policies, and fragmented finance raise costs and uncertainty. Mobilizing capital at scale will depend on stronger private sector and development partner engagement, alongside innovative financing and better use of remittances and natural capital.

Building an integrated financial system is critical to lower transaction costs, support cross-border capital flows, and expand access to long-term financing. Kenya faces structural constraints, including shallow markets, low capitalization, fragile institutions, and credit rating sensitivities. Targeted reforms in debt management, regulatory oversight, and market development, alongside stronger engagement with international partners, can mobilize private capital, curb illicit financial flows, and strengthen resilience to global financial fragmentation, external shocks, and volatile development finance.

Priority actions include strengthening revenue mobilization and spending efficiency to expand fiscal space; deepening capital markets and scaling diaspora and green bonds to crowd in private capital; and enhancing governance, debt management, and risk-sharing frameworks to support resilient infrastructure and social programs.



Source: Data are as of March 2026 and are from domestic authorities; figures for 2025 are estimates and figures for 2026 and 2027 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 developments

Real GDP growth rose to 9.4% in 2025 from 7.2% in 2024, driven by strong performance in services, construction, manufacturing, and agriculture, with domestic demand and public investment underpinning growth. Inflation increased to 7.2% from 4.7%, reflecting food-price pressures, exchange rate pass-through, and higher import costs. In response, the National Bank of Rwanda raised the policy rate from 6.00% in August 2024 to 6.75% in November 2025. The fiscal deficit narrowed to 5.5% of GDP in 2025 from 6.4% in 2024, supported by spending restraint and revenue reforms, although public debt rose to 75.0% of GDP. The current account deficit widened to 13.1% of GDP from 11.5%, driven by strong import demand. International reserves declined to 3.6 months of imports from 5.2 months in 2024. The financial sector remained stable, with private credit growth at 15.3%, adequate capital buffers, and declining non-performing loans.

Social developments

Poverty declined from 38.2% in 2016/17 to 27.4% in 2024, with extreme poverty falling to 5.4%. These gains reflect sustained investment in social protection, education, health, and rural electrification. Unemployment declined from 16.8% in the second quarter of 2024 to 13.4% in the second quarter of 2025. Persistent skills gaps, modest formal job creation, and rapid population growth constrain inclusive growth.

Outlook and risks

The outlook remains positive but more constrained, as the Middle East conflict and insecurity in the Democratic Republic of Congo weigh on activity. Real GDP growth is projected to slow to 7.0% in 2026 before rising to 7.4% in 2027. Higher oil, fertilizer, and transport costs are expected to sustain inflationary pressures. However, a proactive monetary stance should reduce inflation to 5.6% in 2026 and 4.8% in 2027, within the 2–8% target range.

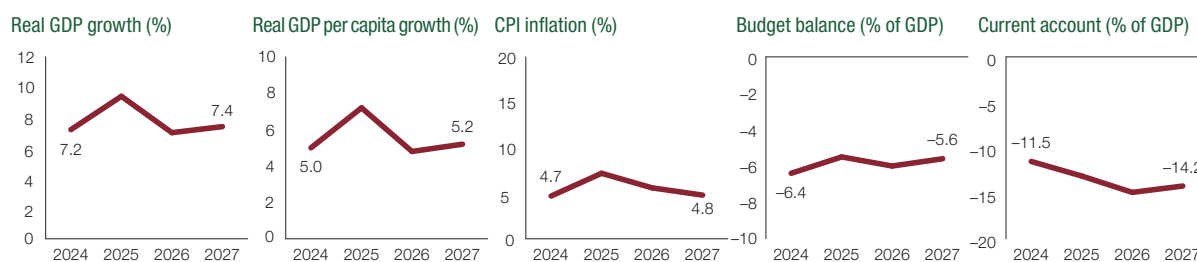
Fiscal and external pressures are expected to persist. The fiscal deficit is projected at 6.0% of GDP in 2026 and 5.6% in 2027, reflecting continued spending on major projects, including Bugesera International Airport. The current account deficit is projected to widen to 14.9% of GDP in 2026 before narrowing to 14.2% in 2027, driven by high import costs and financing needs for strategic investment.

Mobilizing development financing at scale in a fragmented world

Rwanda's capacity to mobilize large-scale finance is tightening as investment needs remain high while fiscal space and concessional flows narrow. Tax revenue reached about 15.5% of GDP in 2025, while grants fell to about 3.1% of GDP, increasing pressure to mobilize domestic resources more effectively. Expanding fiscal space therefore requires stronger tax and nontax revenue collection, better spending efficiency, and tighter control of fiscal risks. Domestically, deeper bond markets, stronger pension and insurance participation, and broader use of guarantees and blended finance can help crowd in long-term capital.

The financial system is constrained by shallow capital markets and rising borrowing costs. Global financial fragmentation has increased risk premiums, limiting access to long-term finance. Priority reforms include deepening domestic bond markets, improving debt management and credit rating performance, enhancing cross-border payment systems, accessing blended finance, and public-private partnership frameworks to crowd in private capital both from corporates and the diaspora.

Rwanda should prioritize strengthening domestic revenue and capital markets through tax base broadening, state-owned enterprise reform, and pension fund participation in infrastructure; scaling public-private partnerships and blended finance; crowding in private capital; and mobilizing green and diaspora finance.



Source: Data are as of March 2026 and are from domestic authorities; figures for 2025 are estimates and figures for 2026 and 2027 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 developments

Real GDP growth rose slightly to 5.9% in 2025 from 3.4% in 2024, supported by modest recovery in tourism earnings on the supply side, while the demand side was supported by household consumption. Inflation averaged 0.5% in 2025, compared with 0.3% in 2024, driven by electricity tariff increases and fluctuations in import prices. In October 2025, the Central Bank of Seychelles maintained the key interest rate at 1.75% (the same since May 2024). The decision was aimed at continuing to support the domestic economy amid ongoing domestic and global economic developments. The fiscal balance fell to a deficit of 0.5% of GDP in 2025 from a surplus of 0.2% in 2024 due to increased public spending in an election year. Public debt increased from 57.3% of GDP in 2023 to 59.6% in 2024, reflecting higher real interest rates, exchange rate depreciation, and a higher stock of government guarantees and is estimated at 53.6% of GDP by end-2025. The current account deficit narrowed to an estimated 4.5% of GDP from 8.1%, while foreign reserves rose to 4.6 months of import cover from 3.8 in 2024. Nonetheless, the financial sector remains stable, well capitalized, and highly liquid.

Social developments

Poverty at \$8.30 a day declined from 8.4% in 2018 to an estimated 7.4% in 2025, supported by strong social protection. However, population aging is increasing pressure on the pension system. Youth account for 30% of the population, with unemployment at 9.7% in the second quarter of 2025, well above the overall rate of 2.3%.

Outlook and risks

Real GDP growth is projected to moderate to 3.1% in 2026 and 3.4% in 2027, supported by continued tourism activity and resilient domestic demand. This reflects a more cautious outlook following recent disruptions related to the Middle East conflict affecting air connectivity and tourism demand, pointing to a moderation after the exceptionally strong tourism outturn in 2025.

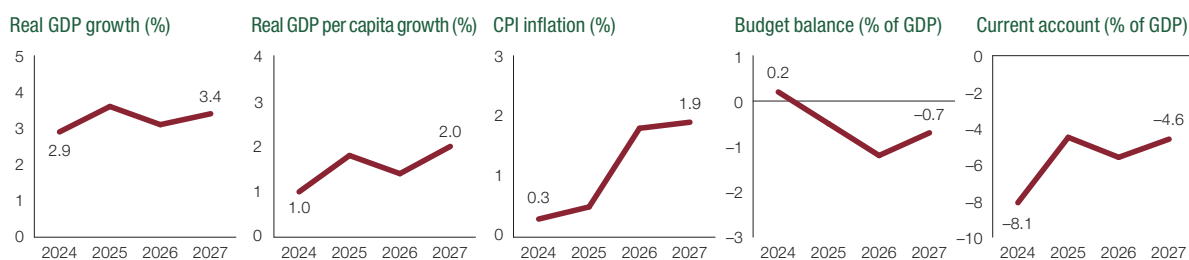
On the demand side, growth is expected to be driven mainly by household consumption and public investment. Inflation is projected to average 1.8% in 2026 and 2.0% in 2027, partly reflecting higher energy tariffs. The fiscal deficit is projected at 1.2% of GDP in 2026 and 1.9% in 2027, while the current account deficit is expected to widen to 5.6% of GDP before narrowing to 4.6% in 2027. Risks remain tilted to the downside, notably from the Middle East conflict, climate shocks, commodity price volatility, and tighter global financing conditions.

Mobilizing development financing at scale in a fragmented world

Seychelles' ability to mobilize large-scale finance is constrained by small size; shallow capital markets, which are at infancy; and higher costs from global financial fragmentation inhibiting borrowing. Expanding fiscal space requires stronger tax and nontax revenue collection, currently supported by strong public finance management reforms. Domestically, deepening financial inclusion and domestic capital markets can crowd in savings.

Enhancing financial inclusion requires a transition to risk-based lending, supported by micro, small, and medium size enterprise credit guarantees, movable-collateral registries, improved credit information, and a broader range of instruments such as leasing and supply chain finance. Strengthening fintech-enabled infrastructure and advisory services will further improve micro, small, and medium size enterprise bankability. Despite the presence of a stock exchange, capital markets remain underdeveloped, requiring reforms to enhance transparency, governance, and investor protection. Seychelles can also expand access to international climate finance by building on its 2018 sovereign Blue Bond.

Seychelles should prioritize strengthening domestic revenue and capital markets through tax base broadening, state-owned enterprise reform, and pension fund participation in infrastructure; scaling public-private partnerships and blended finance; crowding in private capital; and mobilizing green and diaspora finance.



Source: Data are as of March 2026 and are from domestic authorities; figures for 2025 are estimates and figures for 2026 and 2027 are projections by the African Economic Outlook team.

Somalia

Recent macroeconomic developments

Growth slowed to 3.0% in 2025 from 4.0% in 2024, reflecting adverse weather, including droughts and floods that disrupted agricultural production. Growth was supported by private consumption, remittances, construction, and investment. Inflation eased to 3.8% from 5.5% in 2024, supported by improved global commodity prices and the adoption of the national Consumer Price Index.

The fiscal deficit widened to 0.6% of GDP in 2025 from 0.1% in 2024, despite ongoing consolidation efforts. The current account deficit narrowed to 7.8% of GDP from 9.2%, supported by remittances and export recovery. Public debt declined to 8.9% of GDP in 2025 from 9.2% in 2024 and 7.0% in 2023, reflecting debt relief following the Heavily Indebted Poor Countries Initiative completion point. The country remains at moderate risk of debt distress.

The financial sector remained sound and profitable, with a liquidity ratio of 52%, well above the 20% threshold. Non-performing loans declined to 3.0% from 3.4%, while capital adequacy stood at 16%, above the 12% requirement. Private sector credit grew by 13.1% in 2025, although overall credit conditions remained constrained.

Social developments

Poverty rose sharply to 67.0% in 2024 from 54.4% in 2022, driven by climatic shocks. Despite moderate inequality (Gini coefficient of 0.352 in 2022), youth unemployment (34.3%) remains significantly above the national rate (21.4% in 2025), reflecting skills gaps. Improving social outcomes requires prioritizing vocational education, health care, and infrastructure investment.

Outlook and risks

The economic outlook is positive, but risks remain. Real GDP growth is projected to recover to 3.1% in 2026 and 3.4% in 2027, driven by the agriculture sector on the supply side and household consumption, investment, and government spending on the demand side. Inflation is projected to widen from 3.8% in 2026 to 5.2% in 2027 due to disruption in global fuel and food commodity supply on account of the Middle East conflict. Inflation is projected to ease to 4.1% in 2027. The fiscal

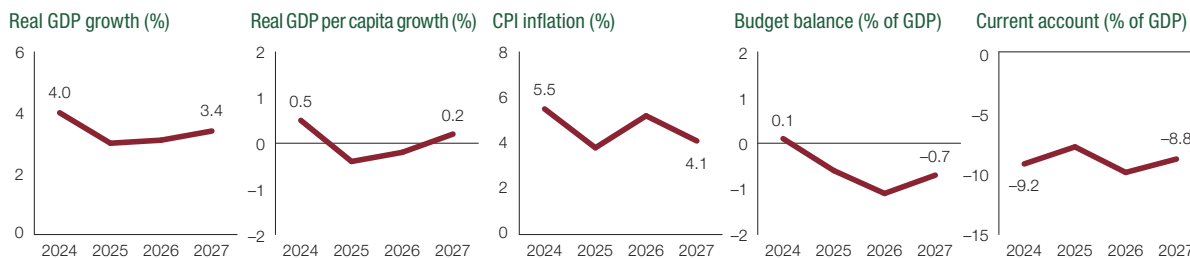
deficit on the other hand is projected to widen to 1.1% of GDP in 2026 and 0.7% in 2027 due to reduced donor grants and spending pressures on security and elections. Risks to the outlook include foreign aid cuts, geopolitical tensions, heightened insecurity ahead of the 2027 presidential elections, climatic shocks, and global trade uncertainties. To mitigate the risks, Somalia needs to scale up domestic revenue and invest in security reforms and climate-resilient infrastructure.

Mobilizing development financing at scale in a fragmented world

Somalia historically faces significant development financing constraints due to poor export performance, weak domestic resource mobilization (with a tax-to-GDP ratio of 2.2% in 2025 attributed to informality), insecurity, fragmented fiscal federalism, inadequate institutional capacity, and a weak integrated financial system. As such, foreign aid is programmed to finance 44.1% of the National Transformation Plan's (2024–2029) \$26.24 billion budget; however, the significant aid cut estimated at 3–4.5% of GDP in 2025 poses a risk to plan implementation.

To build an integrated inclusive financial system that facilitates cross-border capital flows, Somalia should prioritize macroeconomic stability by developing a robust monetary policy, enhance financial infrastructure, and effectively implement the revised anti-money laundering and counterterrorism laws. Re-establishing global correspondent banking will integrate Somalia into the global financial architecture. Furthermore, operationalizing the Medium-Term Debt Strategy 2025 will facilitate access to concessional loans, and leverage climate finance targeting \$1.5 billion in climate finance goals aligned to the 2025 Nationally Determined Contributions.

To scale up development finance, Somalia must enhance its domestic resource mobilization to increase the tax-to-GDP ratio from 3.2% in 2025 to 5.0% in 2030 and concurrently diversify to concessional funding sources. Additionally, critical infrastructure financing can be harnessed through public-private partnership concessions, alongside strengthening institutional frameworks for accessing export-led regional financing.



Source: Data are as of March 2026 and are from domestic authorities; figures for 2025 are estimates and figures for 2026 and 2027 are projections by the African Economic Outlook team.

South Sudan

Recent macroeconomic developments

The economy remains vulnerable due to oil dependence, fragility, and rising humanitarian pressures. Real GDP growth rebounded to 4.0% in 2024/25 from a 27.6% contraction in 2023/24, supported by the resumption of oil exports and improved agricultural output. Oil production increased to 156,000 barrels per day from 61,000. On the demand side, growth was driven by private consumption and oil-related investment. In 2025, inflation declined to 22.2% from 65.5% in 2024, reflecting improved domestic food production and stable food prices in the region. The exchange rate depreciated to SSP4,500 per US dollar from SSP3,900, driven by deficit financing and declining foreign exchange reserves. The fiscal surplus is estimated to have narrowed to 2.0% of GDP in 2024/25 from 5.8% in 2023/24, reflecting tax and customs reforms, improved compliance, and reduced leakages. The current account shifted from a surplus of 3.3% of GDP in 2023/24 to a deficit of 6.5% of GDP in 2024/25, driven by higher imports. The banking sector faced a liquidity crisis from late 2024, as cash hoarding and weak public confidence constrained withdrawals. The central bank reduced the policy rate from 15% to 13% in mid-2025 to ease liquidity pressures, while asset quality improved, with non-performing loans declining from 0.8% in June 2025 to 1.4% in December.

Social developments

Social indicators have deteriorated, with about 92% of the population living below the national poverty line in 2025. Unemployment remains elevated (12.5%), with higher youth unemployment (18.5%). Health outcomes are poor, with high infant mortality. Inequality remains high, while over half the population faces acute food insecurity.

Outlook and risks

The economic outlook is cautiously optimistic due to internal and external risks. Real GDP is projected to expand by 22.0% in 2025/26 and 6.8% in 2026/27, on account of increasing oil exports. Inflation is projected to decline to 21.8% in 2025/26 and 16.8% in 2026/27 as domestic food production improves. The fiscal surplus

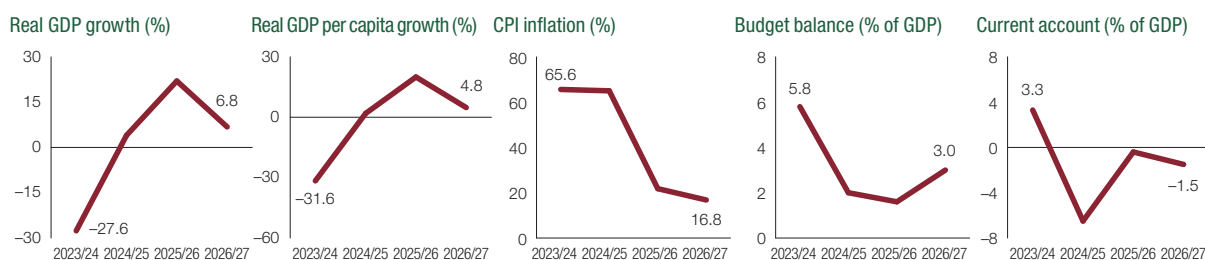
is projected to be 1.6% of GDP in 2025/26 and further improve to 3.0% in 2026/27, due to expected increase in oil revenue. The current account deficit is projected at 0.4% of GDP in 2025/26 and 1.5% in 2026/27, reflecting increase in imports. Key downside risks to growth include the spillover from Sudan conflict and internal political instability, which could disrupt oil exports and slow economic reforms. Cessation of hostilities and inclusive political dialogue are key to restoring stability.

Mobilizing development financing at scale in a fragmented world

The ability to mobilize large-scale development financing is constrained by weak domestic resource mobilization, driven by a large informal economy, limited diversification, and shallow financial markets. Alternative financing instruments, including equity and bond markets and institutional investors, are largely absent, while external financing remains costly. Global financial fragmentation, trade disruptions, and geopolitical tensions have further increased borrowing costs, limited access to capital markets, and heightened uncertainty of external inflows. Persistent macroeconomic instability and political fragility have elevated risk perceptions, discouraging investment and constraining access to long-term capital.

Addressing these constraints requires building an integrated financial system by tackling low market penetration, limited capitalization, and structural barriers. Priority reforms should include strengthening financial regulation and capital market infrastructure, enhancing domestic resource mobilization, improving fiscal discipline and public debt management, and combating illicit financial flows in line with anti-money laundering and counterterrorism standards.

Mobilizing development finance at scale will depend on three high-impact actions: advancing macroeconomic stability and governance reforms, strengthening the financial sector and payment systems, and crowding in private capital through well-structured public-private partnerships, guarantees, and blended finance. These measures would reinforce the financial architecture and enable development finance institutions to scale up support for transformative national programs.



Source: Data are as of March 2026 and are from domestic authorities; figures for 2025 are estimates and figures for 2026 and 2027 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 developments

Real GDP growth rebounded modestly to 1.2% in 2025, following a 13.5% contraction in 2024, supported by improved agricultural output and a gradual recovery in services. On the demand side, relative stability in parts of the country supported a modest pickup in private consumption. The Sudanese pound continued to depreciate sharply, reflecting weak export receipts and strong demand for foreign currency amid ongoing conflict. The fiscal deficit widened to 2.8% of GDP in 2025 from 1.6% in 2024, driven by higher spending and weak revenue performance, leading to continued monetization. Inflation remained elevated at 150.2%, down from 170.1%. The current account deficit widened to 6.0% of GDP from 4.0%, financed mainly by remittances and reserve drawdowns. Foreign exchange reserves remained critically low at \$1.17 billion (1.1 months of imports). Banking sector stress increased, with non-performing loans rising to 16.5%, reflecting conflict-related disruptions.

Social developments

Poverty has surged amid conflict and economic collapse, rising to 71% in 2025 from 36% pre-war, leaving about 23 million people poor. Livelihoods and services have been severely disrupted, with Sudan ranking 171 of 193 on the 2025 Human Development Index (0.51).

Outlook and risks

Real GDP growth is projected to strengthen to 2.1% in 2026 and 3.2% in 2027. The recovery is expected to be driven by reconstruction-related spending, particularly in social services and infrastructure, alongside a gradual resumption of economic activity. Improved revenue performance and stronger activity are projected to keep the fiscal deficit low, at 2.9% of GDP in 2026 and further reduced to 2.4% of GDP in 2027. With reduced reliance on monetary financing, inflation is expected to decelerate to 78.3% in 2026 and further to 51.3% in 2027. And the current account deficit is projected to ease slightly to 5.1% of GDP in 2026 and further fall to 4.4% in 2027,

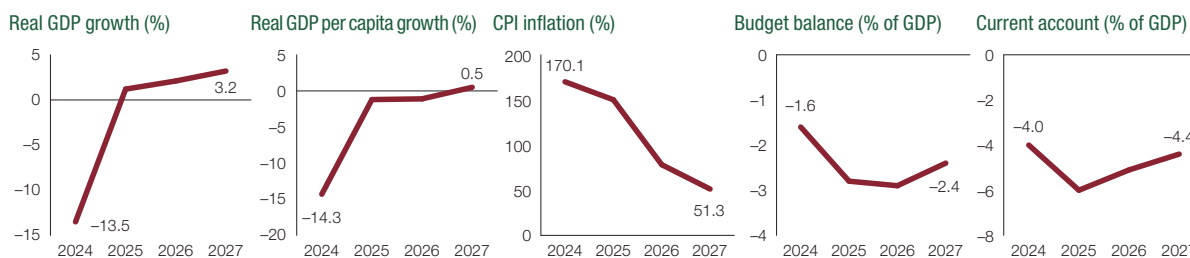
reflecting improved exports due to relative stability. The outlook remains positive subject to significant downside risks, including a protracted conflict, climate-related shocks, and weak institutional capacity. A durable peace agreement would materially improve prospects and mitigate these risks.

Mobilizing development financing at scale in a fragmented world

Sudan faces acute financing constraints arising from weak domestic revenue mobilization, a large informal economy and limited access to capital markets. Geopolitical tensions and increasing fragmentation of global finance have further narrowed available financing sources, raised borrowing costs, and reduced the predictability of external flows.

Building an integrated financial system capable of supporting cross-border capital flows and affordable financing will require coordinated progress across several reforms. Priority reforms include strengthening legal and regulatory frameworks in line with international anti-money laundering and counterterrorism standards, modernizing payment and settlement systems, and improving exchange rate transparency. Reforms focusing on strengthening institutions and effective governance will improve financial inclusion and attract capital inflow to meet development objectives. Sudan needs to renew engagement with the international community to help support peace efforts and gradual recovery to build an inclusive economy integrated with regional and global financial markets.

Mobilizing development financing at scale will hinge on restoring macro-fiscal credibility through improved budget discipline, strengthened public financial management, and greater transparency and accountability. Strategic re-engagement with multilateral development banks can unlock concessional financing and guarantees, while expanding financial inclusion, digital finance, and targeted diaspora instruments can help mobilize domestic and external savings for productive and growth-enhancing investment.



Source: Data are as of March 2026 and are from domestic authorities; figures for 2025 are estimates and figures for 2026 and 2027 are projections by the African Economic Outlook team.

Tanzania

Recent macroeconomic developments

Real GDP grew by 6.0% in 2025, up from 5.5% in 2024, driven by agriculture, mining, and construction on the supply side and investment and consumption on the demand side. Prudent monetary policy and favorable global conditions helped maintain inflation within the Bank of Tanzania's target range, increasing marginally from 3.1% in 2024 to 3.3% in 2025, and supported foreign exchange market stability, with the Tanzanian shilling depreciating by just 1.3% in 2025, compared with 6.3% in 2024. The fiscal deficit widened from 3.2% of GDP in 2024 to 3.4% in 2025, resulting from election-related and infrastructure spending. Debt increased from 46.7% of GDP in 2023 to 47.6% in 2024 but remains sustainable, with moderate risk of debt distress. The current account deficit narrowed from 2.9% of GDP in 2024 to 2.4% in 2025, moderated by lower oil prices, higher exports of gold and agricultural products, and tourism earnings, while international reserves increased to 4.9 months of import cover in 2025, up from 4.1 months in 2024. The banking sector performed strongly, with private sector credit expanding by 20.3% in 2025 and non-performing loans declining from 4.4% in 2024 to 3.1% in 2025.

Social developments

Extreme poverty is high but declined from 41% in 2020 to 35% in 2025, while inequality remains high, with a Gini coefficient of 0.44, attributed to low agricultural productivity and high unemployment. Youth unemployment is estimated at 10.0%, reflecting limited economic opportunities. The government promotes agricultural value chains, invests in human capital development, and enhances social protection to address these challenges.

Outlook and risks

Growth is projected to moderate to 5.4% in 2026 due to the effects of the Middle East conflict before recovering to 6.1% in 2027, driven by structural reforms such as infrastructure investment and improving business environment. Inflation is projected to rise to 3.8% in 2026 and 3.7% in 2027 due to the global supply chain disruptions, but remain within the Central Bank's target. The fiscal deficit is projected at 3.4% of GDP in 2026 and 3.5% in

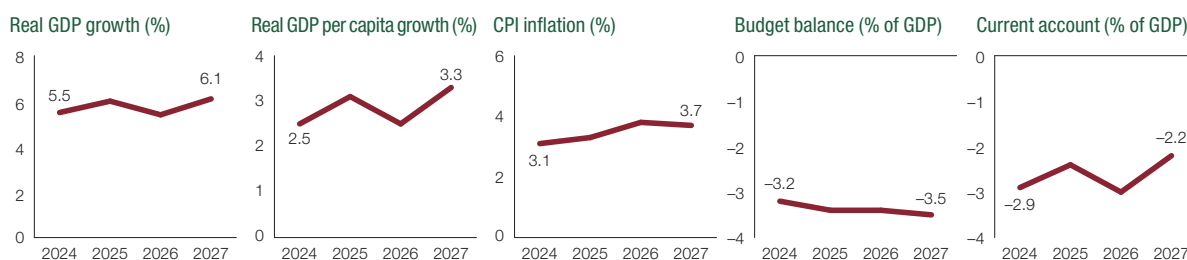
2027, courtesy of improved revenue performance and better spending management. The current account deficit is projected to widen to 3.0% of GDP in 2026 due to global supply chain disruptions before moderating to 2.2% in 2027, bolstered by strong nontraditional export performance. Downside risks include the impact of the Middle East conflict and the global geopolitics that could increase oil and food prices and disrupt export and import supply chains, climate change vulnerabilities, and lingering effects of socio-political tensions.

Mobilizing development financing at scale in a fragmented world

Gross financing needs are estimated at 8.7% of GDP in 2024/25 and expected to stabilize at 6.3% in the medium term. Domestic revenue improved to 16.1% of GDP but remains below regional peers due to a narrow tax base, high informality, limited access to capital markets, and governance risks. Increasing domestic revenue requires enhancing the business environment, promoting private sector investment, and deepening capital markets.

The financial sector remains stable but underdeveloped, hindered by low financial literacy and financial intermediation. There is potential to leverage an integrated system for cross-border flows at reduced costs. The Bank of Tanzania aims to modernize payments infrastructure, expand financial inclusion, and facilitate cross-border flows, though constraints persist. Tanzania has benefited from blended finance, including de-risking private investment such as the Standard Gauge Railway syndication, but scaling these efforts remains crucial. Strengthening partnerships and regulatory frameworks and enhancing international cooperation to combat financial crimes remain essential.

Key priorities for mobilizing development financing at scale include enhancing resource mobilization, particularly in the minerals sector, expanding public-private partnerships beyond infrastructure and strengthening their legal frameworks, and leveraging innovative financial instruments. Key drivers include formalization through digitalization, fostering private sector-led growth, and improving the business environment to attract nontraditional partners.



Source: Data are as of March 2026 and are from domestic authorities; figures for 2025 are estimates and figures for 2026 and 2027 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 developments

The economy grew by 6.7% in 2025, up from 6.0% in 2024, supported by strong performance in services and industry. Growth in services was driven by trade and repairs, real estate, and education. Industrial activity was boosted by robust manufacturing and construction. Agricultural performance slowed due to a decline in crop production. Services account for 42.0% of GDP, followed by agriculture (26.0%) and industry (24.4%). On the demand side, growth was fueled mainly by consumption (80% of GDP) and investment. This pattern of growth driven by consumption and services limits productivity improvements in manufacturing and constrains structural transformation.

Monetary policy remained stable, with the policy rate at 9.75%, while inflation slightly increased to 3.6% from 3.3%, driven by elevated food, education, restaurants and accommodation services, and transport costs. The fiscal deficit widened to 6.1% of GDP in 2024/25 from 4.7%, driven by higher current spending and interest payments, while public debt rose to 52.7% of GDP. The current account deficit narrowed to 5.1% of GDP, and the exchange rate appreciated by 4.2%, supported by stronger exports and capital inflows. The financial sector remained sound, with low non-performing loans, at 3.7% of gross loans, while private credit growth reached 11%.

Social developments

Poverty declined to 16.1% in 2024 (urban: 7.6%; rural: 18.6%), while inequality eased (Gini coefficient of 0.382), reflecting strong growth and rising incomes. However, youth unemployment remains elevated at 17.9%, driven by skills gaps and limited formal jobs. Uganda is scaling investment in human capital and targeted livelihood programs.

Outlook and risks

Growth is projected at 6.2% in 2026 and 8.0% in 2027, driven by investment in the extractive sector, the start of oil production from 2026/27, increased agricultural productivity, and agro-processing. Inflation is expected to rise due to higher commodity prices caused by global supply chain disruptions. The fiscal deficit is projected to widen to 6.9% of GDP in 2025/26 amid continued

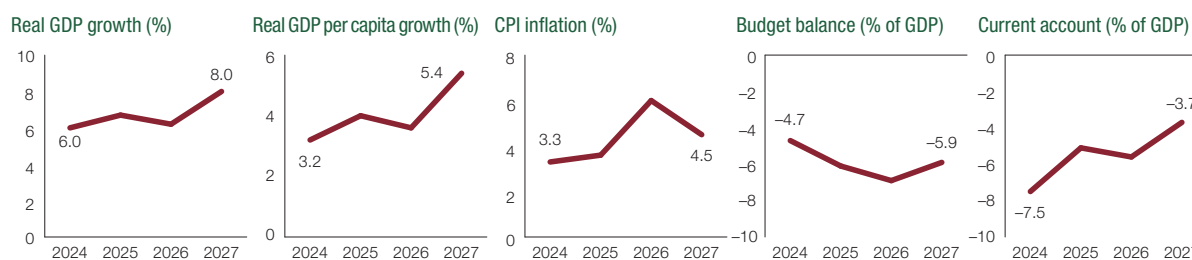
spending pressures then narrow to 5.9% in 2026/27, thanks to fiscal consolidation and oil receipts. The current account deficit is projected to expand to 5.6% of GDP in 2026, impacted by higher import costs and weaker capital inflows. Major risks to the outlook include prolonging of the Middle East conflict, global inflation, tighter financial conditions, and climate shocks. Policy priorities should focus on strengthening climate resilience, maintaining sound macroeconomic policies, accelerating oil infrastructure development, diversifying fuel sources, and increasing domestic revenue mobilization.

Mobilizing development financing at scale in a fragmented world

Capacity to mobilize large-scale financing is constrained by a fragmented global environment, low domestic revenue (14.1% of GDP), a large informal sector (54% of GDP), shallow capital markets, and gaps in project preparation. Strengthening domestic revenue systems, improving public financial management, boosting financial inclusion, and expanding the role of capital markets are essential to expand domestic capacity. Diversifying financing partners and instruments, alongside greater use of concessional resources, can help reduce external financing costs and risks.

Improving access to long-term, affordable financing requires regional financial integration, stronger debt and cash management, and enhanced supervisory frameworks. Key reforms include incentivizing institutional investors, strengthening project preparation, and aligning with international tax and financial integrity standards. Greater use of guarantees, blended finance, and diaspora instruments can mobilize cross-border capital and strengthen resilience.

To scale up development financing, Uganda should prioritize strengthening domestic resource mobilization and public financial management through tax reforms, spending rationalization, and stronger budget controls, establishing coordinated de-risking platforms with development partners to scale private investment and public-private partnerships, and developing sustainable finance instruments, including green and diaspora bonds and carbon credits, to support climate-resilient infrastructure and value chains.



Source: Data are as of March 2026 and are from domestic authorities; figures for 2025 are estimates and figures for 2026 and 2027 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 developments

The economy has continued to perform well, despite a slight slowdown in growth from 3.6% in 2024 to 3.3% in 2025. Growth was driven by strong manufacturing and agricultural production and by investment and household consumption. Monetary policy remained accommodative, with the key interest rate reduced from 2.75% in August 2025 to 2.5% in January 2026 to support the economy as inflation continued to fall—from 4.4% in 2024 to 1.7% in 2025—due to a slowdown in the rise of food prices. The budget deficit widened slightly, reaching 14.0% of GDP in 2025, compared with 13.8% in 2024, driven by sustained increases in public spending on infrastructure financing. The deficit was financed primarily by hydrocarbon revenue and domestic debt. Public debt stood at 48.1% of GDP in 2025, with external debt below 2% of GDP. The current account deficit widened from 1.1% of GDP in 2024 to 1.7% in 2025, due to a decline in hydrocarbon exports. Foreign exchange reserves remained comfortable, despite falling to \$47.1 billion at the end of 2025, equal to more than 15 months of imports. The financial sector remained broadly stable over 2024–25; credit growth to the economy exceeded 5% in 2025, driven by public banks and robust private credit (up 7.3%).

Social developments

Social policy, including redistribution mechanisms and targeted policies aimed at ensuring access to basic social services, improved social indicators and reduced inequalities. However, spatial disparities and pockets of poverty persisted, particularly in rural areas. The Human Development Index value stood at 0.763 in 2025, placing Algeria among the countries with the highest human development on the continent.

Outlook and risks

Driven by the rebound in hydrocarbons and restoration of crude oil production quotas, the short-term outlook is positive, with growth remaining virtually stable at 4.1% in 2026 and 4.2% in 2027. Inflation is expected to rise temporarily to 3.3% in 2026 due to the Middle East conflict, before slowing to 2.6% in 2027 as food prices gradually decline. Public finances are expected to remain under pressure, with the budget deficit reaching 13.3% of GDP in 2026 and 14.3% in 2027, driven by rising public spending. The current account deficit

is expected to improve slightly to 1.4% of GDP in 2026, then widen to 3.4% in 2027, driven by rising imports to support growth and public investment.

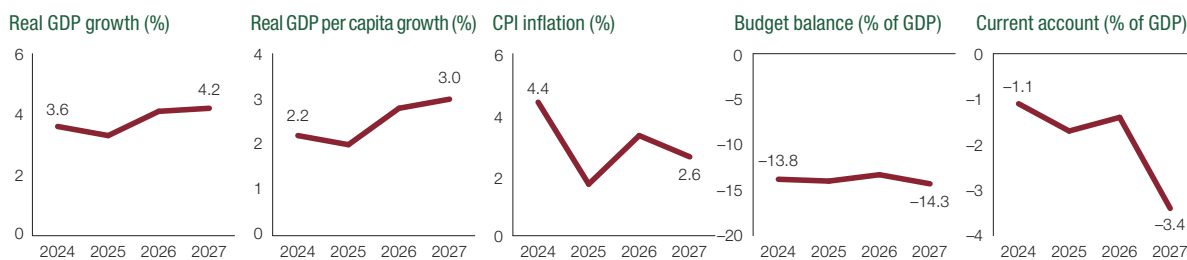
Growth is expected to rely on sustained investment and reduced dependence on hydrocarbons, while remaining dependent on fiscal mobilization, agricultural performance weakened by water stress, and global oil supply chains. To mitigate these risks, structural reforms aimed at diversifying the economy and strengthening the business climate are essential to increase resilience.

Mobilizing development financing at scale in a fragmented world

Algeria favors a development model that limits systematic reliance on external financing and preserves its economic sovereignty. This approach hinders the mobilization and diversification of large-scale financing sources, although the 2025 Finance Law introduced gradual and targeted use of external financing to support public investment in strategic projects of national interest. Key financing challenges include dependence on hydrocarbon revenue, an underdeveloped financial market, and limited mobilization of private savings and diaspora funds. Diversifying innovative financing instruments, formalizing the informal sector, mobilizing the diaspora, and valorizing natural capital are strategic levers for mobilizing additional financing.

Building an integrated financial system requires developing domestic markets, strengthening banking supervision, and modernizing the regulatory framework to facilitate access to financing. The country must improve efficiency in public spending, create a more dynamic financial market, and attract productive investment to secure sustainable and large-scale mobilized development resources.

Algeria could strengthen its macroeconomic governance by diversifying its domestic revenue and improving efficiency in public spending. Issuing green bonds and accelerating public–private partnerships would help mobilize more private capital for productive infrastructure. Optimizing the demographic dividend and channeling funds and expertise from the diaspora toward productive and climate-resilient projects should help mobilize large-scale development financing. The sustainable use of natural resources, particularly through carbon credits and energy transition value chains, could also support investment.



Source: Data are as of March 2026 and are from domestic authorities; figures for 2025 are estimates and figures for 2026 and 2027 are projections by the African Economic Outlook team.

Egypt

Recent macroeconomic and social developments

In FY2024/25, real GDP growth rebounded to 4.4% from 2.4% in FY2023/24, led by nonoil manufacturing, construction, and tourism. On the demand side, private consumption led the growth, supported by strong remittances and wage increases.

On the fiscal front, Egypt posted a deficit of 7.3% of GDP in FY2024/25 despite record tax revenue of 12.6% of GDP. A primary surplus of 3.6% implies sizable interest payments of 11% of GDP, reflecting high rates and a large debt stock. Noninterest spending pressures stemmed from wages, food subsidies, social protection, and public investment. Public debt remains elevated at 84% of GDP but is declining, with a target of 80% by mid-2026.

Inflation declined to 20.9% in FY2024/25 from 33.6% in FY2023/24, reflecting tight monetary policy. In 2025, the pound averaged 49 per US dollar versus 45 in 2024, while reserves rose to a record \$51.4 billion from \$47.1 billion. In FY2024/25, the current account deficit narrowed to 4.3% of GDP, down from 5.4% in FY2023/24. The banking sector remained sound, with a 19.2% capital adequacy ratio and a 2.0% nonperforming loan ratio as of September 2025.

Social developments

Egypt's 2025 Human Development Index value was 0.754, which is classified as high human development. In 2025, social protection was strengthened, with the minimum wage raised to EGP 7,000 (\$150) and the Takaful and Karama program expanded to 4.7 million households. Unemployment declined to 6.1% in the second quarter of 2025, close to its pre-COVID-19 pandemic average of 6–7%.

Outlook and risks

Egypt's growth is projected to reach 4.3% by FY2026/27, supported by manufacturing, tourism, and construction, alongside resilient consumption. Structural reforms are expected to support private sector participation and improve resource allocation. However, ongoing Middle East tensions could reduce growth by 1.5–2.5 percentage points in FY2025/26 through disruptions to Suez Canal revenue, tourism, remittances, and capital inflows.

Inflation is projected to decline to 14.6% by FY2026/27, reflecting tight monetary policy and foreign

exchange stability by reducing imported inflation. The Central Bank of Egypt is expected to maintain a cautious stance to anchor inflation expectations.

The fiscal deficit is projected to narrow to 6.4% of GDP by FY2026/27, supported by stronger revenue performance and improved fiscal management, while the current account deficit is expected to reach 4.5% of GDP, reflecting strengthening export performance.

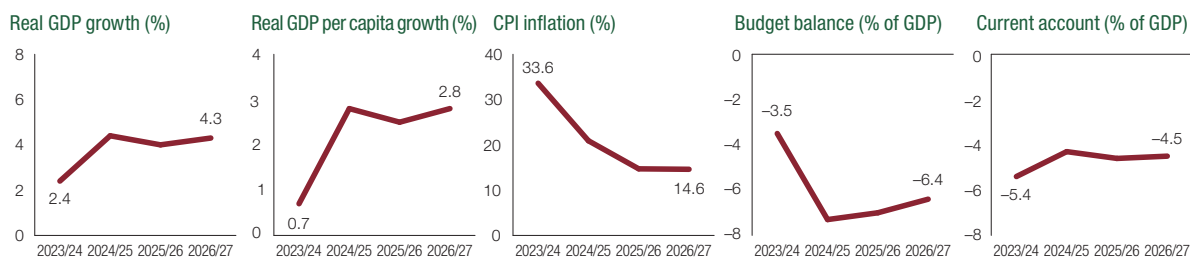
Key risks stem from regional conflict, global slowdown, and fiscal pressures. Mitigation requires sustained fiscal discipline, export diversification, and strengthened social safety nets.

Mobilizing development financing at scale in a fragmented world

Egypt operates in a fragmented global financial environment, constraining access to predictable and affordable financing amid rising costs and shifting partnerships. Key challenges include limited fiscal space, a large informal sector, and elevated borrowing costs. Addressing these requires strengthening domestic revenue mobilization, improving public financial management, and expanding financial inclusion. Externally, diversifying financing sources is critical, supported by development partners and innovative instruments, including public-private partnerships and green bonds, while leveraging diaspora inflows and private investment.

Building an integrated financial system remains essential to reduce transaction costs and improve access to capital. With market capitalization at about 40% of GDP, financial deepening is limited, while credit rating constraints raise borrowing costs. Reforms should focus on deepening capital markets, strengthening regulatory frameworks, and enhancing risk management. Leveraging partnerships with institutions such as the African Development Bank can support concessional finance, technical assistance, and private sector participation, while mitigating risks linked to global financial fragmentation.

Priority actions include strengthening domestic resource mobilization through tax reforms, accelerating financial sector development to crowd in private investment, and expanding innovative financing instruments such as public-private partnerships and diaspora bonds. These measures will enhance resilience, improve access to affordable finance, and support sustainable development.



Source: Data are as of March 2026 and are from domestic authorities; figures for 2025 are estimates and figures for 2026 and 2027 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 developments

The economy remains highly volatile and structurally dependent on hydrocarbons. In 2025, real GDP growth rebounded to 12.4%, following a contraction of 0.4% in 2024, reflecting a recovery in oil production to about 1.3 million barrels per day, up from 1.09 million in 2024. A significant fiscal consolidation occurred, due primarily to reduced fiscal spending. The budget deficit narrowed sharply from 24.8% of GDP in 2024—to attributable largely to heightened spending in the eastern regions and the dispute-induced shutdown of oil fields—to 4.2% in 2025. An agreement on a unified national budget was reached in April 2026. The current account surplus improved significantly, from 0.4% of GDP in 2024 to 8.5% in 2025, driven by higher oil exports. International reserves reached \$81.1 billion, providing import cover for 31 months. In January 2026, the Central Bank devalued the dinar by 14.7% to reduce the spread between the official and parallel exchange rates. Inflation eased from 2.1% in 2024 to 1.6% in 2025, supported by declining global food prices. The financial sector remains shallow, with limited credit access and non-performing loans rising slightly from 19.1% in 2024 to 19.3% in 2025.

Social developments

Unemployment remains high at 18.6%, with youth unemployment reaching 50.6%. Libya continues to be a major destination and transit hub for migrants. As of late 2025, there were 406,686 refugees and asylum-seekers. Social policies rely heavily on fuel and electricity subsidies, and the National Social Protection Strategy is under preparation.

Outlook and risks

The medium-term outlook is cautiously positive, with projected GDP growth of 6.5% in 2026 and 4.3% in 2027, conditional on security and oil output. The global rise in oil demand following the Middle East conflict is likely to modestly boost economic growth, though oil infrastructure and security challenges may temper the overall impact. The fiscal deficit is expected to shift to a surplus of 2.2% of GDP in 2026 and 1.6% in 2027, supported by rising oil revenue. Inflation is projected to

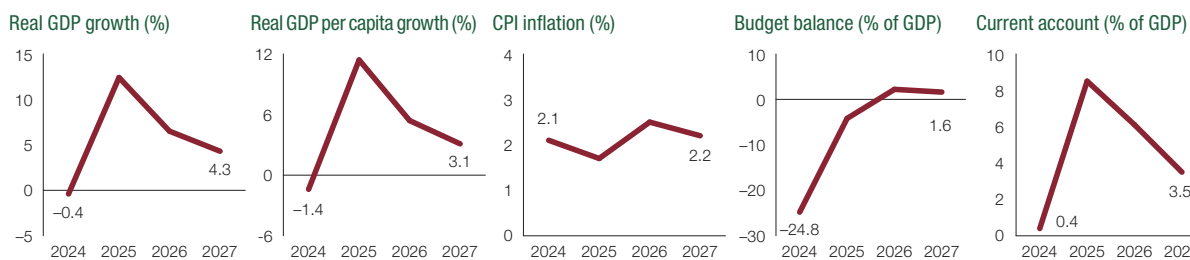
increase to 2.5% in 2026 and 2.2% in 2027, reflecting the pass-through from the dinar devaluation and rising global food prices. Downside risks stem from persistent political instability and fluctuations in international oil prices, underscoring the need for economic diversification and fiscal reform. Spread of the Middle East conflict could lead to sustained insecurity near regional shipping lanes, potentially hindering Libya's ability to export at full capacity.

Mobilizing development financing at scale in a fragmented world

Libya faces major constraints in mobilizing development financing at scale amid persistent political and institutional fragmentation. Heavy reliance on oil revenue, a narrow tax base (accounting for only 2% of total revenue in 2025), a large informal sector, weak public financial management, and limited access to capital markets continue to restrict fiscal space and undermine resource allocation. Addressing these challenges requires comprehensive reforms to modernize tax legislation and administration and rationalize subsidies to create room for development spending.

Scaling up development financing requires mobilizing private sector participation and channeling hydrocarbon revenue toward high-impact, inclusive investment. Building a more coherent and resilient financial system will require a modernized banking sector, investment, and public-private partnership frameworks, alongside stronger transparency, accountability, and regulatory oversight. Developing capital markets and expanding digital financial infrastructure would enhance financial inclusion and access to finance, particularly for small and medium-size enterprises.

International cooperation remains essential to mobilize external financing, curb illicit financial flows, and improve resource efficiency during the recovery. Over the medium term, diversifying the economy beyond hydrocarbons, strengthening financial sector governance, and deploying innovative instruments such as green and blended finance, supported by deeper regional financial integration are critical to crowding in private investment and ensuring sustainable development.



Source: Data are as of March 2026 and are from domestic authorities; figures for 2025 are estimates and figures for 2026 and 2027 are projections by the African Economic Outlook team.

Mauritania

Recent macroeconomic developments

In 2025, growth slowed to 4.0% from 6.3% in 2024, due to contraction in the extractive sector (down 1.2%) and despite strong performance in agriculture and services. On the demand side, consumption continued as the main driver of growth, while a decline in investment (40.6% of GDP in 2025 from 44.8% in 2024) slowed growth. Inflation continued downward to 1.6% in 2025 as food prices fell. Against this backdrop of falling inflation, the Central Bank continued monetary easing, lowering the key interest rate to 6.0% in 2025 from 6.5% in 2024. The budget deficit narrowed to 0.6% of GDP in 2025 from 1.4% in 2024, due to an increase in tax revenue and lower current spending. Public debt fell to 39.9% of GDP from 43.6% in 2024, keeping the risk of excessive debt moderate. The current account deficit improved to 6.7% of GDP, due to increased exports of gold and fishery products, while foreign exchange reserves stabilized at 5.5 months of imports. The financial system remained broadly sound, with a capital adequacy ratio slightly down, to 19.8% in 2024, but above the regulatory standard of 10%. Credit to the private sector grew by 8.5% in 2025, while non-performing loans remained stable at 19.2%.

Social developments

The poverty rate was estimated at 27.4% in 2024, but extreme poverty was projected to fall to less than 3% in 2025, down from 4% in 2024. Some 77.1% of the rural population lives in multidimensional poverty, compared with 35.4% of the urban population. To reduce socioeconomic inequalities, the government has implemented employment and empowerment programs to help strengthen the resilience of vulnerable households.

Outlook and risks

Growth is projected to reach 4.4% in 2026 and 4.7% in 2027, driven by strong performance in agriculture and the start of gas production. On the demand side, growth is expected to be stimulated by increased public and private investment. The budget deficit is projected to widen to 0.9% of GDP in 2026 before narrowing to 0.5% in 2027, due to increased tax and gas revenue and control of current spending. The current account deficit is projected to widen to 8.6% of GDP in 2026 before narrowing to 6.7% in 2027. Despite this favorable

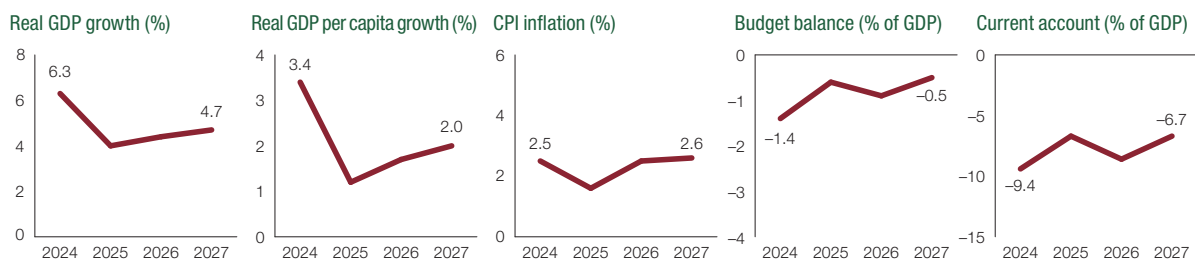
outlook, several risks remain, including potential delays in gas production from the Grand Tortue Ahmeyim project; global geopolitical tensions, with the Middle East conflict exacerbating iron ore price volatility; a decline in official development assistance; the impacts of climate change; and the deteriorating security situation in the Sahel. The Middle East conflict is expected to weigh on the economy, which is heavily dependent on the import of petroleum products and the export of iron ore. These risks could be mitigated by accelerating reforms to diversify the economy, implementing the national infrastructure program, and scaling up investment.

Mobilizing development financing at scale in a fragmented world

Government revenue remains limited, with a tax burden of 14.7% of GDP in 2025, due to a narrow tax base and the predominance of the informal sector. The domestic financial market remains underdeveloped, despite a high gross savings rate of 34.3% of GDP in 2025. Innovative financing also remains limited in the absence of mechanisms such as crowdfunding, venture capital, seed funds, and leasing.

Mauritania is implementing reforms to strengthen domestic resource mobilization, including broadening the tax base, streamlining tax expenditures, and digitizing and formalizing the informal sector. At the same time, other reforms are being carried out to develop the domestic capital market: specifically, through the operationalization of the Nouakchott Stock Exchange and the Mauritanian Guarantee Fund and ongoing efforts to obtain a sovereign credit rating to access international capital markets. Further, the adoption in 2025 of a new investment code is expected to stimulate foreign direct investment, which accounted for 13.2% of GDP in 2024. Mobilizing funds from the diaspora remains important, though these flows are still low (1% of GDP), underscoring the need to improve the legal and institutional framework in this area.

Mobilizing large-scale financing for Mauritania requires strengthening domestic resources, developing public-private partnerships and climate finance mechanisms to attract investment in strategic sectors such as renewable energy, natural gas, green hydrogen, and smart agriculture, and diversifying partnerships (South-South, regional institutions, Islamic finance).



Source: Data are as of March 2026 and are from domestic authorities; figures for 2025 are estimates and figures for 2026 and 2027 are projections by the African Economic Outlook team.

Morocco

Recent macroeconomic developments

In 2025, economic growth accelerated to 4.7%, up from 3.8% in 2024, driven on the demand side by strong investment and household consumption. On the supply side, the driver of growth was recovery in the agriculture, manufacturing, construction, and tourism sectors. Inflation slowed to 0.8%, supported by accommodative monetary policy—for example, a 25 basis point cut in the benchmark interest rate to 2.25% in the first quarter of 2025. Public finances improved, with the budget deficit falling to 3.5% of GDP in 2025 from 3.8% in 2024, driven by higher revenue and lower compensation costs. The treasury debt-to-GDP ratio declined to 67.7% of GDP in 2024 from 68.7% in 2023, in tandem with a 0.4 point decrease in the external public debt ratio to 29.3% of GDP in 2024. The current account deficit widened to 2.0% of GDP in 2025 from 1.2% in 2024, due to a larger trade deficit linked to increased imports and slowing exports, mitigated by higher travel receipts and remittances from the diaspora. Foreign exchange reserves covered 5.7 months of imports in 2025, compared with 5.3 months in 2024. The banking sector remains sound, with a consolidated capital adequacy ratio of 14.1% in 2024, up from 13.5% in 2023, and a decline in the non-performing loan ratio to 8% in 2025.

Social developments

The unemployment rate fell to 13.0% in 2025 from 13.3% in 2024 but remained high among young people (37.2%), graduates (19.1%), and women (20.5%). The government has continued to strengthen social protection with the expansion of mandatory basic health insurance, covering 88% of the population, and the rollout of the Direct Social Assistance Program aimed at mitigating risks for vulnerable populations.

Outlook and risks

The macroeconomic outlook remains solid but is deteriorating. Economic growth is projected to slow to 4.2% in 2026 and to 4.3% in 2027, supported by household consumption and infrastructure investment. On the supply side, agriculture, manufacturing, construction, and tourism are expected to continue as the main drivers of growth. Inflation is expected to remain contained, while rising to 2.4% in 2026 and 2.3% in 2027. The budget deficit is projected to reach 3.7% of GDP in 2026, due to rising compensation costs and spending for controlling inflation, before narrowing to 3.2% in 2027, reflecting

higher tax revenue. Conversely, the current account deficit is projected to widen to 3.5% of GDP in 2026 and to 3.4% in 2027, driven by rising imports of capital goods and higher energy import costs.

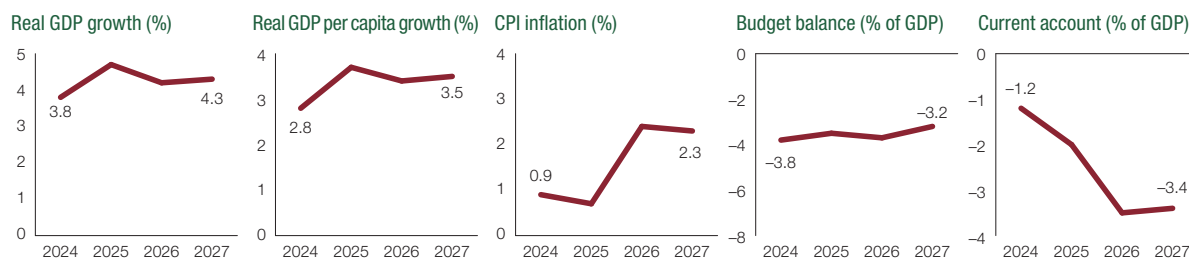
The outlook remains vulnerable to downside risks as the escalation of the Middle East conflict drives up energy prices and to weather-related uncertainties affecting agriculture. Proactive management of climate risks and trade diversification would mitigate the impact, while a good harvest and robust investment would improve the outlook.

Mobilizing development financing at scale in a fragmented world

Morocco has undertaken initiatives aimed at strengthening development financing through tax reform, the investment charter, and the use of innovative financing. However, fragmentation and tightening of financial conditions—leading to a 70 basis point increase in the average cost of external public debt, to 3.9% in 2024—require more and diversified mobilization of financing. The country can further strengthen public-private partnerships and the development of fintechs by channeling remittances from the diaspora toward productive investment.

Morocco has a developed financial system, with market capitalization of 47.1% of GDP in 2024 and favorable access to international financial markets. It remains constrained by the dominance of the banking sector, a nascent participatory sector, a bond market centered on the sovereign segment, and a limited base of 77 publicly traded companies. Strengthening regional integration and financial interconnectivity offers Morocco the potential for financial cooperation. This would attract funding by leveraging the expansion of pan-African banking groups and its financial hub, Casablanca Finance City.

Large-scale financing can be strengthened in the short term by increasing the use of public-private partnerships to build hydroagricultural infrastructure and in the industrial and logistics sectors. In the medium to long term, this can be achieved by continuing efforts to deepen financial markets and diversify financial instruments, particularly green ones, broadening the tax base, developing micro, small and medium size enterprises supported by the investment charter, and integrating the informal sector through tax incentives, improved access to financing, and a simplified operational framework for the business environment.



Source: Data are as of March 2026 and are from domestic authorities; figures for 2025 are estimates and figures for 2026 and 2027 are projections by the African Economic Outlook team.

Tunisia

Recent macroeconomic developments

The economy recovered slightly in 2025, with 2.5% GDP growth, compared with 1.5% GDP growth in 2024, driven by agriculture, the phosphate sector, construction, and tourism. On the demand side, growth was driven by private consumption and exports, while investment remained weak due to financing constraints (limited fiscal space, unattractive business environment). Inflation fell from 7.0% to 5.3%, allowing the Central Bank to lower its key interest rate gradually to 7% in early 2026. However, the treasury's reliance on exceptional financing from the Central Bank is placing increased pressure on macroeconomic balances. The budget deficit narrowed to 5.2% of GDP in 2025, supported by improved revenue collection and lower energy subsidies. Public debt stabilized at 82.1% of GDP, but heavy reliance on domestic financing is further crowding out the private sector. The current account deficit widened to 2.5% of GDP, reflecting a rebound in imports and external pressures (external debt service, energy costs), despite resilience in tourism revenue and remittances from the diaspora. By the end of 2025, reserves reached 106 days of imports. The banking sector remains exposed, with a high non-performing loan ratio (14.7%) and near-zero growth in private credit.

Social developments

Unemployment fell to 15.2% in the fourth quarter of 2025 but remains high among youth (38.4%), women (22.4%), and college graduates (24.9%), reflecting limited inclusion. About 18% of the population lives below the poverty line, with significant regional disparities. The government has strengthened social protection (expansion of the AMEN program, stabilization of commodity prices), but ambitious employment policies are needed to sustainably reduce inequalities.

Outlook and risks

Growth is expected to reach 2.1% in 2026 and 2.8% in 2027, driven by momentum in the tourism sector and a recovery in industrial exports. However, weak private investment, labor market rigidity, and limited productivity gains are likely to continue to hold back growth. Monetary policy is expected to remain prudent to keep inflation at 5.7% in 2026 and 5.4% in 2027, while managing tight domestic liquidity and preserving the stability of the Tunisian dinar. On the fiscal front, pressures are expected to remain strong, with the deficit projected to be 6.1% of GDP in 2026 and 5.6% of GDP in 2027.

The current account deficit is expected to widen to 5.3% of GDP in 2026.

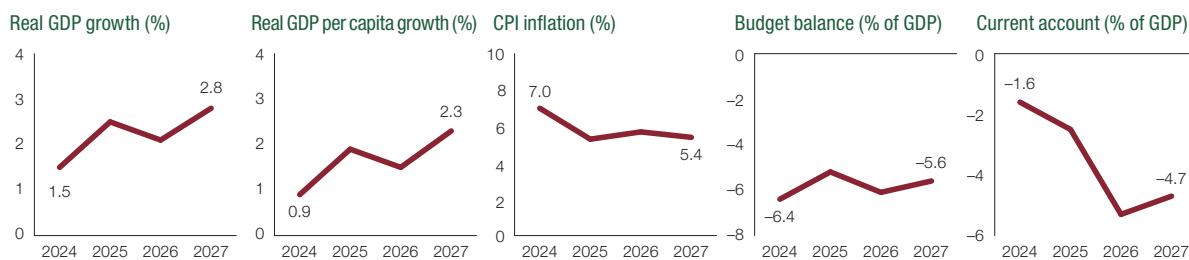
Key risks include slow progress on structural reforms, weak European demand, the Middle East conflict, public debt pressures, volatile energy prices, and intensifying climate shocks. To mitigate these risks, Tunisia should mobilize more external financing through partial guarantees, improve spending efficiency and the governance of state-owned enterprises, and promote private sector development to create jobs.

Mobilizing development financing at scale in a fragmented world

The ability to mobilize large-scale financing remains constrained by a limited tax base, an informal sector accounting for 40% of the economy, and restricted access to international markets, in a context marked by the absence of an International Monetary Fund-supported program and an unfavorable sovereign rating that increases the cost of capital. However, stabilization of the macroeconomic framework could strengthen resource mobilization. Against a backdrop of global fragmentation and contraction in concessionary financing, Tunisia must diversify its financing partners and rely more heavily on multilateral guarantees, blended finance, and strategic mobilization of the diaspora.

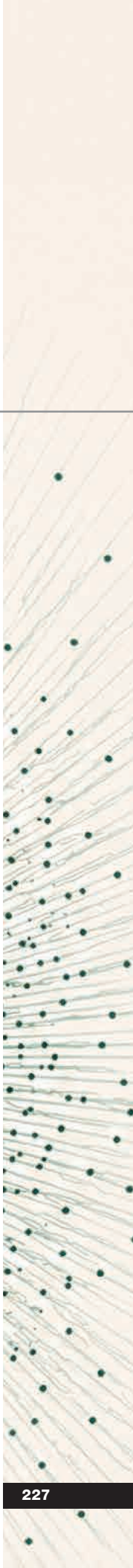
Increasing fiscal space requires broadening the tax base, restructuring public enterprises, accelerating execution of investment, and stepping up the fight against capital flight. Mobilizing domestic financing depends on the banking system's ability to reduce the crowding out of private sector credit and to support the development of the Tunis Stock Exchange and the domestic bond market. Building an integrated financial system requires reducing intermediation costs, strengthening banking resilience (risk and asset management), and deepening domestic capital markets. The country must (i) modernize debt management; (ii) strengthen financial supervision, develop a secondary market for government securities, and establish concrete risk-sharing mechanisms with international partners.

Three priorities emerge: interconnecting tax databases, automating value added tax controls, and targeting the informal sector, creating a blended finance platform to structure public-private partnerships and attract private capital, and adopting a strategy to mobilize the diaspora by directing a portion of transfers toward productive investment.



Source: Data are as of March 2026 and are from domestic authorities; figures for 2025 are estimates and figures for 2026 and 2027 are projections by the African Economic Outlook team.

SOUTHERN AFRICA



Angola

Recent macroeconomic developments

Real GDP growth slowed to 3.1% in 2025 from 5.0% in 2024, impacted by lower international oil prices. Strong activity in agriculture, communications, and mining cushioned a 3.2% contraction in oil activity. On the demand side, public investment, private consumption, and net exports supported growth. Real GDP per capita grew by 0.1%, constrained by rapid population growth. Inflation decreased from 28.2% in 2024 to 20.4% in 2025, supported by improved food supply and exchange rate stability, prompting the Banco Nacional de Angola to cut the monetary policy rate to 19.0% in September 2025 and 18.5% in November 2025. The fiscal deficit widened from 1.4% of GDP in 2024 to 3.0% in 2025 due to lower oil revenue and spending rigidities, financed through domestic and external borrowing. Public debt declined to 49.2% of GDP, supported by primary surpluses and nominal GDP growth. The current account surplus narrowed to 1.1% of GDP, while reserves remained at 7.8 months of import cover. The financial sector remained sound, with capital adequacy at 24.4% and non-performing loans at 14.4%.

Social developments

Angola's oil-led growth remains noninclusive, with high poverty (40.6%); inequality (Gini coefficient of 0.51); youth unemployment (43.3%), and informality (78.6%) in 2025 constraining social progress. Despite improvements in mortality (183 deaths per 100,000 live births) and child mortality (50.5 per 1,000), Angola ranks 148 of 193 on the 2025 Human Development Index. The Kwenda cash transfer program and digital and agribusiness initiatives are ongoing to support youth entrepreneurship.

Outlook and risks

The economic outlook is moderate, with real GDP growth projected at 2.9% in 2026 and 3.3% in 2027. Growth will be driven by higher oil prices, agribusiness and logistics investment along the Lobito corridor, and about \$2 billion in nondiamond mining and rare earth projects. Real GDP per capita is expected to shrink in 2026 due to rapid population growth. Monetary policy

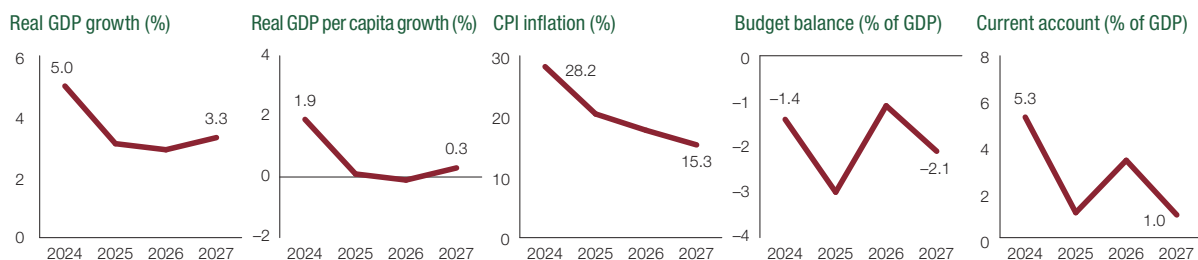
may be tightened to contain inflation from higher global oil prices. The fiscal deficit is projected to fall below 3% of GDP in 2026–2027 as oil revenue improve fiscal balances. The debt-to-GDP ratio is expected to remain stable at 48.2%, supported by primary surpluses. The current account surplus is projected to rise to 3.4% in 2026, driven by oil exports. Key risks include oil price volatility, global financial tightening, geopolitical tensions, climate shocks, and oil dependence. Diversification and investment in the Lobito corridor and mining are critical to mitigate shocks.

Mobilizing development financing at scale in a fragmented world

The ability to mobilize large-scale finance for inclusive and sustainable development is constrained by weak domestic resource mobilization, underdeveloped financial markets, and elevated fiscal and debt pressures. Nonetheless, nonoil revenue increased from 5.7% of GDP in 2023 to 9.9% in 2025, supported by tax reforms, but informality (78.6% in 2025) constrains tax collection efforts. Illicit financial flows cost about \$1.2 billion a year over 1980–2018, and public investment efficiency gaps exceeded 30% in 2025, further limiting fiscal space.

Total banking sector assets, at 21.0% of GDP in 2025, and the ratio of private credit to GDP, at 8.3%, remain below the global averages of 40% and 50%. Externally, sovereign bond yields exceed 9.0%, compared with 4.9% for emerging markets, while gross financing needs remain high, at \$14 billion a year. Diversifying partners and leveraging multilateral development banks, including the African Development Bank, can help stabilize financing.

To close financing gaps, Angola must strengthen debt management, fiscal transparency, and creditworthiness; deepen financial markets through bank recapitalization and local bond market development; and mobilize private capital via public–private partnerships, multilateral development bank-backed guarantees, green and blue bonds, diaspora remittances exceeding \$1 billion annually, and nature-based finance aligned with climate-resilient infrastructure.



Source: Data are as of March 2026 and are from domestic authorities; figures for 2025 are estimates and figures for 2026 and 2027 are projections by the African Economic Outlook team.

Botswana

Recent macroeconomic developments

Real GDP contracted by an estimated 0.7% in 2025 from 2.8% in 2024, driven on the supply side by reduced diamond output and on the demand side by subdued government spending. Inflation averaged 2.7% in 2025, down from 2.8% in 2024, driven by food inflation. The Bank of Botswana maintained an accommodative monetary policy rate at 3.5% in December 2025, after revising the annual exchange rate crawl from 1.51% to 2.76% in July 2025 to enhance monetary policy transmission through liquidity and interest rates. The fiscal deficit widened to an estimated 9.4% of GDP from 7.3% in 2024, while the primary deficit deteriorated to 18.7% of GDP from 18.5%, reflecting weak domestic revenue mobilization. The deficit was financed through borrowing, which raised public debt to 40.7% of GDP from 33.1% in 2024. The current account deficit remained at an estimated 4.3% of GDP in 2025, while foreign reserves dropped to \$3.1 billion (4.4 months of import cover) by end-2025 from \$3.5 billion by end-2024 (5.4 months). The financial sector remains stable, with banks well capitalized at 20.0% (above the 12.5% regulatory threshold), low non-performing loans at 3.3%, and strong credit to private sector growth at 5.7% in 2025.

Social developments

About 17% of the population lives in extreme poverty, alongside high inequality (Gini coefficient of 0.53) and unemployment (27.6% overall and 38.2% for youth). Weak real GDP per capita growth has slowed inclusive growth despite a high 2025 Human Development Index value (0.731). Government responses include cash transfers, skills development, and entrepreneurship.

Outlook and risks

Real GDP growth is projected at 1.2% in 2026 and 3.5% in 2027, supported by renewed investment in the mining sector and increased activity in nonmining sectors, particularly services. Inflation is expected to average 6.2% in 2026 and fall to 4.7% in 2027, supported by tight monetary policy. The fiscal deficit is projected at 8.9% of GDP in 2026, narrowing to 8.0% in 2027, reflecting fiscal consolidation, and is expected to be financed through borrowing. The current account

deficit is projected to widen to 6.4% of GDP in 2026 and narrow to 4.5% in 2027, supported by a recovery in diamond exports and expected to be financed through the financial account. The main downside risk remains uncertainty in the diamond market and the Middle East conflict, underscoring the need for risk mitigation through fiscal consolidation, economic diversification, and sustained structural reforms to support inclusive and sustainable growth.

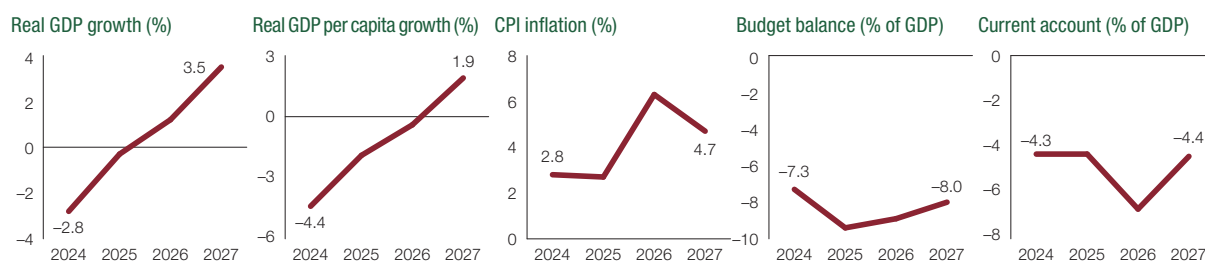
Mobilizing development financing at scale in a fragmented world

Capacity to mobilize large-scale development finance is constrained by a narrow tax base, dependence on mineral revenue, shallow capital markets, and rising borrowing costs amid global fragmentation. Expanding fiscal space requires stronger tax and nontax revenue collection, reduced illicit flows, and more efficient public investment.

Domestically, deepening financial inclusion and capital markets can help mobilize long-term savings, particularly from pension funds and institutional investors, toward productive infrastructure investment. However, limited long-term instruments and recent credit rating downgrades have increased borrowing costs, constraining access to affordable, long-tenor financing despite relatively moderate public debt.

Externally, diversification of financing partners and instruments with blended finance, multilateral development bank guarantees, and risk-sharing mechanisms can crowd in private capital. Scaling up public-private partnerships, green bonds, and diaspora finance can further diversify funding sources while supporting climate-resilient and sustainable investment.

In line with the National Development Plan 12, priority actions include strengthening domestic revenue and capital markets through tax base broadening, state-owned enterprise reform, and pension fund participation in infrastructure, scaling public-private partnerships and blended finance by multilateral development bank guarantees to attract private capital, and mobilizing green and diaspora finance while improving debt management to within the threshold of 40% of GDP and creditworthiness.



Source: Data are as of March 2026 and are from domestic authorities; figures for 2025 are estimates and figures for 2026 and 2027 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 developments

Economic growth slowed to 1.4% in 2025 from 5.2% in 2024, as external shocks outweighed gains from the Lesotho Highlands Water Project. Outside the project, activity weakened, with the textile sector contracting due to new US tariffs and uncertainty over the African Growth and Opportunity Act, while diamond production declined amid weak global prices and rising competition from lab-grown diamonds. The withdrawal of external support, including cancellation of the Millennium Challenge Corporation Compact II, further constrained growth. Overall, demand remained subdued, reflecting weak consumption and limited private investment. Inflation eased to 4.3% in 2025 from 6.1% in 2024, supported by lower food and fuel prices. Monetary policy remained aligned with regional trends, with the policy rate reduced by 100 basis points to 6.50% by the end of 2025. The fiscal surplus narrowed to 2.6% in 2025 from 9.5% in 2024, as revenue normalized to offset reduced grants. Public debt fell to 50.0% of GDP in FY2025/26 from 54.3% in FY2024/25, reflecting fiscal consolidation. Externally, the current account shifted from a 5.0% surplus in 2024 to a 3.9% deficit in 2025, driven by weaker export performance. Financial sector remained stable with strong capital adequacy and resilience levels.

Social developments

With real GDP per capita growing by only 0.3% in 2025, gains in living standards stalled, particularly in export-dependent urban areas affected by textile job losses. Rising unemployment—30.1% (2024), with youth at 38.9%—prompted the government to declare a two-year national state of disaster. Lesotho's 2025 Human Development Index value improved modestly, to 0.550.

Outlook and risks

Real GDP growth is projected to slow to 0.5% in 2026 before recovering to 1.8% in 2027, reflecting trade shocks and geopolitical tensions related to the Middle East conflict. Inflation is expected to rise to 5.7% in 2026 before easing to 4.3%, driven by higher fuel and food prices. Fiscal surpluses are projected at 2.1% in 2026 and 3.1% in 2027, supported by spending discipline, though Southern Africa Custom Union (SACU)

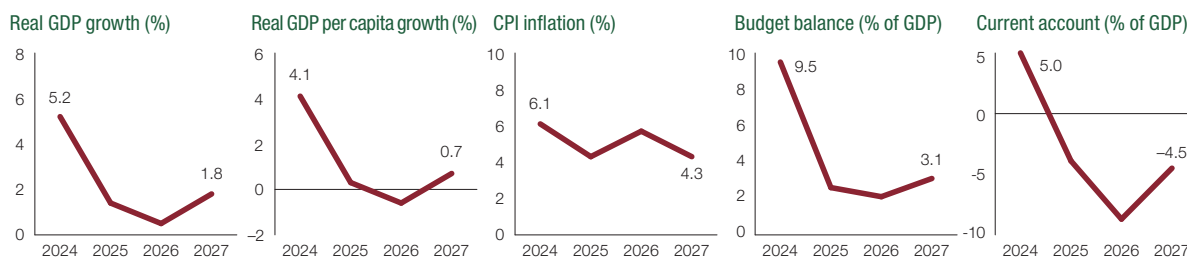
revenue volatility and lower grants pose risks. The current account deficit is projected to widen to 8.7% of GDP in 2026, due to import costs and project-related imports, before narrowing to 4.5% in 2027, as infrastructure spending eases over the medium term. Downside risks include a prolonged Middle East conflict, weak diamond demand, climate shocks, SACU revenue volatility, implementation constraints, and fiscal sustainability concerns. Policy priorities include strengthening fiscal buffers, improving public investment management, and accelerating diversification into higher-value sectors.

Mobilizing development financing at scale in a fragmented world

Capacity to mobilize large-scale development financing remains constrained by a narrow revenue base, high informality, shallow capital markets, and reliance on volatile SACU revenue. Although recent fiscal surpluses and higher water royalties have eased short-term pressures, financial intermediation remains weak. Banks hold significant liquidity, but this is not translating into investment due to a limited pipeline of bankable projects, weak diversification, and a lack of long-term financing instruments. Most liquidity is short term and risk averse, limiting its suitability for large development projects. Tight global financing conditions further exacerbate domestic constraints, underscoring the need to strengthen revenue mobilization, public financial management, and investment efficiency.

Building an integrated financial system requires addressing structural constraints linked to small market size, low capitalization, and limited access to affordable external finance. Strengthening investment management and project preparation capacity is essential to better leverage international financing.

Priority actions should focus on investment-ready institutions, improved project design, stronger public financial management discipline, and greater pipeline transparency to attract long-term capital. Broadening the tax base through formalization, strengthening micro, small and medium size enterprises, and expanding skills development pathways are equally important to support private sector-led growth.



Source: Data are as of March 2026 and are from domestic authorities; figures for 2025 are estimates and figures for 2026 and 2027 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 developments

Economic growth slowed to 3.2% in 2025 from 4.3% in 2024, supported on the supply side by agriculture (5%), metallurgy (9.6%), and banking and insurance (14.5%), alongside investment-led demand. Inflation rose to 8.0%, driven by higher food and energy prices, despite the Central Bank maintaining a tight policy rate of 12%. The Malagasy ariary depreciated further against the US dollar, from 4,523.1 in 2024 to 4,635.3 in 2025, reflecting persistent external pressures. The fiscal deficit widened to 4.1% of GDP in 2025 from 2.5% in 2024, driven by higher infrastructure spending under an expansionary fiscal stance. Public debt increased slightly, to 50.9% of GDP from 50.3%, indicating a moderate risk of debt distress. The current account deficit expanded to 6.0% of GDP from 5.3%, reflecting weaker export earnings, particularly from vanilla and cloves, and higher rice imports. The deficit was financed mainly through concessional external support, including the International Monetary Fund, while foreign reserves were maintained at 6.2 months of imports. The financial sector remained broadly stable, with credit growth of about 15.5% and a slight decline in non-performing loans to 7.6%. However, structural challenges persist. Poverty remains extremely high, unemployment is moderate, and informality dominates employment, limiting inclusive growth and sustained improvements in living standards.

Social developments

Poverty remains extremely high, at 75% in 2022. Despite moderate unemployment (6.6%), 95.2% of jobs are informal. Persistent inequality (Gini coefficient of 0.368) and weak and declining per capita GDP limit inclusiveness, preventing economic growth from significantly improving living standards.

Outlook and risks

Real GDP growth is projected to slow to 3.0% in 2026 before recovering to 4.5% in 2027, supported by extractive industries (notably nickel), agriculture, and investment-led demand. The Central Bank is expected to maintain the policy rate at 12% in 2026, while inflation is projected to rise to 9.0% due to external pressures, before easing to 6.5% in 2027 as imported food and energy prices decline. The fiscal deficit is expected to

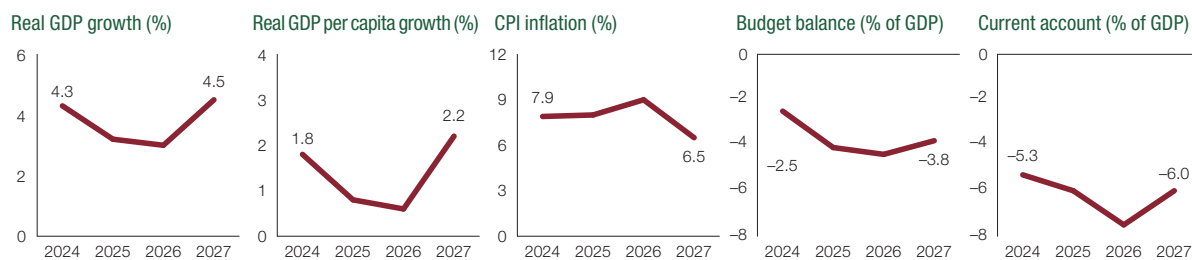
widen to 4.4% of GDP in 2026, driven by higher spending on oil and fertilizers, before narrowing to 3.8% in 2027 with improved spending efficiency. The current account deficit is projected to increase to 7.8% in 2026, reflecting higher imports and weaker exports, particularly vanilla, before easing to 6.0% in 2027. Key risks include climate shocks, commodity price declines, geopolitical tensions, and domestic political uncertainty. Mitigation measures include export diversification, stronger domestic resource mobilization, and climate finance mobilization.

Mobilizing development financing at scale in a fragmented world

Resource mobilization capacity is constrained by weak domestic revenue performance, with a tax-to-GDP ratio estimated at 10.5% of GDP in 2025, and a large informal economy accounting for about 47% of GDP. Additional constraints include governance weaknesses, reflected in the 2024 Ibrahim Index score of 45.3 out of 100, significant infrastructure gaps, and high exposure to climate-related shocks. These structural challenges limit the country's ability to generate and channel sufficient domestic savings toward development financing needs.

Addressing these constraints requires a stronger capacity to blend concessional loans, grants, and private sector finance to close financing gaps while maintaining debt sustainability. Leveraging the international financial system is therefore essential to mobilize additional capital at scale. Key actions include reducing perceived investment risk through improved governance, stronger transparency, and more predictable policy frameworks. Madagascar could also revitalize its public securities market by developing secondary markets and introducing innovative instruments such as green, blue, and diaspora bonds to finance high-impact projects.

Further reforms to strengthen domestic resource mobilization through formalization of the economy, improved tax administration, and institutional strengthening are critical. Enhancing policy credibility and predictability will improve investor confidence and crowd in both public and private financing, supporting more sustainable and inclusive long-term development outcomes.



Source: Data are as of March 2026 and are from domestic authorities; figures for 2025 are estimates and figures for 2026 and 2027 are projections by the African Economic Outlook team.

Malawi

Recent macroeconomic developments

Real GDP growth rose from 1.8% in 2024 to 2.7% in 2025. On the supply side growth was driven by the services sector, followed by agriculture and manufacturing, while spending-side growth was driven by final consumption, capital spending, and exports. A tight monetary policy stance has been maintained, with the policy rate at 26% in both 2024 and 2025. Inflation dropped from 32.2% in 2024 to 28.5% in 2025, as food prices moderated. The exchange rate has been unchanged at 1,716 Malawi kwacha per US dollar since March 2024. The fiscal deficit narrowed to 9.9% of GDP in 2025 from 10.6% in 2024 following rationalization of public spending, with the deficit financed mainly through borrowing from domestic banks. Public debt is about 91% of GDP and classified as in distress. The current account deficit narrowed from 21.7% of GDP in 2024 to 19.0% in 2025, as imports were constrained by foreign currency shortages. Foreign exchange reserves have remained below one month of import cover. Although profitable, liquid, and well capitalized, the financial sector is exposed to public debt holdings. The nonperforming to gross loans ratio fell from 8.3% in 2024 to 5.1% in 2025.

Social developments

The broadly defined unemployment rate stands at 20%, with youth unemployment at 23–26%. About 51.5% of the population lived below the poverty line in 2018. The government and development partners support social protection. Malawi has a Human Development Index value of 0.48 and ranks 174 of 189.

Outlook and risks

Real GDP growth is projected to slow to 2.3% in 2026 before recovering to 3.3% in 2027, supported by improved agriculture, services, and mining performance. Tight monetary policy is likely to persist as inflationary pressures remain, with nonfood inflation rising while food inflation moderates. Reduced monetary financing of fiscal deficits will slow money supply growth. Securing an International Monetary Fund-supported program

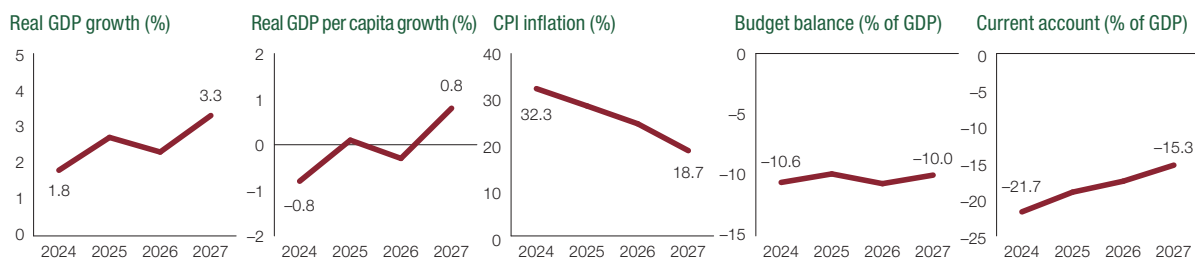
will require fiscal consolidation to ensure medium-term debt sustainability. Improved tobacco production, higher mining and tourism earnings, and reduced food imports are expected to narrow the current account deficit to 17.5% of GDP in 2026 and 15.3% in 2027. Key downside risks include climate shocks, the Middle East conflict, failure to secure financial guarantees for reforms, and unsuccessful domestic debt reprofiling, which could delay exchange rate adjustment. Risk mitigation measures include stronger fiscal discipline and policies to contain inflationary pressures while supporting gradual economic recovery and restoring macroeconomic stability.

Mobilizing development financing at scale in a fragmented world

Malawi faces severe development financing gaps following reductions in donor aid, compounded by climate-induced food insecurity, macro-fiscal instability, and debt distress. The domestic capital market remains underdeveloped, while attracting foreign direct investment is challenging. However, initiatives such as the European Commission and Kulima Access to Finance project supporting women and youth have mobilized over \$165 million in blended finance.

Building an integrated financial system for cross-border flows and affordable financing requires macroeconomic stability through fiscal consolidation, debt restructuring, and higher foreign exchange reserves. This also entails strengthening regulations, adopting interoperable digital payment systems, improving public investment management, and enhancing state-owned enterprise performance. Illicit financial flows, estimated at over \$400 million a year, driven by tax evasion, trade mis-invoicing, and corruption, require stronger international cooperation.

Deepening financial sector development, expanding access to formal services, and improving risk management are essential. Domestic revenue mobilization should focus on broadening the tax base, modernizing tax administration, improving nontax revenue, and enhancing equity and transparency in the tax system.



Source: Data are as of March 2026 and are from domestic authorities; figures for 2025 are estimates and figures for 2026 and 2027 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 developments

Real GDP grew by 3.2% in 2025, down from 4.9% in 2024, supported by financial services, wholesale and retail trade, agriculture, tourism, and transport on the supply side, while consumption led growth on the demand side. The fiscal deficit widened to 9.8% of GDP in 2025 from 8.5% in 2024, reflecting weaker revenue collection and higher infrastructure and social security spending. Gross public debt rose to 88.6% of GDP in June 2025 from 83.4% the previous year. The current account deficit increased to 7.1% of GDP in 2025 from 6.5% in 2024, driven by higher trade deficits despite a services surplus. Foreign reserves strengthened to \$10.3 billion in December 2025, covering 14.3 months of imports, from \$8.5 billion (12.0 months of imports) in December 2024. The rupee remained broadly stable in December 2025, trading at 46.5 per US dollar with slight appreciation. Inflation edged up to 3.7% in 2025 compared with 3.6% in 2024, remaining within the monetary policy target of 2–5%. Financial sector indicators improved in June 2025, with non-performing loans falling to 4.1% from 5.6% in the same period in 2024 and the capital adequacy ratio rising to 21.5%, indicating stronger banking sector resilience and stability.

Social developments

The national poverty headcount ratio decreased from 9.6% in 2017 to 7.3% in 2023. Income inequality, as measured by the Gini coefficient, fell from 0.368 in 2017 to 0.304 in 2022, attributable to public transfers. Unemployment stood at 5.6%, while youth unemployment was 17.1%, as of the third quarter of 2025.

Outlook and risks

The economy is projected to grow by 3.0% in 2026 and 3.8% in 2027, driven by financial services, wholesale and retail trade, and tourism. Inflation is expected to rise to 5.7% in 2026, due to the impact of the Middle East conflict, before easing to 3.9% in 2027 as global commodity prices decline. The fiscal deficit is projected

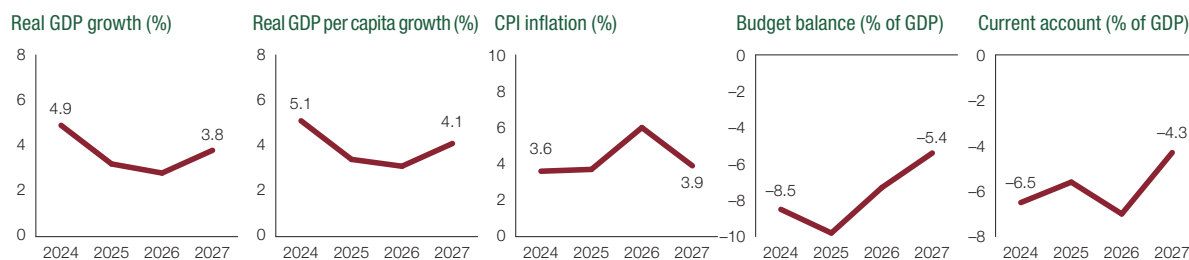
to narrow to 7.3% of GDP in 2026 and further to 5.3% in 2027, supported by fiscal consolidation and improved revenue collection. The current account deficit is expected to widen to 8.2% of GDP in 2026, due to weaker exports of goods and services, before narrowing to 5.0% in 2027, as service exports recover and agricultural activity rebounds. Downside risks include prolonged geopolitical tensions, rising debt vulnerabilities, global fragmentation, climate-related shocks, and labour market pressures. Mitigation measures should focus on diversification, structural transformation, fiscal discipline, infrastructure investment, coastal protection, and reforestation.

Mobilizing development financing at scale in a fragmented world

Mauritius faces limited financing constraints due to strong domestic revenue mobilization, a well-developed capital market, a small informal sector, and sound governance. Domestic revenue stood at 25.5% of GDP in FY2024/25, comprising tax revenue of 22.4% and nontax revenue of 3.0%. The country aims to increase this to 24.6% and 4.4% respectively in 2025/26 through improved revenue collection.

Mauritius has a sophisticated financial sector and functions as an international financial center integrated into global markets. Cross-border capital flows are channeled mainly through Global Business Companies, tax-resident foreign-owned entities involved in investment and asset management, and through Afrinex, a pan-African exchange established in 2021 in collaboration with the Bombay Stock Exchange.

Despite this strength, Mauritius is highly vulnerable to climate change, requiring \$5.7 billion for mitigation and adaptation under National Determined Contributions 3 for 2026–35, with a financing gap of \$4 billion. Key financing strategies include issuing sovereign sustainable bonds on the Stock Exchange of Mauritius and developing a robust pipeline of green and blue economy projects.



Source: Data are as of March 2026 and are from domestic authorities; figures for 2025 are estimates and figures for 2026 and 2027 are projections by the African Economic Outlook team.

Mozambique

Recent macroeconomic developments

Economic growth is estimated to have slowed to 0.2% in 2025 from 2.1% in 2024, reflecting security challenges in Cabo Delgado that disrupted extractive sector output, alongside weaker public consumption. Inflation rose to 4.4% in 2025 from 3.2% in 2024, driven mainly by higher food and nonalcoholic beverage prices. Despite these pressures, the Bank of Mozambique gradually reduced its policy rate to 9.2% in January 2026 from 12.7% in 2024, in response to subdued growth and expectations that inflation would remain contained. The fiscal deficit narrowed to 4.5% of GDP from 6.2% in 2024 due to lower capital spending, financed through domestic debt instruments and external resources. Public debt remains high at 91.0% of GDP, with rising domestic debt of 29% of GDP in 2025, increasing debt distress risks. The current account deficit widened to 13.3% of GDP from 11% in 2024, driven by large infrastructure and energy-related imports. The financial sector remains resilient, with capital adequacy improving to 26.5%, well above the regulatory minimum, and non-performing loans declining to 7.5%, although still above prudential benchmarks, indicating persistent credit risk vulnerabilities.

Social developments

Mozambique ranked 182 of 193 on the 2025 Human Development Index, up from 183 in 2024, but 71% of the population remains in poverty, and the infant mortality rate in 2025 was estimated at about 42 deaths per 1,000 live births. While unemployment is low (7%), jobs are largely informal. The government is expanding social protection programs to reduce inequalities.

Outlook and risks

Real GDP growth is projected at 2.1% in 2026 and 3.5% in 2027, supported by a rebound in the extractive sector, strong private consumption from rising incomes, and increased investment. Inflation is projected to moderate at 5.7% between 2026 and 2027, after the temporary, supply-driven pressures ease and consistent with the Bank of Mozambique goal of keeping inflation

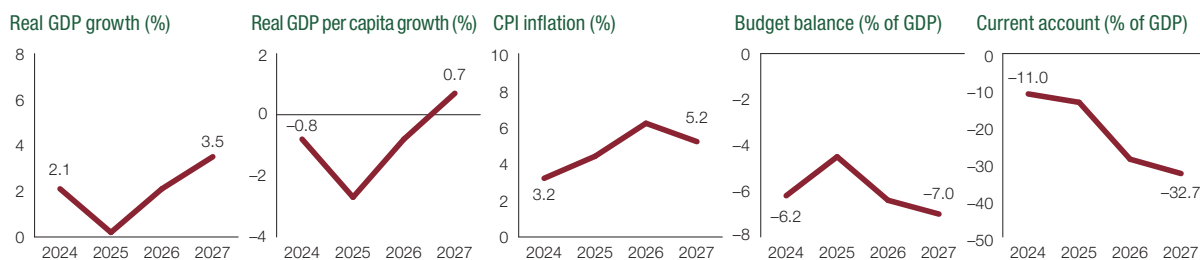
at a single-digit level. The fiscal deficit is projected to increase to 6.4% in 2026 and 7.0% in 2027, due to rising interest payments and reduced grants for project financing, while increased imports, driven by higher liquefied natural gas and mineral output, will widen the current account deficit to 28.8% of GDP in 2026 and 32.7% in 2027. Downside risks include climate shocks, political instability, conflict in Cabo Delgado, and global trade tensions. These risks can be mitigated by enhancing governance, investing in climate resilience, and improving security measures around liquefied natural gas operation sites.

Mobilizing development financing at scale in a fragmented world

Mozambique's ability to mobilize large-scale development financing is constrained by limited domestic revenue, with corporate income tax at 11% of GDP and value added tax at 5.9%, a highly informal workforce (95.7%) contributing about 40% of GDP, high debt service burdens, and governance risks. Illicit financial flows, estimated at \$26.4 million in 2016, further weaken resource mobilization. Expanding fiscal capacity, formalizing informal activity, and leveraging youth, women, and diaspora remittances, alongside multilateral support, public-private partnerships, and climate-linked instruments, are key to scaling development finance.

Strengthening domestic financial institutions is also essential. Mozambique can enhance banks, pension funds, insurance companies, and the Bolsa de Valores de Moçambique, while improving access to credit for youth and women entrepreneurs. Coordinated reforms, stronger anti-illicit flow measures, and partnerships with multilateral institutions can reduce risks, diversify financing sources, and improve resilience in a constrained global environment.

Priority actions include expanding fiscal capacity through tax reform and formalization, mobilizing private and diaspora capital via public-private partnerships and blended finance, and leveraging sustainable natural resource instruments such as carbon and forest credits to support inclusive, climate-resilient development.



Source: Data are as of March 2026 and are from domestic authorities; figures for 2025 are estimates and figures for 2026 and 2027 are projections by the African Economic Outlook team.

Namibia

Recent macroeconomic developments

Economic growth is estimated at 1.7% in 2025, down from 3.8% in 2024. On the supply side, growth was driven by construction linked to new mining projects, electricity and water, and services, particularly in the wholesale and financial sectors. On the demand side, growth was supported by public and private investment in exploration and construction, alongside household consumption.

Monetary policy operates within the Common Monetary Area, limiting independence due to alignment with the South African Reserve Bank. The Namibian dollar remains pegged at parity with the South African rand. Inflation eased to 3.5% in 2025 from 4.2% in 2024, driven by lower food and fuel prices. The Bank of Namibia implemented two repo rate cuts totaling 50 basis points, to 6.5% by the end of 2025. The fiscal deficit widened to 6.6% of GDP in 2025 from 4.0% in 2024 due to lower revenue and higher spending. The current account deficit improved slightly to 13.1% from 14.9%, while the financial sector remained stable, with non-performing loans reducing marginally to 4.8%, reflecting continued resilience despite fiscal and external pressures.

Social developments

Namibia, reclassified as a lower-middle-income country in 2025, faces high income inequality, with a Gini coefficient of 0.59, high unemployment (34.6%), and persistent poverty (26.9%). In response to youth unemployment pressures, the government launched the National Youth Development Fund in June 2025, now in its pilot phase, as part of wider efforts to support job creation and entrepreneurship.

Outlook and risks

Economic growth is projected to recover to 2.5% in 2026 and rise to 3.5% in 2027, supported by agriculture, mining, construction, and offshore oil investment. The fiscal deficit is expected to widen to 6.9% in 2026 before narrowing to 4.9% in 2027, supported by Southern Africa Customs Union (SACU) receipts and reduced borrowing. The current account deficit is projected to widen to 15.2% in 2026, while inflation rises to 6.1% due to higher oil prices.

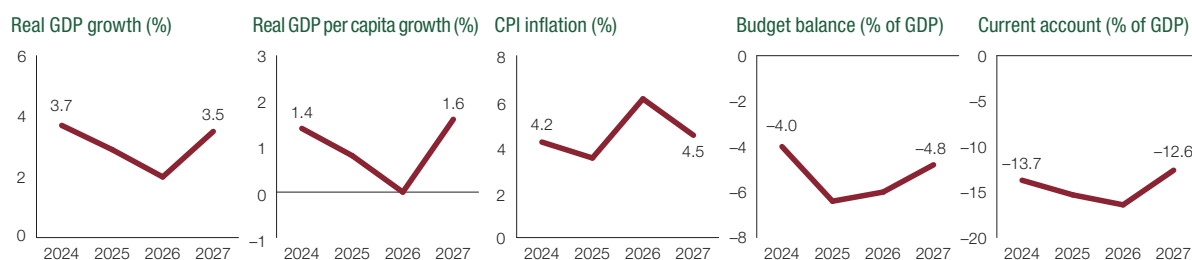
Key risks include a prolonged diamond downturn, volatility of SACU revenue, weakening fiscal stability, and the Middle East conflict. Upside potential from green hydrogen and oil-related foreign direct investment is constrained by high unemployment and inequality. Mitigation measures include diversifying the revenue base, improving tax digitalization, and expanding carbon credit instruments to reduce exposure to external shocks.

Mobilizing development financing at scale in a fragmented world

Namibia faces several financing constraints that limit its ability to drive inclusive and sustainable development. Key challenges include limited domestic revenue due to tax inefficiencies and exemptions, a large informal sector that narrows the tax base, shallow capital markets, and weaknesses in public financial management. Nontax revenue from natural resources remains underoptimized, and gaps in transparency and enforcement contribute to revenue losses. Illicit financial flows and limited beneficial ownership disclosure undermine domestic resource mobilization.

To address these constraints, Namibia has modernized tax administration under the Namibia Revenue Agency Act 12 of 2017 to strengthen e-filing and compliance systems and enhance the tax policy role of the Ministry of Finance's Tax Policy Unit to ensure alignment with global best practices. Strengthening nontax revenue collection through better oversight of natural resource sectors and deploying digital customs tools such as the Electronic Advance Ruling and Electronic Tariff systems can reduce fraud and improve classification.

By implementing improved Public Financial Management practices and deepening domestic capital markets, Namibia can significantly bolster its economic resilience. Strengthening public-private partnership frameworks, leveraging diaspora financing, and expanding sustainable finance instruments (including verified carbon credits) will collectively enhance financial autonomy, reduce external debt dependency, and drive long-term structural transformation.



Source: Data are as of March 2026 and are from domestic authorities; figures for 2025 are estimates and figures for 2026 and 2027 are projections by the African Economic Outlook team. Data for the budget balance reflect a financial year that begins April 1 and ends March 31 the following year.

São Tomé and Príncipe

Recent macroeconomic developments

In 2025, real GDP grew by 2.1%, up from 1.1% in 2024, favored by tourism recovery, high cocoa prices, eased global inflationary pressures, and lower oil prices but hindered by inadequate infrastructure and energy shortages. Demand-side drivers were private consumption, public works, and net exports. Inflation eased to 11.2%, continuing to normalize from its 21.3% peak in 2023. Price growth stabilization is slowing due to supply chain disruptions, particularly energy supply, a key obstacle to private sector development. The overall fiscal balance is estimated at a surplus of 0.1% of GDP in 2025, with a deficit of 1.4% of GDP projected in 2026. Fiscal balances started improving in 2024 and followed in 2025, due to a public hiring freeze in 2025, among other factors. In December 2025 the International Monetary Fund extended its Extended Credit Facility by one year to facilitate gradual adjustments. The current account deficit worsened from 3.8% of GDP to 4.7%, making it harder to increase foreign exchange reserves beyond 2 months of imports. This reflects a terms-of-trade shock: cocoa prices fell by 60%, partly offset by a decrease in oil prices of 12%. Commercial banks' credit to the economy grew by 49% (to the private sector by 25%), though financial inclusion remains a fundamental challenge.

Social developments

The population was 209,607 in 2022, with gradually slowing demographic growth and high density for a small island state. Inequalities in living conditions and life expectancy remain significant, waste management is severely deficient, and emigration (especially for the working-age population) has accelerated sharply since 2022.

Outlook and risks

The growth outlook remains positive, with GDP growth projected at 2.4% in 2026 and 3.2% in 2027, supported by recovery in tourism, construction, public infrastructure works, and renewable energy investment to ease energy constraints. Fiscal consolidation is expected to strengthen revenue collection, while public spending

remains pro-poor. Institutional reforms linked to the 2026–2040 National Development Strategy could gradually improve foreign direct investment inflows.

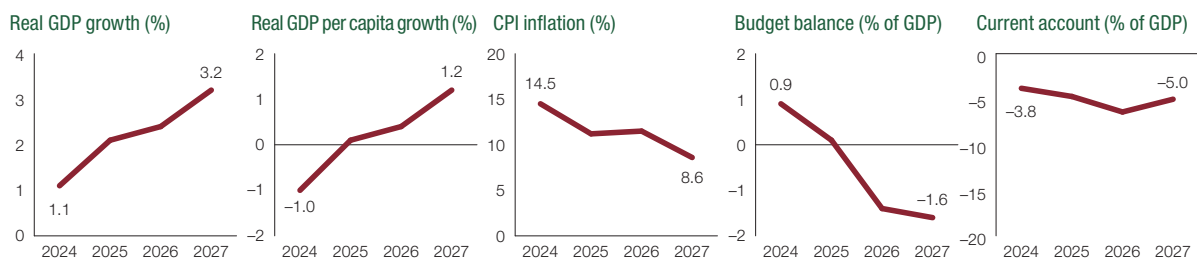
Key risks relate to global commodity prices, particularly lower cocoa prices and higher fuel prices driven by Middle East tensions, which could further aggravate balance of payments pressures. Additional risks stem from slow energy reforms, lower donor inflows, rising protectionism, and climate change impacts. The 2026 election cycle may accelerate visible public projects but could also shift policy focus to short-term priorities, delay structural reforms, and increase fiscal slippages, thereby weakening macroeconomic stability and reform momentum over the medium term.

Mobilizing development financing at scale in a fragmented world

Capacity to mobilize development finance is constrained by small island developing state costs, a narrow production base, energy bottlenecks, high informality, shallow financial markets, weak banking intermediation, limited digital payment systems, and institutional weaknesses. These constraints reduce productivity, limit tax base growth, and weaken absorption of external capital. Persistent twin deficits, tight fiscal space, and debt distress increase vulnerability to external shocks and volatile aid inflows.

Strategic priorities include energy sector reforms, deepening financial markets, broadening the tax base, and improving financial literacy and inclusion. Greater use of natural capital through carbon markets and debt-for-climate swaps, alongside public–private partnerships, should support financing efforts. Regional financial integration can reduce costs, improve risk sharing, and attract private investment.

Key reforms include modernizing debt and tax systems and the public utility EMAE, expanding digital payments, strengthening financial inclusion, and reinforcing anti–money laundering and counterterrorism frameworks. Blended finance, guarantees, and international financial institution credit lines can further de-risk projects and crowd in private capital for inclusive growth.



Source: Data are as of March 2026 and are from domestic authorities; figures for 2025 are estimates and figures for 2026 and 2027 are projections by the African Economic Outlook team.

South Africa

Recent macroeconomic developments

Real GDP growth was 1.1% in 2025, up from 0.5% in 2024, reflecting recovery in agriculture (crops and horticulture), as well as stronger activity in finance, real estate, business services, and trade, catering, and accommodation. Real GDP per capita remained flat in 2025, an improvement from the contraction of 0.7% in 2024. On the demand side, growth was driven mainly by household spending. Inflation declined to 3.2% in 2025 from 4.4% in 2024, due to stable food prices, prompting the Central Bank to reduce its policy rate from 8.25% in September 2024 to 6.75% in November 2025. The fiscal deficit, including grants, remained at 4.5% of GDP in 2025, unchanged from 2024, as noninterest spending rose. Public debt increased to 78.9% of GDP from 77.0%, reflecting weaker nominal growth. The current account deficit widened slightly to 0.9% of GDP from 0.6%, driven by slower export growth, although gross reserves improved to 6.1 months of imports from 5.6 months. The financial sector remained stable, with non-performing loans dropping to 4.5% and the capital adequacy ratio improving to 17.8%, indicating strengthened banking sector resilience.

Social developments

Social protection has helped alleviate extreme poverty. However, due to historical inequality and low economic growth, unemployment and poverty remained high at 31.4% (with youth unemployment at 43.8%) and 68.1% in 2025, respectively. Income inequality, measured by the Gini coefficient, was estimated at 0.67 in 2018.

Outlook and risks

GDP growth is projected to rise to 1.2% in 2026 and 1.6% in 2027, underpinned by improved energy supply, strong mining activity, and structural reforms in energy, logistics, water, and governance. Real GDP per capita growth will recover to 0.1% in 2026 and 0.5% in 2027. Inflation is projected at 3.9% in 2026 and 3.6% in 2027. The fiscal deficit including grants is expected to increase to 5.1% of GDP in 2026 and stabilize at 4.7% of GDP in 2027, due to fiscal consolidation measures. The

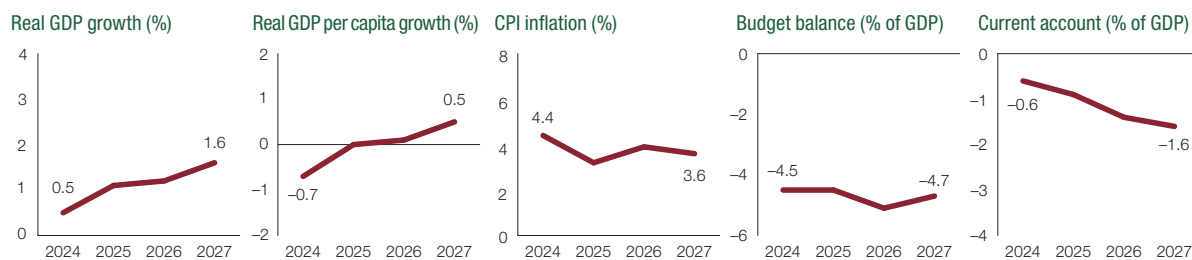
current account deficit is expected to increase to 1.4% of GDP in 2026 and 1.6% in 2027, on account of higher imports. Significant domestic risks remain, including infrastructure deficits, electricity and water supply challenges, inefficiencies in freight rail and port operations, local government governance weaknesses, and fiscal vulnerabilities arising from state-owned enterprise bailouts. External risks comprise geopolitical tensions, US tariffs, and the escalating climate crisis.

Mobilizing development financing at scale in a fragmented world

South Africa has one of the largest and most developed capital markets in Africa, with total turnover of 29% in 2025 and about 800 instruments, including equities, exchange-traded funds, and bonds, and 400 listings. The country finances approximately 90% of its national budget from domestic resources, while foreign loans contribute around 10%. Despite this strong financial system, the country must scale up development financing to address structural constraints, including high income inequality and infrastructure bottlenecks such as water and electricity shortages and aging rail networks.

To mobilize additional development finance, South Africa should expand public–private partnerships through blended finance, strengthen infrastructure project preparation to reduce investment risk, and attract private capital for initiatives such as the just energy transition. Key strategies include enhancing the regulatory capacity of institutions such as the Financial Services Board and the South African Reserve Bank to monitor cross-border risks, strengthening development finance institutions, and promoting sustainable financial instruments.

South Africa's potential lies in leveraging its mature financial sector through strategic partnerships and international capital to close financing gaps in a fragmented global environment. Improving public financial management, de-risking projects through development finance institutions, and promoting competition will further enhance investment mobilization and support structural transformation.



Source: Data are as of March 2026 and are from domestic authorities; figures for 2025 are estimates and figures for 2026 and 2027 are projections by the African Economic Outlook team. Data on the budget balance correspond to South Africa's fiscal year, which runs from April 1 to March 31.

Eswatini

Recent macroeconomic developments

Real GDP growth accelerated from 2.8% in 2024 to an estimated 4.6% in 2025, with real GDP per capita growth rising to 3.5% from 2.0%. On the supply side, services remained the main driver, while construction rebounded as delayed public infrastructure projects advanced. Manufacturing grew modestly amid stable regional trade, and agriculture partially recovered due to improved rainfall and irrigation, although mining remained weak. On the demand side, growth was driven by higher public and private investment and recovering household consumption. Monetary policy remained anchored to the Common Market Area framework, limiting policy autonomy under the exchange rate peg. The Central Bank's policy rate was maintained at 6.75% during 2024–25. Inflation eased from 4.0% in 2024 to 3.1% in 2025, driven by lower food and fuel prices. However, elevated non-performing loans and cautious bank lending constrained credit transmission to the private sector. The fiscal deficit widened from 1.7% of GDP in 2024 to 2.8% in 2025, reflecting higher wage spending and lower Southern African Customs Union (SACU) revenue, with financing largely through domestic borrowing. The current account surplus narrowed to 1.3% of GDP, supported by a strong goods balance and income inflows.

Social developments

Despite stronger per capita growth in 2025, inclusiveness remains constrained, with 34% of the population living in extreme poverty, largely in rural areas. High unemployment and limited structural transformation persist. Government actions include expanded social grants, community outreach, rural agricultural empowerment, and youth and women skills programs to reduce inequality and harness the demographic dividend.

Outlook and risks

Growth is projected to moderate to 4.0% in 2026 before easing to 3.5% in 2027, supported by public investment in water, energy, transport, and irrigation, alongside gradual services sector recovery. Inflation is projected at about 4.0% in 2026 and 3.5% in 2027, reflecting stable import prices and moderate domestic demand. The fiscal deficit is projected to widen to 6.4% of GDP

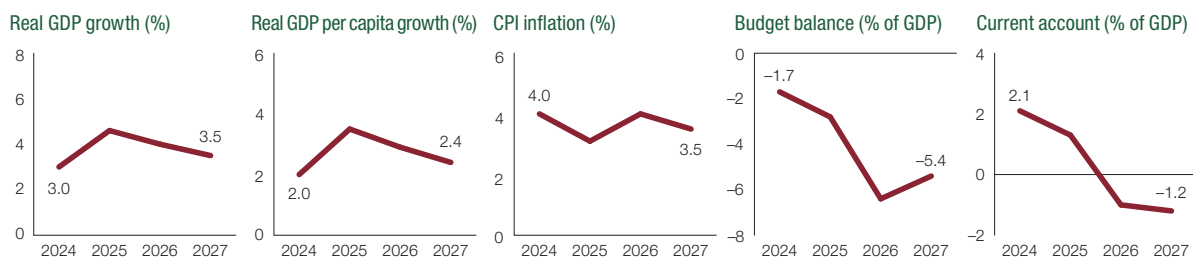
in 2026 before narrowing to 5.4% in 2027, reflecting capital spending, wage pressures, and subdued SACU revenue. The current account is expected to shift into a deficit of 1.0% in 2026 and widen to 1.2% in 2027, reflecting fiscal pressures from import-intensive capital spending. Downside risks include delays in project execution, climate shocks, volatile SACU receipts, and the Middle East conflict, while tailwinds stem from faster infrastructure delivery. Mitigation will rely on stronger domestic revenue mobilization, improved public investment management, climate resilience, and diversification of trade and financing sources.

Mobilizing development financing at scale in a fragmented world

Capacity to mobilize development financing remains constrained by low domestic revenue, a large informal sector, shallow capital markets, and limited access to diversified external financing. Strengthening fiscal capacity is therefore central. Authorities are improving tax and nontax revenue administration, expanding digital systems, reducing leakages, and enhancing public investment efficiency. Financial inclusion, formalization, and improved fuel levy collection aim to unlock domestic capital and support infrastructure financing.

Global financial fragmentation, tighter liquidity conditions, and volatile capital flows raise borrowing costs and reduce predictability of external financing. Eswatini must diversify financing sources, deepen engagement with multilateral development banks for concessional finance and risk mitigation, and leverage diaspora remittances and climate-aligned instruments such as green bonds. Revenue-backed instruments linked to tolls and fuel levies can strengthen creditworthiness, while regional integration and stronger regulatory and debt management frameworks can improve access to long-term capital.

Priority actions include strengthening domestic revenue mobilization through digital tax reforms and improved public investment management, developing domestic bond markets and debt management capacity, and expanding bankable public–private partnerships and climate-resilient infrastructure projects to crowd in private capital at scale and support inclusive and sustainable development outcomes.



Source: Data are as of March 2026 and are from domestic authorities; figures for 2025 are estimates and figures for 2026 and 2027 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 developments

Real GDP growth was estimated at 5.2% in 2025 from 3.8% in 2024, driven by strong performance in mining and agriculture on the supply side, while net exports and foreign direct investment supported growth on the demand side. However, in March 2026, authorities updated the 2025 real GDP growth estimate to 3.8%—the same level as 2024—due to underperformance in information communications and technology, wholesale and retail trade, and finance and insurance. Real GDP per capita growth increased to 2.4% from 1.0% over 2024–25. Inflation decreased to 14.0% in 2025 from 14.8%, reflecting tighter monetary policy and improved agricultural output. The fiscal deficit widened to 4.6% of GDP in 2025 from 3.5% in 2024, driven by debt service costs and fuel arrears clearance, and was financed through domestic and external borrowing. Public debt dropped to 87.6% of GDP from 101%, reflecting reductions in domestic and external debt, although debt distress risk remains high. The current account deficit narrowed to 1.0% of GDP from 4.4%, supported by higher copper export receipts. International reserves improved to 4.8 months of imports from 4.4 months. The financial sector remains stable, with non-performing loans falling to 3.8% and the capital adequacy ratio rising to 25%, indicating strengthened banking system resilience.

Social developments

Extreme poverty stood at 48% in 2025, compared with 49% in 2024, supported by an increase in annual real GDP per capita growth, estimated at 2.4% in 2025. Unemployment has been reduced to 10.3% in 2025, suggesting progressively more inclusive growth. Zambia's 2025 Human Development Index value stood at 0.595. To reduce inequality, the government is investing in education, health, agriculture, and cash transfers.

Outlook and risks

Growth is projected at 5.0% in 2026 and 6.3% in 2027, driven by mining, agriculture, and energy recovery. Real GDP per capita is expected to reach 2.3% in 2026 and 3.5% in 2027. Inflation is projected to ease to 9.3% in 2026 and 7.2% in 2027 as food supply improves, with

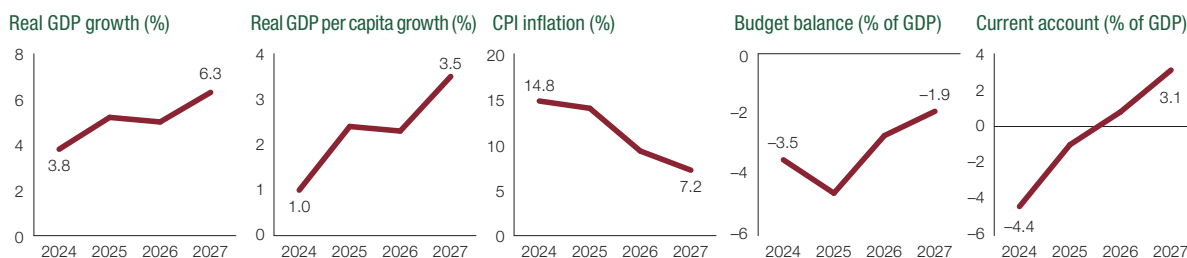
continued focus on achieving the Central Bank's 6–8% target range. The fiscal deficit is projected to improve to 2.7% of GDP in 2026 and 1.9% in 2027, supported by stronger revenue mobilization and fiscal consolidation. The current account surplus is projected at 0.8% of GDP in 2026 and 3.1% in 2027, driven by higher copper export earnings and favorable global prices. Downside risks include drought, reduced aid flows, the Middle East conflict, and commodity price volatility. Mitigation measures include irrigation-led agriculture, export diversification, deeper regional integration, and maintaining a flexible exchange rate to support external stability and macroeconomic resilience.

Mobilizing development financing at scale in a fragmented world

Constraints to mobilizing development finance include a high debt stock, declining official development assistance, tax evasion and avoidance, a large informal sector, and low uptake of smart invoicing systems. Despite these challenges, Zambia is making progress in domestic resource mobilization, with domestic revenue financing 81% of the 2025 budget, up from 74% in 2024. This share is projected to rise further to 82% in 2026 and 85% in 2027. The country is also diversifying financing sources through increased use of public-private partnerships in infrastructure and service delivery, supported by an improving business environment.

Zambia is pursuing coordinated institutional reforms across regulatory frameworks, capital markets, and macro-structural systems to build an integrated financial architecture. Key initiatives include the rollout of the Integrated Financial Management Information System, the Bank of Zambia Act (2022) strengthening banking supervision, and the Banking and Financial Services (Green Loans) Guidelines (2023) to support sustainable finance.

Priority actions for scaling development finance include strengthening debt management strategies, expanding data-driven tax administration to reduce leakages, and implementing foreign exchange market guidelines to improve transparency, efficiency, and stability. These reforms aim to enhance fiscal resilience and mobilize long-term financing for development priorities.



Source: Data are as of March 2026 and are from domestic authorities; figures for 2025 are estimates and figures for 2026 and 2027 are projections by the African Economic Outlook team.

Zimbabwe

Recent macroeconomic developments

Real GDP growth rose to an estimated 7.6% in 2025 from 1.7% in 2024, driven by a 24% expansion in agriculture, notably tobacco, wheat, and cereals, following favorable rainfall. Mining grew by 7.3% on the back of continued lithium investment and firm gold and platinum prices, while manufacturing expanded by 4.2%. On the demand side, growth was led by consumption and investment. Sustained monetary policy tightening since late 2024, reinforced by prudent fiscal policy and liquidity management, helped anchor inflation expectations and stabilize the exchange rate, with annual inflation falling to 89% in 2025, compared with 736% in 2024, also aided by improved food supply.

The fiscal deficit narrowed from 1.3% of GDP in 2024 to 0.5% in 2025, supported by stronger revenue from improved tax administration and economic recovery. The deficit was financed mainly through domestic borrowing. Public debt reached \$23.4 billion (51.1% of GDP), including external arrears. The current account surplus rose to 4.1% of GDP, supported by remittances, lower imports, and mineral exports. Foreign reserves increased to \$950 million, about 1 month of import cover. The financial sector remains stable, with a capital adequacy ratio of 26.7% and non-performing loans at 3.5%.

Social developments

Zimbabwe ranked 153 of 193 on the 2025 Human Development Index, which reflects gradual but uneven social progress. Poverty remained high at 40%, unemployment reached 20.4% (27.9% among youth), and informality affected 58.5% of workers. Social protection remains essential for drought-prone households.

Outlook and risks

Growth is projected to moderate to 4.3% in 2026 and 4.5% in 2027 as agriculture normalizes, policies tighten, and structural constraints persist. Favorable weather, ongoing reforms, steady demand, and rising exports are also expected to support growth. Inflation is expected to ease to 14.7% in 2026 and 10.1% in 2027, aided by exchange rate stability, tight monetary policy, and adequate food supply.

The fiscal deficit is projected at 0.7% of GDP in 2026 and 0.5% in 2027, amid high fuel and import costs.

The external position is expected to shift to a current account deficit of 0.2% of GDP before returning to a 1.3% of GDP surplus in 2027, reflecting volatile energy prices and trade uncertainty.

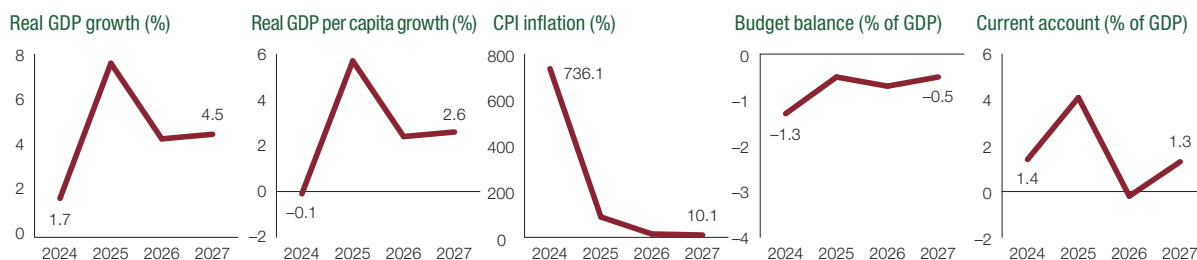
Key risks include global economic uncertainties, tight financing conditions, the Middle East conflict, commodity price volatility, a high wage bill, and unresolved external debt arrears, underscoring the need to rebuild reserves and strengthen macroeconomic stability.

Mobilizing development financing at scale in a fragmented world

Zimbabwe can accelerate inclusive growth by strengthening domestic resource mobilization (revenue at 15.9% of GDP in 2025), deepening its existing financial and capital markets (currently capitalized at about 25–30% of GDP), and leveraging its natural capital. Priority reforms include modernizing revenue systems, promoting formalization, and diversifying financing partnerships. Mobilizing domestic savings and diaspora remittances, through deeper, more efficient financial and capital markets and appropriate blended-finance instruments, is essential. Complementary measures include empowering youth and women, easing micro, small and medium size enterprise constraints, strengthening public financial management, and expanding public–private partnerships and concessional financing.

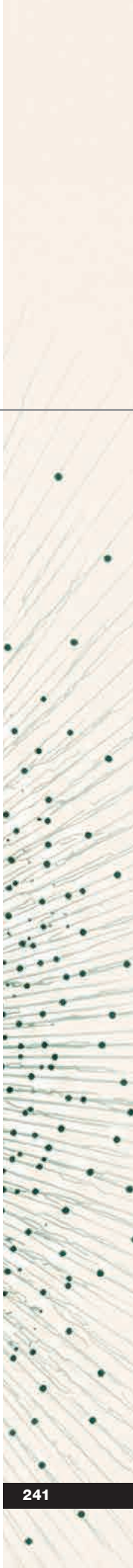
The economy remains constrained by low reserves and high exposure to external shocks, limiting access to long-term capital. The \$7.7 billion external debt arrears burden has weakened creditworthiness and deepened debt overhang. Strengthening debt management, transparency, and cooperation with multilateral development banks is critical to restoring access to concessional financing.

Targeted reforms are needed to strengthen the financial architecture and expand long-term finance. Priorities include improving the monetary–fiscal interface, strengthening reserves, deepening capital and money markets, and enhancing oversight. Expanding long-term finance requires developing local-currency bond markets, improving credit information, and advancing pension and insurance reforms, supported by fintech-driven inclusion, stronger development finance institutions, and regional integration.



Source: Data are as of March 2026 and are from domestic authorities; figures for 2025 are estimates and figures for 2026 and 2027 are projections by the African Economic Outlook team.

WEST AFRICA



Benin

Recent macroeconomic developments

Benin posted robust growth of 8.1% in 2025, up from 7.5% in 2024. The main drivers continued to be public works (up 9.8%), textiles (up 9.3%), and agribusiness (up 8.4%). On the demand side, investment and improved exports were the main drivers of growth in 2025. Macroeconomic stability strengthened, with inflation kept in check at 1.2% in 2024 and 1.1% in 2025, due to the combined effect of prudent monetary policy, stabilization of prices for petroleum products imported from Nigeria, and a favorable agricultural season. On the fiscal front, the country pursued a rigorous consolidation policy, based on spending control and digitization of tax revenue collection. This approach reduced the budget deficit from 3.0% of GDP in 2024 to 2.8% in 2025. Based on reclassification by the International Monetary Fund (IMF) in February 2026, public debt stood at 60.5% of GDP in 2024. The risk of excessive debt was assessed as moderate by the IMF. Upgrading the Glo-Djigbé industrial zone (GDIZ) and shifting exports toward higher value added products helped reduce the current account deficit from 6.2% of GDP in 2024 to 5.7% in 2025. At the same time, the financial sector has consolidated, with 15% growth in credit to the private sector.

Social developments

Strong growth in real GDP per capita (up 5.6% in 2025), combined with a positive start in job creation in the GDIZ, should reduce the poverty rate (estimated at 36.2% in 2022). Inequalities persist due to the low productivity of informal employment, which accounts for more than 90% of the workforce. Investing in human capital is essential to boost productivity, youth employment, and the demographic dividend.

Outlook and risks

The macroeconomic outlook remains favorable, with growth projected at 7.0% in 2026 and 7.1% in 2027. This momentum is driven by expansion in the GDIZ, ongoing modernization of the Port of Cotonou, and the launching of extractive initiatives. Fiscal consolidation is expected to continue, with the deficit kept under control at 2.7% of GDP in 2026 and 2.4% in 2027. Access to international financial markets has strengthened

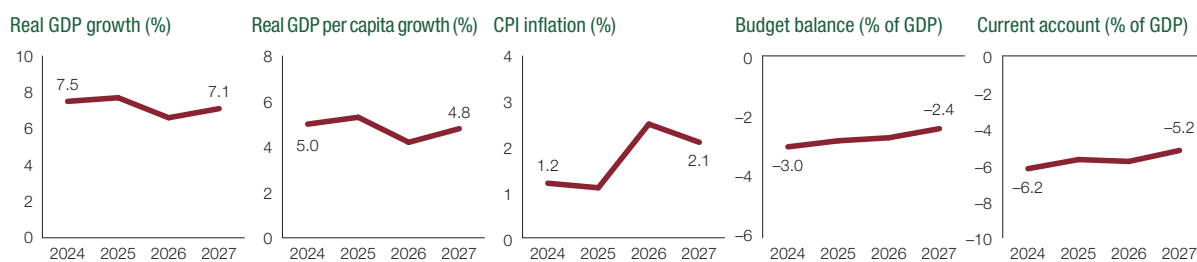
(\$850 million raised in January 2026), including the first international sukuk issuance, broadening the investor base to the Middle East and Asia. Externally, the current account deficit is expected to narrow to 5.2% of GDP in 2027, supported by the upgrading of exports. Monetary policy and favorable agricultural conditions are expected to keep inflation below 2.5% over 2026–27. Vulnerabilities remain, linked to the effects of the Middle East conflict, security risks in the north, and agriculture's high exposure to climate change. However, the impact of the Middle East conflict is expected to be limited in the short term, due to the oil supply mechanism.

Mobilizing development financing at scale in a fragmented world

Financial resources are volatile amid growing fragmentation in development financing. Development aid has long served as a catalyst, averaging 4.3% of GDP over 2020–24. Tax revenue, limited to 13.9% of GDP in 2025, remains insufficient to cover development financing. Benin will need to step up domestic revenue mobilization and improve efficiency in public investment. Tax digitalization, formalization of the informal sector, green tax innovation, and development of public–private partnerships are levers for strengthening human capital, capitalizing on the demographic dividend, and accelerating economic transformation.

Benin also needs to speed up reform of its financial architecture to build a more integrated system and improve access to affordable resources. Developing a more liquid sovereign bond market in CFA francs, supported by an active secondary market and reinforced by enhanced debt management capabilities, is a priority. At the same time, structuring a sustainable bond market, creating an innovative climate finance vehicle, and channeling diaspora savings toward sustainable financing are levers for diversifying and securing long-term financing.

To catalyze large-scale financing, Benin should prioritize high-impact reforms, specifically the operationalization of the country's Green Finance Vehicle. In addition, accelerating the strategy to issue thematic sovereign bonds and strengthen sovereign risk management, supported by a real-time monitoring platform, is an essential lever for preserving long-term access to private capital.



Source: Data are as of March 2026 and are from domestic authorities; figures for 2025 are estimates and figures for 2026 and 2027 are projections by the African Economic Outlook team.

Burkina Faso

Recent macroeconomic developments

Economic activity gained momentum in 2025, with growth of 6.3%, compared with 5.0% in 2024. On the supply side, growth was driven by the gold sector. This was fueled by a surge in gold production (94 tons) and soaring gold prices and by the agricultural sector (grain production up 18%). On the demand side, final consumption and investment supported growth. The country recorded deflation of 0.5%, compared with inflation of 4.2% in 2024, attributable in particular to a good harvest in the 2024–25 season. The Central Bank of West African States eased its monetary policy, lowering key interest rates by 25 basis points in June 2025 and March 2026. The budget deficit decreased from 5.8% of GDP in 2024 to 3.7% in 2025. This was due to increased government revenue, particularly from gold mining activity, and the streamlining of public spending, excluding security spending (27.7% of the budget). Public debt, at 58.8% of GDP in 2024, remained sustainable, despite the significant and costly share of domestic debt (59% of total debt). The risk of excessive debt remains moderate. The current account deficit improved to 2.2% of GDP from 5.7% in 2024, supported by the high value of gold exports. The non-performing loan ratio is estimated at 11.6%, compared with 9.0% in 2024, and the capital adequacy ratio remained stable at 14.5%, still exceeding the minimum standard (11.5%). Domestic credit to the private sector as a percentage of GDP decreased by 2.8 percentage points.

Social developments

With the improvement in the security situation, the government is refocusing its priorities toward more inclusive growth: support for displaced persons, launch of the Universal Health Insurance Scheme, and human capital development. Extreme poverty has declined, from 35% in 2022 to 30% in 2025 and is concentrated primarily in rural areas.

Outlook and risks

The economic outlook is positive, with real GDP growth projected at 5.4% in 2026 and 5.8% in 2027, driven by strong agricultural and extractive production and robust investment. Inflation is expected to remain low, at 2.1% in 2026 and 1.7% in 2027, supported by good harvests. The budget deficit is expected to be 4.2% of GDP in 2026 and 3.8% in 2027, due to an anticipated increase in government revenue. Public debt is expected to

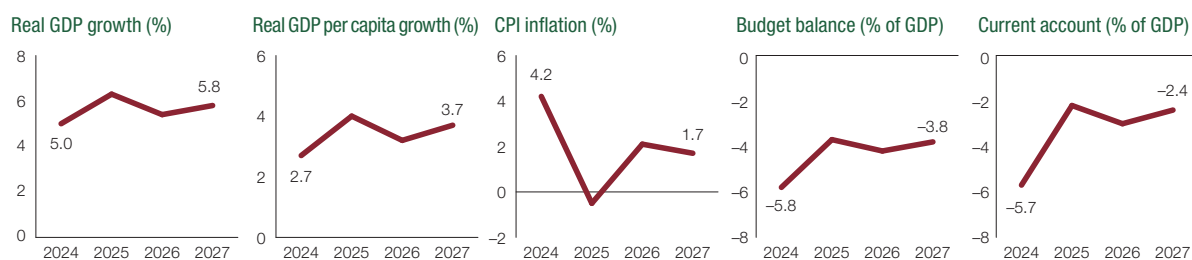
decline in the medium term, with a projected reduction in the budget deficit and the resulting decrease in domestic debt. The current account deficit is expected to remain sustainable, at 3.0% of GDP in 2026 and 2.4% in 2027, due to an anticipated increase in revenue from gold exports and a projected decline in food imports. Risks to these outlooks include security challenges, major negative impacts of climate change, a fall in export commodity prices, and a prolonged surge in oil prices. The country should continue to secure its territory, strengthen social cohesion, promote economic diversification, invest in infrastructure and human capital, and enhance adaptation to climate change.

Mobilizing development financing at scale in a fragmented world

Burkina Faso plans to further mobilize its own resources and attract external financing to fund its RELANCE Development Plan 2026–2030. Constraints include a limited tax base due to the 90% dominance of the informal sector in terms of production units; an underdeveloped financial system; low domestic savings, estimated at 18.5% of GDP in 2024; and declining external aid. Foreign direct investment represented less than 3% of GDP in 2024. In this context, gold mining, remittances from the diaspora, the promotion of private financing, and the diversification of partners are key levers that need to be activated.

Large-scale financing mobilization should capitalize on the transformation of local projects into attractive investment opportunities. The conditions for successful mobilization should be based on improved security, macroeconomic stability, economic diversification resilient to shocks, an improved business climate and governance, strengthening the fight against illicit financing, developing and deepening the local financial market, and enhanced human capital. Meeting these conditions should further enhance the country's attractiveness.

Maximizing gold revenue should also help consolidate the mobilization of large-scale financing. In addition to financing from traditional financial institutions and the diaspora, mobilization of domestic and international private financing through blended finance—in particular, guarantee instruments and public–private partnerships—should be promoted within a risk-sharing framework. Climate change financing warrants further exploration, and the valuation of natural capital could generate significant financing.



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Cabo Verde

Recent macroeconomic developments

Growth is estimated at 5.2% in 2025, down from 7.3% in 2024, reflecting power disruptions and lower official development assistance. The Central Bank raised the policy rate from 1.50% in November 2024 to 2.50% in February 2025 to contain inflation, which increased to 2.3% from 1.0%. The fiscal balance improved to a surplus of 1.1% of GDP in 2025 from a deficit of 1.1% in 2024, supported by prudent spending management. The current account surplus narrowed slightly to 3.2% of GDP from 3.7%, reflecting higher import demand. Public debt declined to 103.7% of GDP from 109.2%, supported by spending restraint and concessional financing. Foreign direct investment and remittances supported an increase in foreign reserves to €978 million in November 2025, from €729 million a year earlier. The financial sector remained stable, with the non-performing loan ratio declining.

Social developments

Cabo Verde ranks 135 of 193 on the 2025 Human Development Index, with a value of 0.668 and life expectancy of 72.9 years, reflecting medium human development. In 2025, the World Bank upgraded the country to upper-middle-income status. Nonetheless, continued economic diversification remains a key priority.

Outlook and risks

The country is expected to see moderate growth of 4.7% in 2026 and 5.0% in 2027. Growth in 2026 will be supported by continued demand for tourism services and investment in infrastructure. Following active interventions in 2025, the Central Bank is expected to have a more contained approach for the next two years. Inflation is projected to stand at 2.6% in 2026 and 2.3%

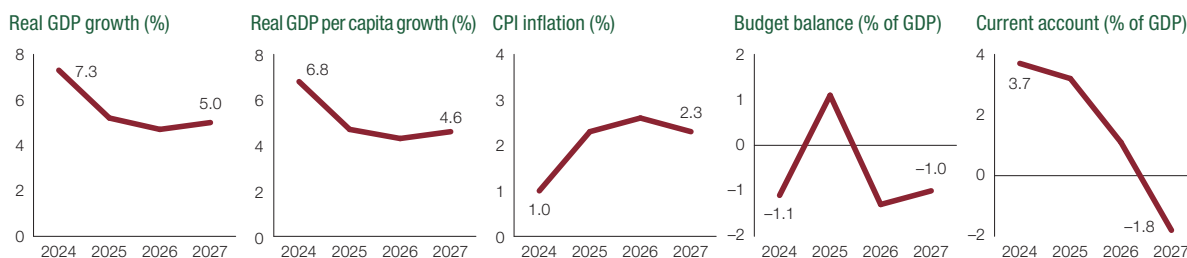
in 2027. The fiscal deficit is expected to deteriorate to 1.3% in 2026 and 1.0% in 2027 as public investment need grows. The current account balance will follow the same trend, deteriorating from a surplus 1.1% of GDP in 2026 to a deficit of 1.8% of GDP in 2027. Growth projection carries some risks, mainly from the unfavorable global trade context, which might push global economic growth down and impact peripheral economies.

Mobilizing development financing at scale in a fragmented world

Cabo Verde has a recurrent negative fiscal balance and current account. This is a result of the country's limited capacity to mobilize domestic resources. Its economic structure is highly informal, with 60% of businesses not contributing to fiscal revenue. Furthermore, the capital market is at its initial stage and not linked to regional and international capital markets. The government should continue its efforts to strengthen the revenue collection system.

Cabo Verde should create the conditions to integrate its financial system, including its capital market, into regional and international markets to facilitate the flow of funds for development investment. Investment need stands at around \$235 million a year. Unfortunately, the current fragmented world and imbalanced global financing architecture might not have the right environment for the country to fully meet this need.

For the country to mobilize development financing, it should continue to strengthen its public finance management, reform its tax directorate, modernize its capital and financial sector and integrate it into regional and international markets, and facilitate innovative financing instruments such as environmental bonds, debt swaps and public-private partnerships.



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Côte d'Ivoire

Recent macroeconomic developments

In 2025, Côte d'Ivoire's economy consolidated its macroeconomic trajectory, with growth estimated at 6.5%, up from 6.0% in 2024, in the context of presidential and legislative elections. On the supply side, economic activity was driven by the secondary and tertiary sectors. The secondary sector grew 8%, led by extractive industries (the Baleine project). Energy, construction, and manufacturing also contributed to this expansion. The tertiary sector recorded growth of over 7%, driven by trade, transportation, and telecommunications. On the demand side, growth was driven by private consumption and investment. Inflationary pressures eased to 0.1%, due to improved food supply and lower transportation costs linked to the fall in gasoline prices at the pump (down 6% on average in 2025). The accommodative stance of the Central Bank of West African States's monetary policy, marked by a cut of 25 basis points in key interest rates in June 2025, supported this momentum. The 2025 budget deficit fell to 3% of GDP from 4% of GDP in 2024. At the same time, the current account deficit narrowed to 1.0% of GDP from 4.5% in 2024, reflecting an improvement in the terms of trade.

Social developments

Progress is being made in terms of inclusive growth, with real GDP per capita growth rising from 3.5% in 2024 to 4.1% in 2025. Strengthened social programs, the ongoing social safety net program, and implementation of universal health coverage are expected to contribute to poverty reduction and improved living conditions, particularly for the most vulnerable populations.

Outlook and risks

The medium-term outlook remains favorable, with real GDP growth projected to average 6.4% over 2026–27. Implementation of the National Development Plan 2026–2030 will support this momentum: 70.2% of investment is expected from the private sector, with an investment rate reaching 25.4% of GDP in 2026. The dynamism of the secondary sector, specifically hydrocarbons with the full exploitation of the Baleine field and start of production at the “Koné Project” gold mine, should boost value added creation. Inflation is expected to remain within the target range of 1–3% between 2026 and 2027. Fiscal

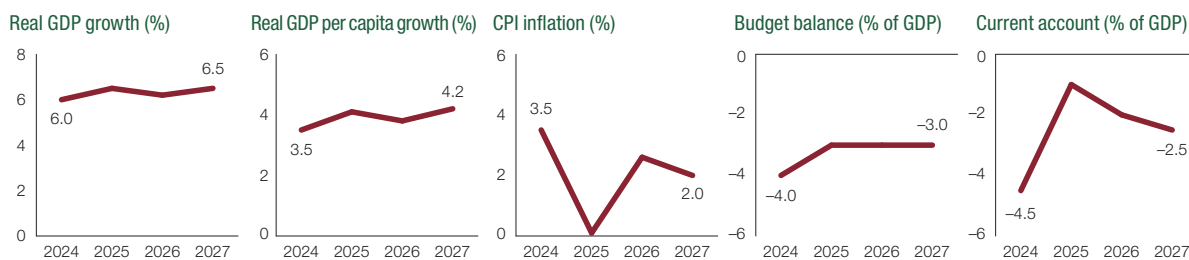
consolidation should continue, with the deficit contained at 3% of GDP in 2026 and 2027. The current account deficit is projected to average 2.3% of GDP over 2026–27, supported by favorable terms of trade. However, this positive outlook remains subject to risks, including climate shocks, the deterioration of the security situation in the Sahel, and geopolitical tensions in the Middle East. Strengthening macroeconomic, security, and institutional stability will be crucial to mitigating these impacts.

Mobilizing development financing at scale in a fragmented world

Investment for the National Development Plan 2026–2030 is estimated to total \$208.7 billion. Côte d'Ivoire's ambition for structural transformation requires greater capacity to mobilize large-scale financing. The country's fiscal space remains limited, with a tax burden of 15% in 2025, below the West African Economic and Monetary Union standard of 20%. The size of the informal sector and tax exemptions limit broadening the tax base.

In an international context marked by geopolitical and financial fragmentation, Côte d'Ivoire was nevertheless very active on international markets in 2025. The country issued an international bond worth approximately CFAF 220 billion (close to EUR 335 million) and a Samurai Bond worth JPY 50 billion (approximately EUR 300 million) before receiving a partial credit guarantee of EUR 400 million from the African Development Bank to support a sustainable facility of at least €570 million. In February 2026, the national authorities successfully completed a new international bond issuance, raising \$1.3 billion. In April 2026, the country established a Strategic Sovereign Development Fund aimed at financing priority investments, strengthening economic resilience, and building long-term public savings. This fund will be financed primarily by mining and energy revenues and public asset transfers.

Three operational priorities to achieve objectives set in this area emerge: placing greater emphasis on transformative projects in the selection of the public–private partnership portfolio; mobilizing the demographic dividend—particularly young people (75% of the population is under 35), women, and the diaspora—toward productive investment; and sustainably leveraging natural capital through carbon credits, forest bio-credits, and green value chains.



Source: Data are as of March 2026 and are from domestic authorities; figures for 2025 are estimates and figures for 2026 and 2027 are projections by the African Economic Outlook team.

The Gambia

Recent macroeconomic developments

Economic activity strengthened in 2025, with real GDP growth rising to 6.1% from 5.6% in 2024, while real GDP per capita growth increased to 3.9%. Growth remained service-led, driven by tourism, trade, and transport, supported by sustained remittance inflows and stable tourist arrivals. On the supply side, agricultural output improved moderately due to better rainfall, though productivity gains continued to be constrained by climate variability, limited irrigation, and weak value chain integration. On the demand side, private consumption and investment underpinned growth, while strong import demand for food, fuel, and capital goods kept net exports a drag on overall performance.

Inflation declined to 7.5% in 2025 from 11.6% in 2024, reflecting easing global price pressures, improved food supply, and continued monetary tightening. The overall fiscal deficit (including grants) narrowed to 1.3% of GDP from 4.0% in 2024, supported by stronger revenue and spending restraint. Public debt remained elevated at around 78% of GDP at the end of 2024 but is projected to decline gradually under continued fiscal consolidation. The current account deficit widened slightly to 4.9% of GDP, reflecting intensive import growth. The banking sector remained stable, with adequate capitalization (29%), although private sector credit growth (8%) remained modest.

Social developments

Rising real per capita income has improved living standards, but poverty remains high, with 53% of the population below the national poverty line, particularly in rural areas. Youth unemployment and not in employment, education, or training rates exceed 40%. While social protection and youth employment programs are expanding, institutional and financing constraints continue to limit their impact.

Outlook and risks

Growth is projected at 4.9% in 2026 and 5.0% in 2027, with real GDP per capita growth of 2.7% and 2.9%, respectively. Services will remain the main driver, supported by tourism and trade, while agricultural performance will depend on weather conditions. Inflation is expected to decline to 5.2% in 2026 and 4.9% in 2027. Fiscal consolidation is expected to continue, with the deficit at 1.7% of GDP in 2026, narrowing to 1.2% in

2027, supported by stronger revenue mobilization and spending control. The current account deficit is projected to widen to 5.6% of GDP in 2026 before narrowing to 4.5% in 2027, supported by stronger tourism and remittances. Downside risks include climate shocks, reform delays, and tighter external financing, while upside risks stem from stronger tourism and accelerated reforms. Sustaining macroeconomic stability will require fiscal discipline, stronger buffers, and enhanced climate resilience.

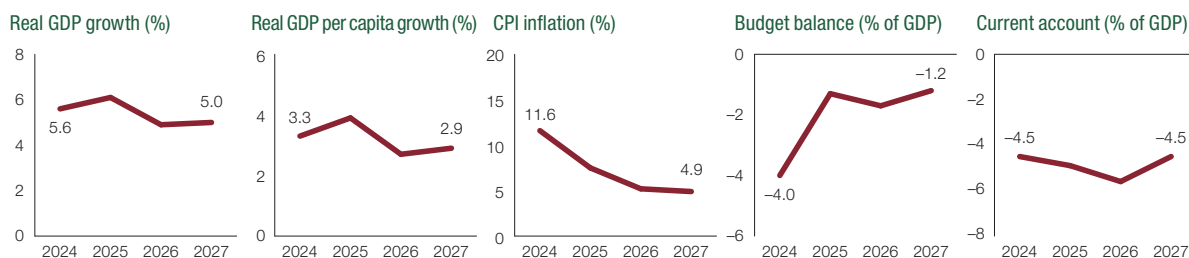
Downside risks include climate shocks, reform delays, and tighter external financing. Upside risks stem from stronger tourism performance and accelerated structural reforms. Sustaining macroeconomic stability will require continued fiscal discipline, strengthened buffers, and enhanced climate resilience.

Mobilizing development financing at scale in a fragmented world

Mobilizing development financing remains a challenge, given limited fiscal space, high public debt, shallow financial markets, and an import-intensive growth model. Strengthening domestic resource mobilization and attracting private investment are essential to support stability and structural transformation. In a context of volatile aid flows and tighter financial conditions, expanding fiscal capacity is critical through tax base broadening, improved compliance, stronger public financial management, and deeper financial inclusion to mobilize domestic savings.

With external financing increasingly uncertain, diversifying funding sources is critical. Strengthening debt management, transparency, and fiscal credibility will help contain borrowing costs and safeguard sustainability, while concessional and blended finance can crowd in private capital. Scaling private participation requires improved governance, bankable project pipelines, and effective risk mitigation. Opportunities include public-private partnerships, diaspora instruments, and climate finance, including carbon markets where capacity permits.

Priority actions are to accelerate domestic revenue mobilization and formalization through digital systems, strengthen public investment management and debt transparency to unlock concessional and blended finance and develop a pipeline of climate-resilient, public-private partnership-ready infrastructure projects to crowd in private and diaspora capital at scale.



Source: Data are as of March 2026 and are from domestic authorities; figures for 2025 are estimates and figures for 2026 and 2027 are projections by the African Economic Outlook team.

Ghana

Recent macroeconomic developments

The economy sustained strong growth of 5.8% in 2025, up from 5.6% in 2024, driven by services and consumption, though still below the level needed for sustained and inclusive poverty reduction. Macroeconomic conditions improved. Inflation declined to 14.6% from 22.9%, reflecting easing food and nonfood prices, supported by tighter spending controls, open-market operations, and exchange rate stability. Monetary policy was eased, with the policy rate reduced by 350 basis points to 18% by end-December 2025. Fiscal consolidation strengthened, with the deficit narrowing to 2.4% of GDP from 6.3%, supported by a primary surplus, lower interest costs, and improved fiscal discipline. Public debt declined to 45.5% of GDP from 61%, below the 55% threshold. External performance improved, with the current account surplus at 4.4% of GDP, driven by exports and remittances, supporting reserves of 5.7 months of import cover. The financial sector stabilized, with declining non-performing loans, although credit growth remained moderate.

Social developments

Poverty (at 29.5%), unemployment (at 13.1%), and inequality (at 43.5%) remain high, implying noninclusive growth. Unemployment disproportionately affects women (14.8%) and youth (32%). While pro-poor spending was constrained by financing shortfalls in 2024, the 2025/26 budget aimed at supporting inclusive growth with increased allocations for social development, including human capital education and health.

Outlook and risks

The medium-term outlook remains positive, though subject to risks. Growth is projected at 5.0% in 2026 and 5.4% in 2027, supported by improved confidence, prudent macroeconomic management, and continued strength in services and consumption. Inflation is expected to decline to single digits, reflecting exchange rate stability and sustained policy discipline. The fiscal deficit is projected to remain broadly within target at 2.6% of GDP in 2026 and 2.2% in 2027, supported by consolidation and debt restructuring, while the current account is expected to remain in surplus at 3.0%

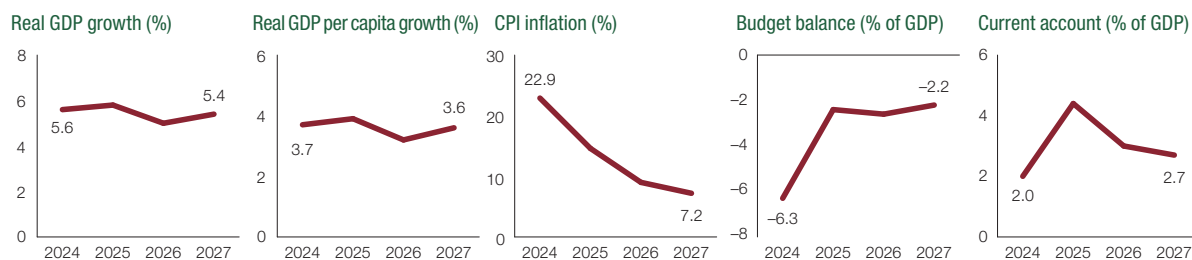
of GDP in 2026 and 2.7% in 2027, driven by favorable commodity prices and steady external demand. Key risks include external shocks, particularly escalating geopolitical tensions, which could disrupt supply chains and weaken macroeconomic gains. Policy priorities include strengthening domestic resource mobilization, improving investment efficiency, deepening financial markets, maintaining prudent macroeconomic policies, and accelerating export diversification and structural transformation.

Mobilizing development financing at scale in a fragmented world

Ghana faces an estimated investment financing gap of about 9% of GDP. High public debt, low domestic revenue, and tighter global financial conditions have constrained access to long-term, affordable capital. Addressing these challenges requires diversifying the economy, deepening policy, regulatory, and institutional reforms, and integrating domestic and international financial systems to mobilize resources on scale.

A stable macroeconomic environment with sustainable debt, transparent institutions, and efficient financial intermediation is critical to attract domestic and foreign capital to priority development objectives. Key enablers include stronger alignment of fiscal and monetary policies, enhanced regulatory and supervisory capacity, reliable financial infrastructure, accurate data systems, and transparent public financial management anchored in accountability. Policy coherence is essential to crowd in private investment and leverage concessional financing strategically.

To mobilize development financing at scale, Ghana should strengthen domestic resource mobilization by broadening the tax base, improving revenue administration, and deepening local currency capital markets to reduce reliance on external borrowing. Catalytic and concessional financing should be deployed effectively through public-private partnerships and structured blended finance instruments to de-risk investment in infrastructure, health, education, and the energy transition. These measures can crowd in private capital, enhance resilience, and support sustained, inclusive growth.



Source: Data are as of March 2026 and are from domestic authorities; figures for 2025 are estimates and figures for 2026 and 2027 are projections by the African Economic Outlook team.

Guinea

Recent macroeconomic development

In 2025, economic growth was projected to rebound to 6.9% from 5.4% in 2024. The drivers of growth were primarily agricultural and mining production on the supply side and household consumption on the demand side. Inflation showed a marked decline to 3.1% from 5.1% in 2024, driven by dissipation of previous supply shocks, easing of imported inflationary pressures, and prudent monetary policy. To support growth, the Central Bank lowered the policy rate (from 10.75% to 9.75%) and the reserve requirement ratio (from 12.75% to 11.75%) between December 2024 and December 2025. The budget deficit, financed mainly by the domestic market, narrowed from 3.4% of GDP in 2024 to 3.0% in 2025, due to increased tax revenue collection and improved spending control. Public debt, still moderate, rose to 33.8% of GDP from 28.8% in 2024. The current account balance improved significantly, to a surplus of 11.2% of GDP from a deficit of 1.3% in 2024, following normalization of investment income outflows and a decline in payments for services related to mining projects. At the same time, foreign exchange reserves rose to 4.4 months of imports in 2025, compared with 1.3 months in 2024. The banking sector remained liquid but vulnerable to non-performing loans, which increased 2% between 2024 and 2025.

Social developments

Real GDP per capita growth rose from 3.0% in 2024 to 4.6% in 2025, while the poverty rate remained flat at 31% in 2024 and 30% in 2025. Low inclusive growth remains a major challenge, driving expansion of targeted cash transfers through the social registry and social initiatives.

Outlook and risks

Growth is expected to continue its upward trajectory, reaching 9.3% in 2026 and 9.8% in 2027, driven by the Simandou mining project and household consumption. Inflation is projected to reach 4.2% in 2026 and 3.6% in 2027, reflecting the impact of the Middle East conflict and prudent monetary policy. The budget deficit is projected to rise to 3.5% in 2026 and 3.7% in 2027, due to financing needs for infrastructure, subsidies, and transfers. The current account balance is projected to decline to 9.6% of GDP in 2026 and 9.2% in 2027,

reflecting a slowdown in mining exports amid global uncertainty.

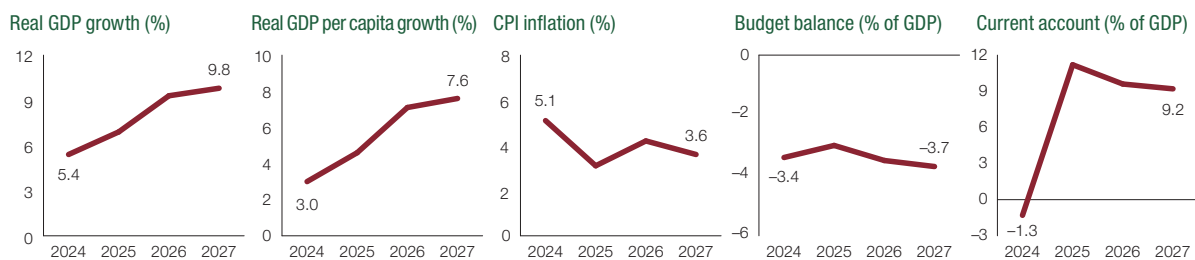
Risks of deterioration in the outlook are linked to worsening tensions over hydrocarbon supplies, inadequate mobilization of development financing, and uncertainties in implementation of the Simandou project. Mitigating these risks requires strengthening storage infrastructure and rationalizing energy subsidies, implementing the local content law as a lever for fiscal inclusion and economic diversification, and establishing an effective risk management framework for the Simandou project.

Mobilizing development financing at scale in a fragmented world

The ability to mobilize resources on a large scale remains limited by inadequate tax revenue, an informal sector that accounts for more than 70% of jobs, and governance that needs improvement. The sovereign rating upgrade to B+ with a positive outlook in March 2026, combined with improved public financial management and a return to constitutional order, should help strengthen mobilization of financing. The ongoing creation of Guinea's Sovereign Wealth Fund, as credible collateral to mobilize financial instruments backed by future cash flows, represents a strategic opportunity.

Establishing an integrated financial system also remains essential for mobilizing capital under the Simandou 2040 Program. Financing for infrastructure projects will be challenged by the shallowness of the national financial system and the underdeveloped state of capital markets. Strengthening regulatory frameworks, institutional capacities for public-private partnerships, cooperation with international partners, and the catalytic role of multilateral development institutions is crucial to reducing financing risks and costs and to attracting more mature and affordable resources.

Some immediate priority actions could include accelerating maturation of Simandou 2040 priority projects, establishing an open-access digital platform showcasing Simandou 2040 infrastructure projects and co-financing options, including public-private partnerships, supported by technical and financial partners to mitigate risk, and creating a system for digitizing remittances from the diaspora via interoperable solutions between banks and mobile money, with reduced transaction costs.



Source: Data are as of March 2026 and are from domestic authorities; figures for 2025 are estimates and figures for 2026 and 2027 are projections by the African Economic Outlook team.

Guinea-Bissau

Recent macroeconomic developments

In 2025, the economy recorded 5.0% real GDP growth, compared with 4.1% in 2024, driven by performance in the primary sector (up 6.1%); the secondary sector (up 5.0%), led by manufacturing; and the tertiary sector (up 4.9%), boosted by trade. On the demand side, growth was fueled by recovery in exports and domestic consumption. Macroeconomic stability strengthened, with inflation falling from 3.7% in 2024 to 2.2% in 2025, driven by lower food prices and by the Central Bank of West African States's key interest rate cut from 3.5% to 3.25% in June 2025. On the fiscal front, the government intensified consolidation efforts, due to higher tax revenue (up 20.7%) and streamlining of current spending (down 2.8%). The budget deficit narrowed to 3.6% of GDP in 2025 from 8.1% in 2024. The public debt-to-GDP ratio fell to 80.5% in 2025 from 82.3% in 2024. Public debt remains sustainable but poses a risk of overindebtedness and is deemed high by technical and financial partners. The current account deficit improved from 8.2% of GDP in 2024 to 5.8% in 2025, supported by exports of cashews and fish. Finally, the financial system remains fragile but stable, with credit to the economy growing 5% in 2025 and a gradual recovery in financial intermediation supporting the real economy.

Social developments

Growth in real GDP per capita (up 2.9% in 2025) has not yet translated into a significant reduction in poverty. In 2024, 27.8% of the population lived below the \$2.15 a day poverty line. The country remains in a state of low human development (with a 2025 Human Development Index value of 0.514). Faced with these challenges, the authorities are strengthening inclusion through access to justice, education, health care, and community empowerment.

Outlook and risks

The economic outlook remains favorable, with projected growth of 4.9% in 2026 and 5.1% in 2027, driven by the primary sector (3.8% and 3.9%, respectively) and the secondary sector (8.3% and 9.6%, respectively), and by rising public investment, goods exports, and final consumption. Inflation is expected to remain under control at 2.2% in 2027, due to prudent monetary policy at the regional level. On the fiscal front, the deficit is expected to gradually narrow, falling to 3.6% of GDP in 2026 and 3.2% in 2027, driven by rigorous fiscal management.

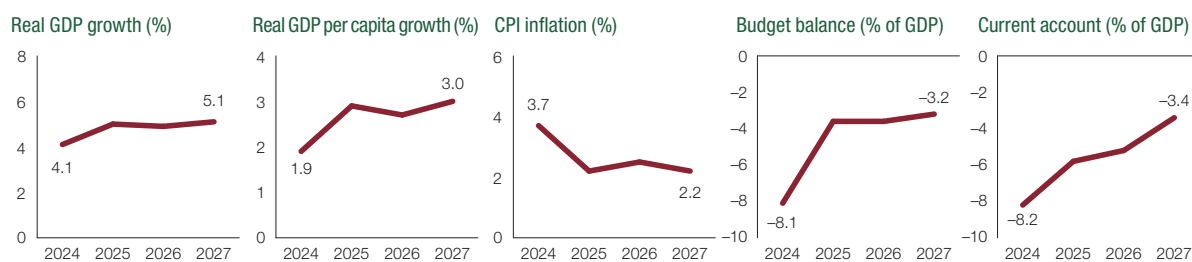
The current account deficit is also expected to improve to 3.4% in 2027, driven by a recovery in exports, particularly cashews. However, these forecasts are subject to downside risks, including the Middle East conflict, with oil prices above \$100 a barrel and severe disruptions to trade routes, persistent political instability and state fragility, dependence on the cashew sector and exposure to climate shocks. Increased mobilization of concessional external financing will be essential to preserve macroeconomic stability and strengthen the country's resilience.

Mobilizing development financing at scale in a fragmented world

Guinea-Bissau faces financing constraints in the form of low tax revenue mobilization (9% of GDP in 2025), heavy reliance on external financing, a significant informal sector, weak governance, a shallow domestic financial system, and limited access to capital markets. To address these challenges, the country must increase diversification, strengthen the formalization of the productive sector, and modernize tax administration through digitalization and broadening the tax base. Concurrently, political stability, greater efficiency in public investment, combating illicit financial flows, and strengthening fiscal governance are appropriate solutions.

A coherent reform of the financial system is essential to expand the country's access to resources. Priorities include strengthening the banking sector's resilience, expanding financial inclusion, and deepening integration into the West African Economic and Monetary Union regional financial market. The gradual development of a more liquid domestic government securities market, supported by proactive debt management and improved budget transparency, would make it possible to secure financing on more favorable terms. At the same time, introducing sustainable finance instruments and risk-sharing mechanisms could encourage greater private sector participation.

To catalyze financing, Guinea-Bissau's focus should be on continuing macro-fiscal reforms (revenue mobilization, spending rationalization), deepening the financial sector and strengthening risk management to restore investor confidence, diversifying funding sources by deploying innovative instruments (green and blue bonds, diaspora bonds), and strengthening economic governance through anticorruption efforts, reduction of illicit financial flows, and improved budget transparency.



Source: Data are as of March 2026 and are from domestic authorities; figures for 2025 are estimates and figures for 2026 and 2027 are projections by the African Economic Outlook team.

Liberia

Recent macroeconomic developments

Real GDP grew by 4.6% in 2025, up from 4.0% in 2024, driven by expansions in mining, services, and agriculture on the supply side and by private consumption and increased infrastructure spending on the demand side. Inflation decreased in 2025 from 8.2% in 2024 to 6.0%, supported by lower food inflation. The exchange rate appreciated by 5.4% year-on-year in 2025 due to tight monetary policy and significant inflows from remittances, compared with a depreciation of 1.1% in 2024. The fiscal deficit improved to 1.8% of GDP in 2025 from 2.2% in 2024, due to better fiscal consolidation efforts in 2025. Public debt fell slightly, to 56.8% of GDP in 2025 from 57.2% in 2024, resulting from reduced domestic and external borrowing due to stronger fiscal discipline. The current account deficit narrowed to 14.4% of GDP in 2025 from 15.9% in 2024, as exports outpaced imports, and were financed mainly by remittances. International reserves increased to 2.6 months of import cover from 2.1, supported by stronger export performance. The financial sector remained sound, with capital adequacy at 35.0%, well above the 10% threshold. However, non-performing loans remained elevated at 16.2%, reflecting weaknesses in credit risk management.

Social developments

Poverty remains high, at 33.6% in 2025 (up from 33.1% in 2024), despite increased social spending. Youth unemployment exceeds 40%, reflecting skills mismatches. Improving social outcomes requires prioritizing human capital development and more inclusive, effective service delivery.

Outlook and risks

The economic outlook remains positive, with real GDP growth projected at 5.0% in 2026 and 5.3% in 2027, driven by mining and agriculture. Inflation is expected to rise to 8.2% in 2026 before easing to 6.7% in 2027, reflecting higher fuel and food import costs. The fiscal deficit is projected to widen to 2.7% of GDP in 2026, due partly to external pressures, before narrowing to

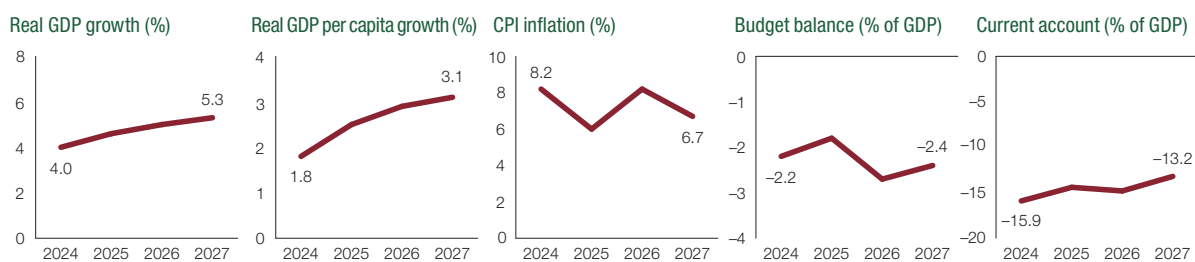
2.4% in 2027 with planned consolidation. The current account deficit is expected to widen to 14.8% of GDP in 2026, driven by higher import demand, before improving to 13.2% in 2027, supported by increased output of key commodities such as gold and rubber. Gross international reserves are projected at 2.9 months of imports in 2026 and 3.1 in 2027. Key risks include political instability, governance challenges, commodity price volatility, and external shocks, underscoring the need for diversification and institutional strengthening.

Mobilizing development financing at scale in a fragmented world

Capacity to mobilize large-scale financing is constrained by weak institutional capacity, low creditworthiness, and elevated risk perceptions. Strengthening domestic fiscal capacity through improved tax administration, transparent budgeting, and efficient spending management is essential. Externally, Liberia can leverage emerging partners, regional value chains, climate finance, and South–South cooperation to access concessional resources, while multilateral institutions, including the African Development Bank, can support risk mitigation. Public–private partnerships and Environmental, Social, and Governance–aligned investment offer scope to attract sustainable private capital.

Building an integrated financial system requires addressing underdeveloped markets, low capitalization, and weak regulatory capacity, alongside improving creditworthiness. Closing long-term financing gaps will require reforms in debt management, taxation, and financial regulation, as well as stronger institutions and domestic markets. Reducing illicit financial flows, estimated at \$966 million a year, can further enhance resource mobilization and resilience.

Scaling development finance will require strengthening financial institutions and domestic markets to mobilize private capital, advancing macroeconomic and governance reforms to improve creditworthiness, and leveraging blended finance, guarantees, and risk-sharing mechanisms to crowd in investment while managing shocks.



Source: Data are as of March 2026 and are from domestic authorities; figures for 2025 are estimates and figures for 2026 and 2027 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 developments

In 2025, the economy strengthened, with 5.6% growth following 5.0% growth in 2024. Drivers on the supply side were agricultural production (7.9%); extractive industries (11.5%), including the start of lithium production; and transportation and hospitality services (4.5%). Drivers on the demand side were domestic consumption (8.2%) and investment (5%). Easing of monetary policy, fuel price stabilization, and a decline in food prices as a result of the good harvest in 2025 helped keep inflation at its 2024 rate of 3.2%. The budget deficit stood at 3.0% of GDP, compared with 2.3% in 2024. Although tax revenue increased, in line with dynamic mining activities, the deficit increase due to investment spending on reconstruction, particularly in conflict zones (31.8% of total spending), and military and security spending to safeguard national territory (31.4% of total spending). The current account balance showed a deficit of 5.0% of GDP in 2025, compared with 3.9% in 2024, due to a rise in imports (13%) and a decline in the capital account, which outpaced a decline in exports. Credit to the private sector grew 10.6%, compared with 17% in 2024, and the gross non-performing loan ratio improved to 4.0% from 4.8% in 2024.

Social developments

Real GDP per capita rose to \$1,094.60 in 2024 from \$953.20 in 2020, but poverty remained high at 43.9% in 2023 (23.4% in urban areas and 51.7% in rural areas). Inequality has improved, with a Gini coefficient of 0.32 in 2023. Social protection programs, particularly health insurance, are being developed, but coverage remains limited (22% of the population).

Outlook and risks

The macroeconomic outlook remains favorable, with a projected growth trajectory of 6.0% in 2026 and 5.9% in 2027. On the supply side, this is driven by agriculture, the mining sector (gold, lithium), and the textile industry; on the demand side, growth is expected to be driven by a rebound in investment (6.6% in 2026 and 6.1% in 2027) and final consumption. Starting in 2027, inflation is expected to remain below 2.8%, driven by subsidies for food and electricity and rising fuel prices at

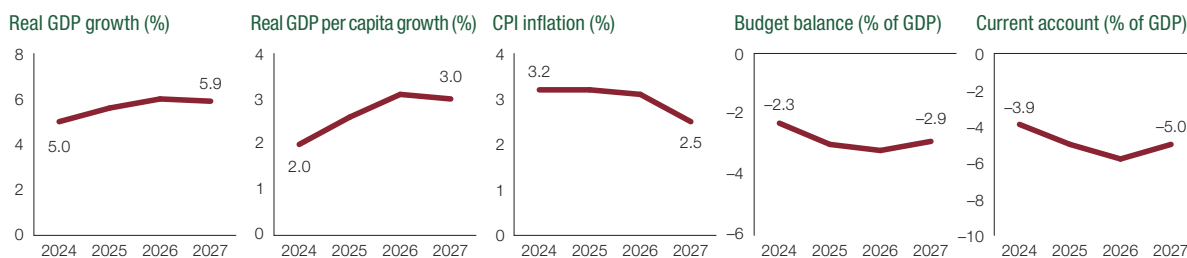
the pump. Fiscal consolidation is expected to continue, with the deficit kept in check at 3.2% of GDP in 2026 and 2.9% in 2027. On the external front, the current account deficit is expected to widen to 5.8% of GDP in 2026 before narrowing to 5.0% in 2027, with exports (up 15.4%) outpacing imports (up 6.2%). However, vulnerabilities remain, linked to volatile commodity prices and reduced development aid, a persistent electricity and fuel crisis, security risks, and agriculture's high exposure to climate change.

Mobilizing development financing at scale in a fragmented world

Capacity to mobilize resources is constrained by multiple factors, including growing fragmentation in development financing. The tax-to-GDP ratio of 14.2% in 2025 remains inadequate to meet estimated annual financing needs of \$29.1 billion by 2030, and official development assistance has fallen to CFAF 587.1 billion in 2023 from CFAF 965 billion in 2019. The reform of the mining code has enabled the mobilization of CFAF 875 billion, which has contributed to the settlement of domestic debt arrears. Access to the regional government securities market represents a preferred channel for mobilizing resources for cash flow and investment at competitive rates. Idle surplus cash in banks amounted to CFAF 573.8 billion in March 2026.

Expediting financial reform in Mali requires expanding the base of domestic investors, such as insurance companies and pension funds; tax digitalization; formalizing the informal sector (55% of GDP); mobilizing grassroots shareholders; strategically directing diaspora funds; developing public-private partnerships; and establishing the Sahel States Alliance Investment and Development Bank as a vehicle for mobilizing financing.

To mobilize large-scale financing, Mali should prioritize reform and reassure private investors and donors to resume budget support, tap into revenue streams in the informal and agricultural sectors, implement property taxes, and extend digitization of tax procedures to all taxpayers. Improving public financial management and the country's risk profile will facilitate access to affordable resources.



Source: Data are as of March 2026 and are from domestic authorities; figures for 2025 are estimates and figures for 2026 and 2027 are projections by the African Economic Outlook team.

Niger

Recent macroeconomic developments

In 2025, the economy maintained robust growth, reaching an estimated 7.4% of GDP, compared with 8.3% of GDP in 2024, driven on the supply side by increases in oil and agricultural production and on the demand side by exports and investment. Deflation of 4.7% occurred in 2025, down from 9.1% in 2024, driven by statistical base effects (the high 2024 rate served as a benchmark) and by the strong performance of the agricultural season. Fiscal consolidation intensified, with the deficit narrowing from 4.3% of GDP in 2024 to 3.9% of GDP in 2025, due mainly to a decline in current spending. Total public debt relative to GDP is projected to decline in 2025 to 44%. Although deemed sustainable according to the 2024 International Monetary Fund and World Bank debt sustainability analysis, Niger's public debt carries a high risk of overindebtedness. The current account deficit was expected to remain at similar levels to 2024 (5.6% of GDP) in 2025 (6.0% of GDP), due mainly to trade deficit stabilization. In the financial sector, the net deterioration rate of the banking sector's portfolio in 2024 was 16.2%, higher than the West African Economic and Monetary Union (WAEMU) average (3.5%) and also up from 2023 (13.8%).

Social developments

Extreme poverty fell from 51% in 2023 to 49% in 2024. This affects approximately 13.3 million people. Labor force participation increased from 26.5% in 2017 to 82.6% in 2023. However, youth participation (64.9%) remains below the national average. Initiatives such as strengthening young people's vocational skills should improve their labor force participation rate.

Outlook and risks

The economic outlook is favorable, with growth projected at 6.6% in 2026 and 6.4% in 2027. This is driven by oil production and agriculture on the supply side and by exports on the demand side. Inflation is projected to be 3% in 2026–27. Stabilizing public spending should keep the budget deficit around 3.1% of GDP over the same period. The current account deficit is expected to be 6.3% of GDP in 2026 and 5.7% in 2027, due to an improved trade balance.

Climate shocks, insecurity, and international geopolitical tensions could affect this economic outlook.

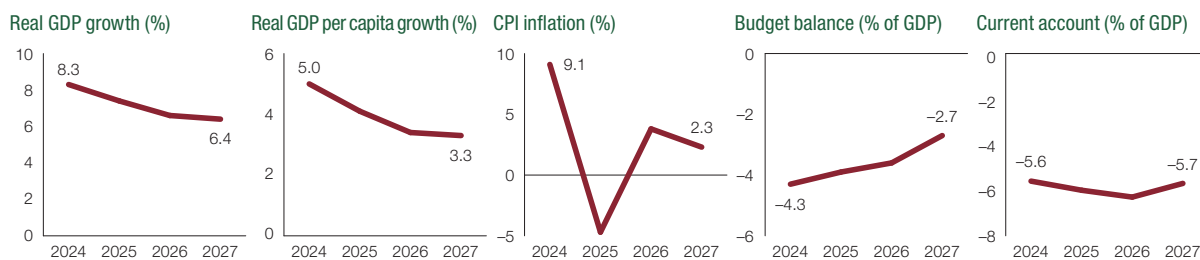
Among other things, maintaining macroeconomic stability will mitigate these risks. Implementation of key programs, notably the Zinder Water and Sanitation Program and the *Projet de Résilience et d'Adaptation des Communautés et Ecosystèmes dans les zones humides des bassins versants du Sahel (RACE-Sahel)*, should be expedited to strengthen resilience against the negative effects of climate change. Initiatives aimed at strengthening social cohesion, particularly greater public engagement with issues of national defense and security, will help mitigate terrorist threats.

Mobilizing development financing at scale in a fragmented world

Mobilization of tax revenue (approximately 9.4% of GDP per year over 2018–25, compared with a regional minimum of 20%), is particularly hampered by the prevalence of informal economic activities and tax spending. The international context, marked by geopolitical fragmentation and restructuring of development financing mechanisms, exacerbates budgetary constraints. Access to large-scale financing requires improved governance at all levels, especially in terms of budget transparency and debt management. Niger possesses significant potential (natural resources, energy) for increasing revenue.

Establishing a more integrated financial system requires strengthening the national financial sector and deepening financial markets. It should be noted that Niger's participation in the WAEMU Regional Financial Market serves as a strategic lever for mobilizing resources. Global financial fragmentation complicates access to affordable resources. Consequently, intensifying reforms to improve debt management and strengthening cooperation with technical and financial partners is crucial to facilitate access to concessionary and innovative financing and reduce reliance on costly short-term financing.

Three priority actions could catalyze large-scale development financing: accelerating implementation of strategies to improve domestic resource mobilization, promoting public–private partnerships, particularly in transport and energy infrastructure, mobilizing diaspora savings by establishing the *Maison de la Diaspora*, and attracting and channeling green financing to create more productive and resilient infrastructure.



Source: Data are as of March 2026 and are from domestic authorities; figures for 2025 are estimates and figures for 2026 and 2027 are projections by the African Economic Outlook team.

Nigeria

Recent macroeconomic developments

The economy recorded solid growth of 4.0% in 2025, down slightly from 4.1% in 2024, driven by the services, oil, and agriculture sectors, alongside public consumption and investment. Inflation eased to 23% from 33.2%, reflecting tight monetary policy, exchange rate stability, and lower food prices. The naira to US dollar exchange rate appreciated by about 5.9% in 2025, supported by foreign exchange reforms and higher export receipts. The fiscal deficit widened to 2.4% of GDP in 2025 from 1.5% in 2024, reflecting higher spending pressures, including rising debt service costs, despite stronger revenue (13.5% of GDP from 10.8%). Public debt declined slightly to 50.2% of GDP in 2025 from 52.3% in 2024, supported by GDP rebasing. The external position remained strong, with a current account surplus of 6.0% of GDP, driven by higher oil export earnings and remittance inflows. Official foreign exchange reserves increased by 11.8% to \$45.5 billion in December 2025, up from \$40.6 billion a year earlier. The financial sector remained broadly stable in 2025, with capital adequacy at 13.4%, above the 10% regulatory threshold. However, non-performing loans rose to 5.7%, slightly exceeding the 5.0% threshold.

Social developments

Real GDP per capita growth slowed to 1.9% in 2025. Poverty remained high, with an estimated 31% of the population living in extreme poverty in 2025, reflecting elevated living costs and inflation. Inequality was moderate (Gini coefficient of 0.351). Youth unemployment remained low at 6.5%, due largely to widespread informal sector employment.

Outlook and risks

The economic outlook remains strong, with real GDP growth projected at 4.1% in 2026 and 3.7% in 2027, driven by services and the oil and gas sectors, alongside public consumption and investment. Inflation is expected to ease but remain in double digits, reflecting elevated food and commodity prices amid global tensions. The fiscal deficit is projected to remain contained

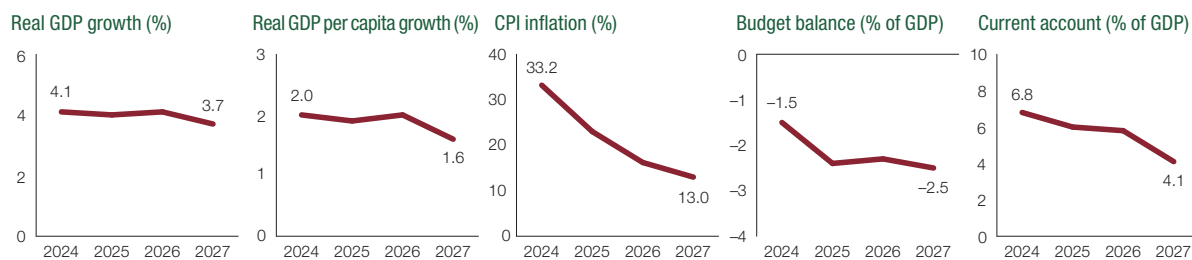
at 2.3% of GDP in 2026 and 2.5% in 2027, supported by consolidation efforts and stronger tax revenue, although election-related spending poses risks. The current account is expected to remain in surplus at 5.8% of GDP in 2026 and 4.1% in 2027, supported by oil export earnings and remittances. Key risks include global geopolitical shocks, including the impact of the Middle East conflict, insecurity in northern Nigeria, and climate-related pressures, which could weigh on trade, logistics, and overall economic stability.

Mobilizing development finance at scale in a fragmented world

Nigeria faces significant challenges in mobilizing large-scale financing to bridge its vast infrastructure deficit and sustain critical social spending. Domestic financing remains constrained due to weak domestic revenue mobilization systems, expansive informal economy, and the narrow economic base. External finance inflows, although growing, are not keeping pace with development finance needs. Closing the development finance gap will require accelerating the implementation of revenue mobilization reforms and deepening the domestic financial system.

Currently, the financial system remains shallow. Stock market capitalization is one of the lowest in Africa, averaging 11.8% of GDP between 2020 and 2024. While structural rigidities such as high cross-border payment costs limit productive capital inflows. Addressing these constraints requires market-oriented reforms and deeper financial market development. Tackling internal bottlenecks such as insecurity is critical to improving Nigeria's global credit rating and attracting private investment. Stronger collaboration with development finance institutions will enhance institutional capacity for mobilizing domestic revenue and deploying resources more effectively.

Deepening financial markets by leveraging innovative instruments such as green bonds, public-private partnerships, blended finance, and debt-for-development swaps is vital to diversify financing sources and sustainably address development challenges.



Source: Data are as of March 2026 and are from domestic authorities; figures for 2025 are estimates and figures for 2026 and 2027 are projections by the African Economic Outlook team.

Senegal

Recent macroeconomic developments

In 2025, the economy grew 8.3%, compared with 6.9% in 2024. On the supply side, growth was driven primarily by the secondary sector (21%), particularly oil and gas, and to a lesser extent by the primary sector (7.4%) and tertiary sector (3.3%). On the demand side, growth was driven by exports (22.7%), especially hydrocarbons, and by final demand from public and private consumption (3.9% and 3.1%, respectively). The inflation rate was 1.4% in 2025, compared with 0.8% in 2024, kept in check by subsidies for energy and essential food products. As a result of fiscal consolidation, the budget deficit was 8.4% of GDP, compared with 10.9% in 2024. The current account deficit improved to 9.2% of GDP in 2025 from 13.8% in 2024, due to hydrocarbon exports. The banks' capital adequacy ratio stood at 14.2% at the end of June 2025, above the Economic Community of West African States minimum standard of 11.5%.

The poverty rate was 37.5% in 2021. Senegal ranked 169 of 193 on the 2025 Human Development Index, with a value of 0.53, and unemployment was 19.2%. Nearly four-fifths of the working-age population are employed in the informal sector, depriving them of any form of social security and exposing them to increased vulnerability to economic and social shocks.

Outlook and risks

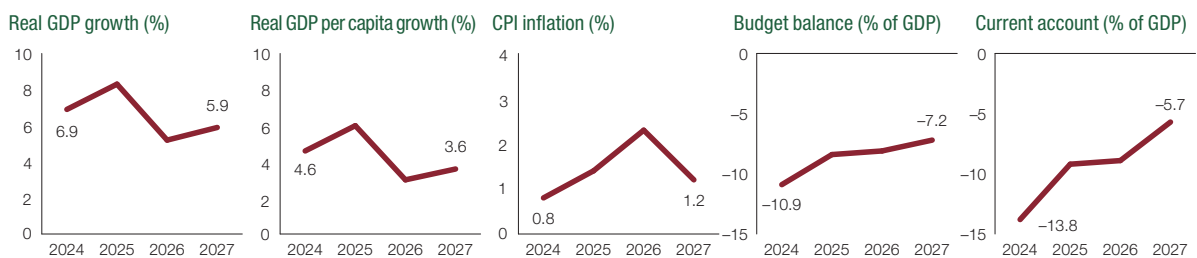
The economic outlook, still underpinned by oil and gas, looks favorable. GDP growth is projected to be 5.2% in 2026 and 5.9% in 2027, and the inflation rate is expected to remain at 3.0% in 2026 and 3.6% in 2027, against a West African Economic and Monetary Union (WAEMU) benchmark of 3.0%, due mainly to the impact of the Middle East conflict. The budget deficit is expected to improve (to 7.9% of GDP in 2026 and 7.2% in 2027), due to fiscal austerity aimed at controlling public debt. The current account deficit is expected to improve to 8.9% of GDP in 2026 and 5.7% in 2027, due to dynamic oil

and gas exports. However, significant adverse factors could undermine these positive prospects, specifically fluctuations in oil and gas prices, the effects of climate change, and, above all, the terms of the external debt resolution currently under discussion with the International Monetary Fund (IMF). Nevertheless, Senegal benefits from the international community's willingness to support its national transformation agenda, Senegal 2050. The government's commitment to transparency and sound economic governance, mobilizing more revenue and optimizing spending, is a further guarantee of macroeconomic stability.

Mobilizing development financing at scale in a fragmented world

Financing needs for 2026 are estimated at CFAF 6,075 billion, or 26.2% of GDP, 71% of which is related to debt service, with a public debt-to-GDP ratio of 132% at the end of 2024. Following disagreements with the IMF and suspension of budget support, the country is now prioritizing the regional capital market. Faced with international constraints, the government aims to significantly mobilize domestic revenue and place greater emphasis on innovative, private, green financing, and diaspora bonds.

Because of its membership in the WAEMU, Senegal benefits from a dynamic regional capital market. In 2025, it raised CFAF 2,224.6 billion, representing 19% of regional issuances, and became the second-largest issuer behind Côte d'Ivoire. The presence of foreign institutional investors and the Central Bank of West African States's secure regulatory framework facilitates access to financing. However, the predominance of short-term, market-rate funding tends to exacerbate the risks of overindebtedness. The country's 2026–28 debt strategy and fiscal discipline aim to consolidate public finances by relying on concessionary and nonsovereign financing.



Source: Data are as of March 2026 and are from domestic authorities; figures for 2025 are estimates and figures for 2026 and 2027 are projections by the African Economic Outlook team.

Sierra Leone

Recent macroeconomic developments

Real GDP grew by 4.6% in 2025, up from 4.4% in 2024, driven by mining and services on the supply side and exports and investment on the demand side. The fiscal deficit widened to 5.6% of GDP in 2025 from 5.5% in 2024, due to higher infrastructure spending, financed through external and domestic borrowing. The primary balance improved from a deficit of 2.4% of GDP in 2024 to a surplus of 0.6% in 2025 as revenue strengthened and spending overruns declined. Public debt fell from 50.8% of GDP in 2024 to 49.3% in 2025, due to lower external borrowing. Tight monetary policy and exchange rate stability helped ease inflationary pressures. The exchange rate stabilized at around SLL 22.6 per US dollar, supported by export earnings, remittances, and official inflows. The current account deficit narrowed in 2025, reflecting stronger exports, and was financed by foreign direct investment and official flows. Reserves declined to 1.5 months of import cover from 1.8 months, driven by rising external debt service. The banking sector remained stable, with capital adequacy at 44.7%, well above the 15% minimum. However, non-performing loans rose to 12.3% from 9.0%, reflecting high interest costs and weak credit risk management.

Social developments

Extreme poverty declined to 31% in 2025 from 39% in 2020, supported by urban growth. Inequality remained unchanged (Gini coefficient of 0.357). Unemployment is low at 4%, but higher among youth (8%), reflecting skills gaps and limited private sector growth. Harnessing the demographic dividend requires improved education, skills development, and expanded employment opportunities.

Outlook and risks

The macroeconomic outlook is positive but subject to notable vulnerabilities. Growth is projected to moderate to about 4.2% in 2026 amid heightened global uncertainty, before rebounding to 4.8% in 2027, supported by recovery in services, agriculture, and mining. Inflation is expected to increase to around 9.2% in 2026 due

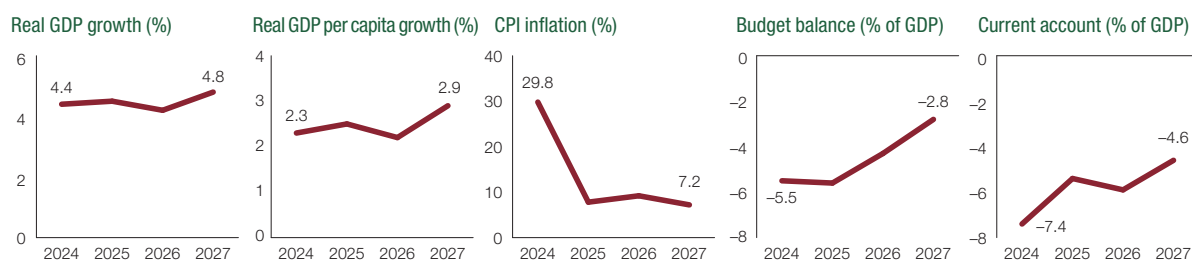
to higher fuel prices linked to geopolitical tensions but should remain within single digits over the medium term under tight monetary policy. Fiscal consolidation efforts and improved revenue performance are projected to narrow the fiscal deficit, while the current account deficit may widen temporarily due to higher fuel imports. Key downside risks include tight global financial conditions, geopolitical fragmentation, food insecurity, and climate-related shocks. These risks will be mitigated through prudent macroeconomic management, strengthened fiscal buffers, enhanced domestic food production, and sustained structural and climate resilience reforms.

Mobilizing development financing at scale in a fragmented world

Capacity to mobilize financing at scale is constrained by a narrow tax base, extensive exemptions, weak compliance, and high informality. Domestic revenue has averaged about 8.0% of GDP over the past five years and reached 10.7% in 2025, among the lowest in Sub-Saharan Africa. Nontax revenue remains limited, at 1.5% of GDP, well below the African average, though improved natural resource management could raise receipts. In a fragmented global financing environment, these constraints reduce fiscal space and increase reliance on debt, underscoring the need for credible reforms.

Building an integrated financial system to lower transaction and capital costs requires macroeconomic stability, regulatory modernization, and deeper financial inclusion, including capital market development. Formalizing the informal sector, through digital payments, micro, small and medium size enterprise finance, and simplified regulation, is critical to expanding the tax base and mobilizing domestic capital. Stronger engagement with international financial institutions can improve access to affordable long-term financing.

Scaling development financing requires accelerating domestic revenue mobilization and deploying blended finance and instruments such as green and blue bonds and debt-for-nature swaps. Expanding de-risking tools can crowd in private capital, close infrastructure gaps, and reduce reliance on costly debt.



Source: Data are as of March 2026 and are from domestic authorities; figures for 2025 are estimates and figures for 2026 and 2027 are projections by the African Economic Outlook team.

Togo

Recent macroeconomic developments

In 2025, economic growth slowed slightly to 6.3% from 6.5% in 2024, against a backdrop of worsening insecurity in the Savanes region. Growth was driven on the supply side by developments in the primary sector (1.2% of GDP), secondary sector (1.1% of GDP), and tertiary sector (4% of GDP) and on the demand side by private investment and external demand. The inflation rate fell to 0.4% from 2.9% in 2024, due to lower food and transportation prices and the Central Bank of West African States's key interest rate cut from 3.5% to 3.25% in June 2025. In this context, the budget deficit was reduced to 2.8% of GDP from 4.9% in 2024, due to tax revenue and lower government spending. The trend reflects the government's priorities to lower the risk of excessive debt from high to moderate by 2026 and to reduce the budget deficit to 3% of GDP by as early as 2025. Debt decreased to 70.2% of GDP in 2025 from 72.1% in 2024, due to reductions in regional securities and commercial loans. The current account deficit improved to 2.5% of GDP from 2.9% in 2024, driven by lower capital imports. Credit to the economy stood at 30% of GDP, and foreign exchange reserves remained stable, at 4.7 months of imports between 2024 and 2025.

Social developments

The extreme poverty rate was 39.3% in 2025. In terms of poverty, geographical and gender-based disparities are significant in rural areas. Togo has moved into the category of countries with medium human development, rising from 0.539 on the Human Development Index in 2021 to 0.571 in 2025, due to the implementation of social inclusion policies.

Outlook and risks

The macroeconomic outlook remains favorable, with growth slowing slightly to an average of 6.1% between 2026 and 2027, underpinned by a dynamic services sector, increased agricultural production (cashews and soybeans), and mining (manganese). Against a backdrop of low inflation and the Middle East conflict, continued investment would stimulate economic growth. Accommodative monetary policy is in place to stimulate bank lending and support economic growth. As a result, the budget deficit is expected to improve to 2.6% of GDP in 2026 and 2.2% in 2027, with fiscal consolidation driven by the agreement with the International Monetary Fund. The current account deficit is projected to hover around

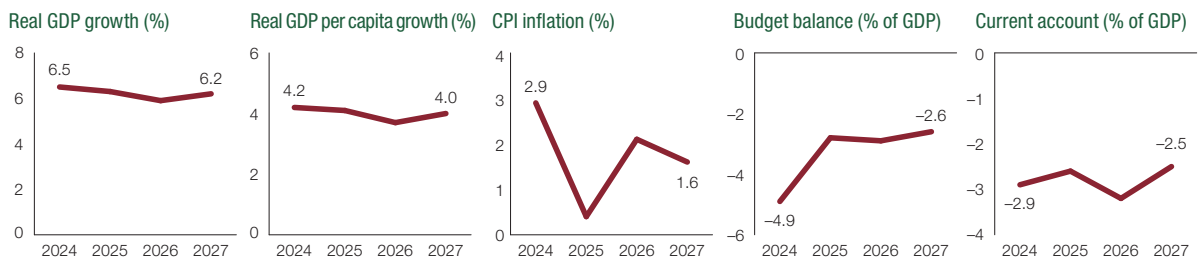
2.4% of GDP in 2026 and 2027, driven by the expected decline in the prices of imported goods. However, these prospects are threatened by conflict in the Middle East and Ukraine, insecurity in the Sahel, unfavorable fluctuations in global prices for import-export commodities (hydrocarbons, fertilizers, phosphates, cotton), and climate risks. Mitigation measures should focus on continuing structural reforms, making infrastructure investment, strengthening defense capabilities, and prioritizing social inclusion and green projects.

Mobilizing development financing at scale in a fragmented world

Togo faces financing constraints in the form of significant pressure on public finances, high interest rates (7.4% average borrowing rate in 2025), moderate dependence on external financing (42.2% external debt), and an informality rate of 85.5%. Appropriate solutions to address these challenges include digitization of public revenue collection, financial inclusion reforms, development of innovative capital markets and mobilization of regional financial resources, reduction of revenue leakage and illicit financial flows, improvement of the business environment, and integration of financial institutions globally.

Although the financial system is competitive and integrated into the West African Economic and Monetary Union, further development of this integration should facilitate the mobilization of long-term financing, foreign direct investment (FDI), and diaspora funds. This development relies on the consolidation of macroeconomic stability, the digital transformation of the banking sector, and the strengthening of financial inclusion to achieve an integrated financial system. Such a system would make it possible to mobilize tax and nontax revenue, facilitate FDI, reduce financial transaction costs, and improve access to affordable financing through enhanced cooperation with international partners.

Togo is a leader in reforms within the subregion and has the necessary assets to mobilize large-scale financing for development. This requires short-, medium-, and long-term investment in further developing the interoperability of digital financial services; formalizing micro-finance through digital financial services; and establishing a digital bank. The use of climate finance (green bonds) and innovative blended finance (diaspora, private, and guaranteed) presents opportunities to mobilize additional funding.



Source: Data are as of March 2026 and are from domestic authorities; figures for 2025 are estimates and figures for 2026 and 2027 are projections by the African Economic Outlook team.

ABBREVIATIONS

ADF	African Development Fund	ICRIER	Indian Council for Research on International Economic Relations
AELP	African Exchanges Linkage Project	ICT	Information and communication technology
AfCFTA	African Continental Free Trade Agreement	IDA	International Development Association
AfCRA	Africa Credit Rating Agency	IFC	International Finance Corporation
AfDB	African Development Bank	IFDI	Inward foreign direct investment
AFSM	African Financial Stability Mechanism	IFMIS	Integrated Financial Management Information Systems
AGOA	African Growth and Opportunity Act	ILO	International Labour Organization
ALSF	African Legal Support Facility	IMF	International Monetary Fund
AMI	African Monetary Institute	INGA	Grand Inga Dam
APRM	African Peer Review Mechanism	IPF	Integrated Policy Framework
ASYCUDA	Automated System for Customs Data	IPOs	Initial public offerings
ATAF	African Tax Administration Forum	KACITA	Kampala City Traders Association
ATO	African Tax Outlook	LAC	Latin America and the Caribbean
BEPS	Base Erosion and Profit Shifting	LNG	Liquefied natural gas
BoI	Bank of Industry	MDBs	Multilateral development banks
BRICS	Brazil, Russia, India, China, South Africa	MEO	AfDB <i>Macroeconomic Performance and Outlook</i> report
BRVM	Bourse Régionale des Valeurs Mobilières	MSCI	Morgan Stanley Capital International
BVMAC	Bourse des Valeurs Mobilières de l'Afrique Centrale	MSMEs	Micro, small, and medium enterprises
CFA	CFA franc	NAFAD	New African Financial Architecture for Development
CIF	Climate Investment Funds	NBFIs	Nonbank financial institutions
CIT	Corporate income tax	NDBs	National development banks
CPI	Consumer Price Index	NPLs	Non-performing loans
CRA	Credit rating agency	NTR	Nontax revenue
DBSA	Development Bank of Southern Africa	ODA	Official development assistance
DEA	Data Envelopment Analysis	OECD	Organisation for Economic Co-operation and Development
DFIs	Development finance institutions	PABs	Pan-African banks
DMUs	Decision-making units	PADAER	Programme d'Appui au Développement de l'Agrobusiness et de l'Entrepreneuriat Rural
DRM	Domestic revenue mobilization	PAPSS	Pan-African Payment and Settlement System
D-SIBS	Domestically systemically important banks	PEFA	Public Expenditure and Financial Accountability
EAP	East Asia and Pacific	PFM	Public financial management
EBM	Electronic Billing Machine	PIDA	Programme for Infrastructure Development in Africa
ECOWAS	Economic Community of West African States	PIT	Personal income tax
EP	Equity price	PMI	Purchasing Managers' Index
EPU	Economic Policy Uncertainty Index	PPI	Private participation in infrastructure
ESX	Ethiopian Securities Exchange	PPPs	Public–private partnerships
EU	European Union	PwC	PricewaterhouseCoopers
FDI	Foreign direct investment	RDBs	Regional development banks
GCC	Gulf Cooperation Council		
GDP	Gross domestic product		
GEPU	Global Economic Policy Uncertainty Index		
GRA	Gambia Revenue Authority		
G-SIBs	Global systematically important banks		
HICs	High-income countries		

S&P	S&P Global	UNCTAD	United Nations Conference on Trade and Development
SADC	Southern African Development Community	UNDP	United Nations Development Programme
SDGs	Sustainable Development Goals	UNECA	United Nations Economic Commission for Africa
SEEA	System of Environmental-Economic Accounting	UNEP	United Nations Environment Programme
SMEs	Small and medium enterprises	VAR	Vector autoregression
SOEs	State-owned enterprises	VAT	Value-added tax
SWFs	Sovereign wealth funds	WASMIC	West African Capital Markets Integration Council
TADAT	Tax Administration Diagnostic Assessment Tool	WDI	World Development Indicators
TANCIS	Tanzania Customs Integrated System	WoRLD	World Revenue Longitudinal Database
TaRMS	Tax and Revenue Management System	WUI	World Uncertainty Index
TFP	Total factor productivity		

Africa's economic performance remains resilient amidst multiple shocks and constrained fiscal space. Despite global and domestic headwinds, Africa's growth maintained an upward trajectory, increasing to 4.4 percent in 2025 from 3.5 percent in 2024, making Africa one of the world's best-performing regions, alongside Asia and ahead of Europe and Latin America and the Caribbean. The robust performance in 2025 was broad-based, with 36 of the continent's 54 countries posting higher growth rates compared with 2024, bolstered by improved agricultural output, supportive macroeconomic policies, stronger mineral and metal prices, and a weaker US dollar that helped alleviate the growth-moderating effects on African economies of aid reductions and trade policy tensions.

The outlook is projected to remain positive despite moderating to 4.2 percent in 2026 before recovering to 4.4 percent in 2027. At least 19 countries in 2026, and 21 countries in 2027, are expected to record GDP growth of more than 5 percent. The projected marginal decline in growth rate for 2026 is mainly attributed to the effect of the conflict in the Middle East, which has disrupted vital global supply chains, with far-reaching implications for commodity markets and international trade. The severity of the impact of the supply shock on growth and macroeconomic stability will depend on the duration of the current global disruptions and their effect on energy and fertilizer prices. Projected growth in 2026–2027 assumes the current global shock lasts 2–3 months. This could lead to a 0.2 percentage point reduction in real output growth in 2026 compared with 2025, and a 0.3 percentage point reduction relative to previous projections.

Africa's economic resilience masks persistent structural vulnerabilities that threaten its ability to sustain higher growth. Financing gaps for Africa's development—driven by weak domestic resource mobilization, shallow financial systems, and high external borrowing costs—are exacerbated by a fragmented global landscape marked by declining development assistance and shifting geopolitical priorities. The priority is therefore to translate Africa's demographic dynamism, integration momentum, and expanding economic space into sustained growth. Achieving this requires a comprehensive financing strategy that mobilizes capital at scale from domestic, regional, and strategic external sources while strengthening the efficiency, governance, and developmental impact of resource allocation. If effectively implemented, this agenda could usher in a new phase of sustained transformation.

Unlocking the substantial resource potential embedded in Africa's domestic institutional investors—including \$2.5 trillion in commercial banking assets, more than \$1.2 trillion in equity market capitalization, \$320 billion in insurance assets, and more than \$1 trillion in assets under management in pension funds, state-owned entities, and sovereign wealth funds that manage large and growing pools of capital—will require stronger project pipelines and standardized investable instruments capable of absorbing both institutional capital and diaspora savings to support infrastructure, industrialization, and a green transition.

To strengthen capital markets and attract investors, African countries must maintain macroeconomic stability which in turn requires the avoidance of political and economic policy uncertainty. A stable macroeconomic environment, underpinned by fiscal prudence, exchange rate stability, and low and stable inflation, among other factors, would help to amass a large pool of domestic savings and assure positive real returns to investors. Ensuring policy credibility would support long-term pricing of capital and boost overall investor confidence. To help Africa transform its financial resources and other asset classes to finance accelerated, resilient, and transformative growth, strategies to ensure macroeconomic stability should be complemented by comprehensive reforms and coordinated actions to strengthen domestic revenue mobilization and public financial management and enhance the conversion of public investment spending into productive assets.

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