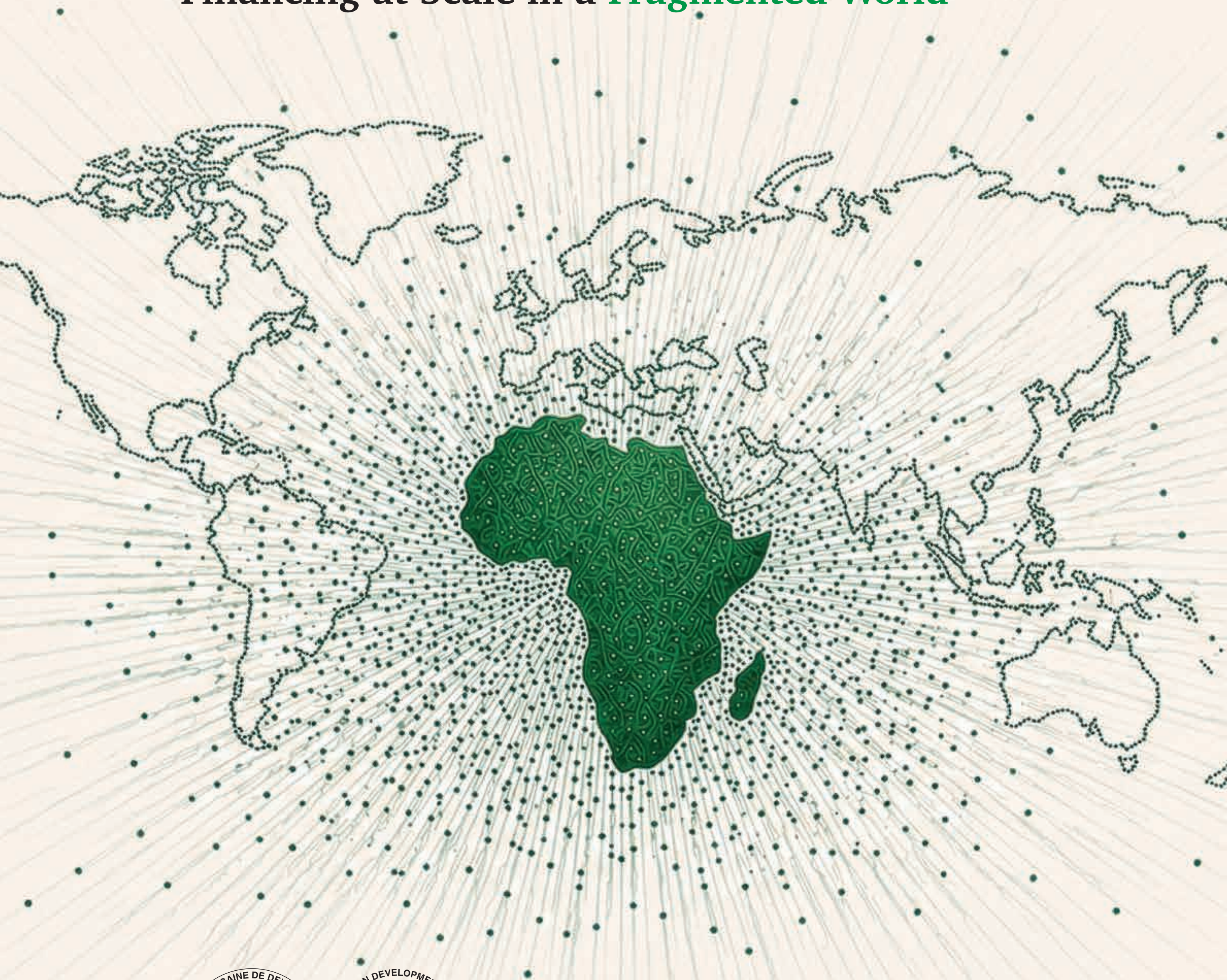
HIGHLIGHTS

AFRICAN ECONOMIC OUTLOOK 2026

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



AFRICAN DEVELOPMENT BANK GROUP

CONTENTS

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
President
African Development Bank Group

ACKNOWLEDGEMENTS

The African Economic Outlook (AEO) 2026 was prepared in the Vice Presidency for Economic Governance and Knowledge Management (ECVP) Complex, under the general direction and supervision of Prof. Kevin Chika Urama, Chief Economist and Vice President for the ECVP Complex, with support from Ferdinand Bakoup, Alexandre Kopoin, Adamon Mukasa, Jasma Salim Ahmed, Amah Koffi and Michael Abah.

Preparation of the report was led by Anthony Simpasa, Director of the Macroeconomic Policy, Forecasting, and Research (ECMR) Department, responsible for producing the report. The core team comprised Paul Mpuga (Division Manager, ECMR.1), Hammed Amusa, Francis Leni Anguyo, Lacina Balma, Martin Wafula Nandelenga, Assi Okara and Kebba Jammeh, all from ECMR.1. The drafting of Chapter 1 was co-led by Hammed Amusa and Martin Wafula Nandelenga, Chapter 2 by Lacina Balma and Kebba Jammeh, while Francis Leni Anguyo and Assi Okara co-led the preparation of Chapter 3. George A. Kararach, Michael Machokoto, Josephine Gatua, Omolola Chiazor Amoussou, Blaise Gnimassoun, Richard Dutu, Mohamed Traore, Zackary Seogo, and Toko Tonisha (all from ECMR), Cedric Achille Mbeng (Country Manager for Mali), Fred Kabanda, Julius Tieguhong, and Innocent Onah (all from ECNR) contributed to various sections of the report. Administrative support for the report was provided by Félicie Zongo Kaboré, Hamida Riahi and Marie Thérèse N'zi.

Valuable contributions to the three chapters were also received from experts outside the Bank. Inputs to Chapter 2 were received from Michael Danquah (Ghana Institute of Management and Public Administration). Chapter 3 benefited from contributions by Prof. Steve Kayizzi-Mugerwa (Zziyika and Associates LLC) and Prof. Afees A. Salisu (Centre for Econometrics and Applied Research, Ibadan).

The statistical information in the report was compiled by the Statistics Department, led by Babatunde Samson Omotosho (Director, Statistics Department) and supported by Louis Kouakou, Anouar Chaouch, Soumaila Karambiri, Stephane Regis Hauhouot, Slim Jerbi, and Beejaye Kokil, of the Economic and Social Statistics Division.

The report was also enriched by review comments from Bank staff and external experts. Within the Bank, comments and suggestions were received from Babatunde Samson Omotosho, Hervé Lohoues, Seedwell Hove, Sanni Yaya, Audrey Verdier-Chouchane, Ferdinand Bakoup, Iyad Dhaoui, Salma Ettouhami, Amal Phleem, Alexandre Kopoin, Adamon Mukasa, Jasma Salim Ahmed, Alain Niyubahwe, Stefan Muller, Bumi Camara, Nadia Hamel, Anouar Chaouch, Shittu Ibrahim, Dintle Monyai, Ibrahim Adegoke Adeleke and Patrick Chileshe. External peer reviewers included Prof. Christopher Adam (University of Oxford), Prof. Léonce Ndikumana (University of Massachusetts at Amherst), Prof. Gerard Caprio (Williams College), Prof. Dramane Coulibaly

(University Lumière Lyon 2), Dr. Abbi Kedir (African Economic Research Consortium) and Dr. Elias Ayuk (Centre for Sustainability Transitions, Stellenbosch University).

The cover of the report is based on a general design by Laetitia Yattien-Amiguet, Justin Kabasele and Milé Bérenger of the Bank's Communication and External Relations Department. Editing, translation, and layout were done by a team from Communications Development Incorporated, led by Bruce Ross-Larson and including Joe Caponio, Mike Crumplar, Christopher Trott, and Elaine Wilson, with translation support from JPD Systems and Industry Arabic.

HIGHLIGHTS

OVERVIEW

Despite being one of the fastest-growing regions globally, with average real GDP growth of 3.8 percent a year over the past two decades, Africa continues to face widening development financing gap to achieve the Sustainable Development Goals, estimated at over $1.3 trillion a year.[1] The gap is in part due to low domestic resource mobilization, weak and fragmented domestic financial systems, and persistently low external financial flows under increased geopolitical fragmentation. Africa's revenue-to-GDP ratio declined from around 23–30 percent in the 2000s to 16.2 percent in 2024, reflecting revenue collection that has not kept pace with economic growth. Low revenue collection is partly due to narrow tax bases, weak compliance, exemptions, and limited taxpayer coverage. Despite marginal improvements in the last two decades, domestic credit to the private sector in Africa, as a share of GDP, is also low and averaged 23.7 percent in 2020–24, less than half the 51.9 percent in Latin America and the Caribbean. 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 (about 40 percent of 2024 GDP), activity remains highly concentrated in a few economies, including Egypt, Morocco, Nigeria, and South Africa.[2]

Over time, Africa has faced several major adverse global shocks, including wars, financial crises, commodity price collapses, trade tensions, and pandemics. It has also faced internal challenges, such as civil strife, cross-border incursions, and weak governance frameworks. Although Africa has historically 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 and reduce poverty. Every significant global shock has been accompanied by an extended period of low growth in real GDP per capita. For example, between 1991 and 1994, real GDP per capita growth was negative for four straight years, a trend linked to the Gulf war.

The major global shocks precipitated by wars, conflicts and trade tensions have strained international relations and heightened global geopolitical fragmentation. For Africa, geopolitical fragmentation and related shifts in global policy orientation have had significant implications for development financing.

In this context, mobilizing development finance at scale is imperative for Africa to lead its own development agenda. *African Economic Outlook 2026* examines the continent's recent economic performance and medium-term outlook. It highlights practical policy options to mobilize capital at scale for accelerated and resilient growth. And it recommends reforms to strengthen and consolidate Africa's financial architecture so that the continent can assert its agency in an increasingly fragmented world.

CHAPTER 1: AFRICA'S ECONOMIC PERFORMANCE AND OUTLOOK

Growth performance and factors affecting the medium-term outlook

Over the last five decades, African economies have been buffeted by increased volatility in commodity prices, outbreak of COVID-19, geopolitical tensions, economic fragmentation, volatility in financial conditions and 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 crisis underscored the continent's resilience. But this resilience is under renewed tests, spurred by the effects of heightened geopolitical tensions in the Middle East.

In 2025, economic growth improved in Africa, despite heightened trade and geopolitical tensions

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 the continent 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 to 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 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 the 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 2 to 3 months. This could lead to a 0.2 percentage point lower real output growth in 2026 than in 2025, and 0.3 percentage point relative to the January *Macroeconomic Performance and Outlook.* 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.

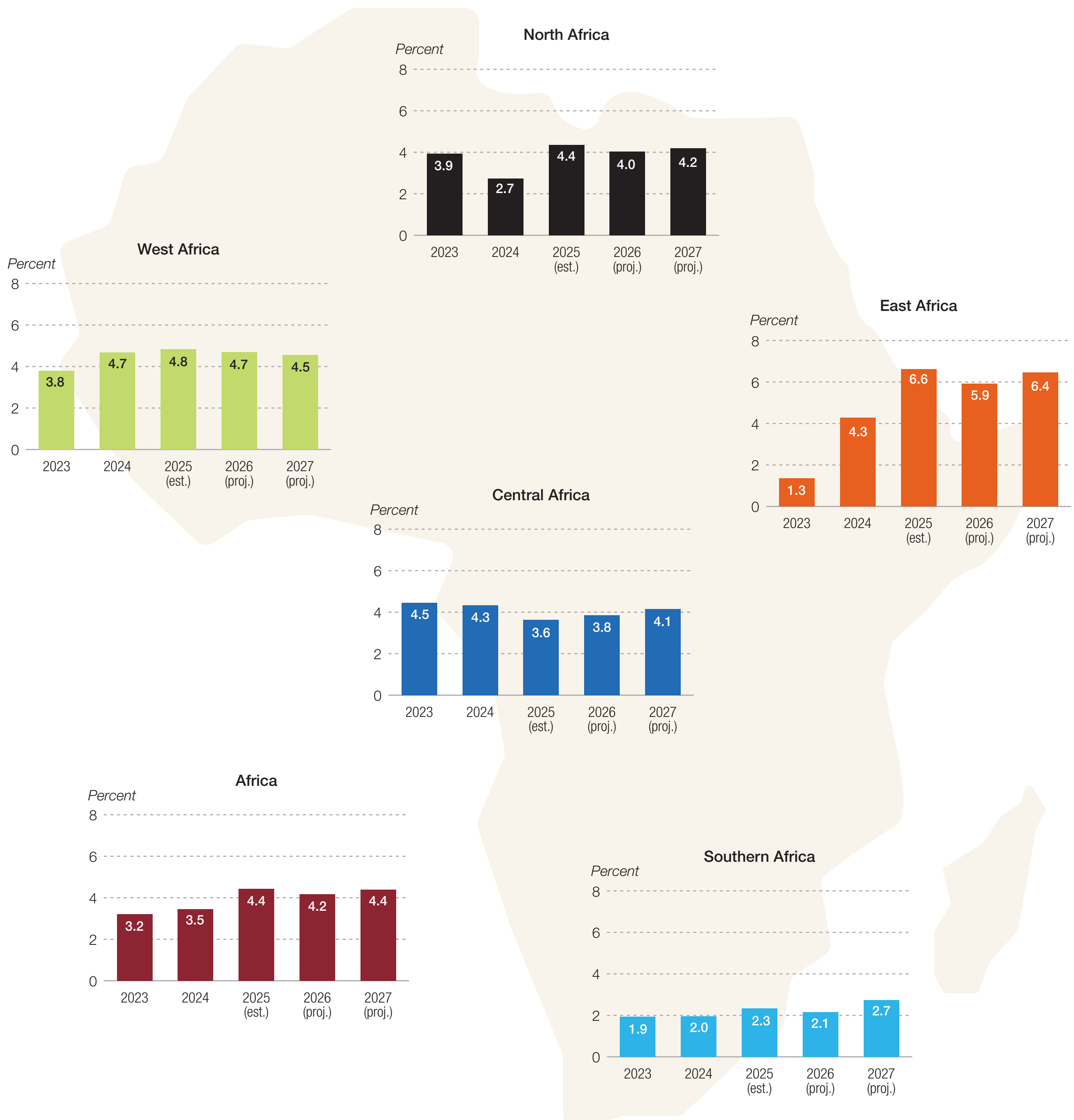
In 2025, real GDP per capita in Africa grew by an average of 2.1 percent, compared with 1.1 percent in 2024. But it is projected to slip marginally to 1.9 percent in 2026 due to slow economic growth before increasing to 2.2 percent in 2027. At this rate, it remains below the minimum 3.5 percent required 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 between 40 percent and 65 percent of total income, while the bottom 50 percent receive only between 10 percent and 15 percent.

Across African subregions, the impact of the Middle East conflict on growth is uneven

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). Growth in these countries will benefit from sustained higher commodity prices, especially for 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, primarily due 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

FIGURE 1 Real GDP growth across African regions, 2023–27 (percent)



Source: African Development Bank statistics.

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* was estimated at 4.4 percent in 2025 and is projected to slow down to 4.0 percent in 2026. Disruptions to shipping through the Strait of Hormuz will affect the region's exports to the Middle East and raise the cost of fertilizer inputs and energy for net importers of petroleum products such as Egypt, Morocco, and Tunisia. The subregion's tourism sector could also suffer from 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* was estimated at 4.8 percent in 2025 and 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.

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

In *Southern Africa,* growth in 2025 was estimated at 2.3 percent, driven by mining activity and the recovery of agricultural output. In 2026, growth is projected to decline to 2.1 percent due to the 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 or expected increases in public-sector capital spending, agricultural output, and exports.

Other macroeconomic indicators performance and outlook

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 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. As of 28 April 2026, currencies of 27 countries had depreciated against the US dollar relative to the baseline of 27 February.

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. At the start of the Middle East conflict, most African countries were already operating under a relatively restrictive monetary policy stance, possibly providing them with added scope for monetary policy easing when the current inflationary pressures subside.

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

TABLE 1 Outlook for key macroeconomic indicators in Africa, 2026 and 2027

Country	Real GDP growth 2026	Real GDP growth 2027	Inflation 2026	Inflation 2027	Current account balance 2026	Current account balance 2027	Fiscal balance 2026	Fiscal balance 2027
Algeria	4.1	4.2	3.3	2.6	–1.4	–3.4	–13.3	–14.3
Angola	2.9	3.3	17.7	15.3	3.4	1.0	–1.1	–2.1
Benin	6.6	7.1	2.5	2.1	–5.8	–5.2	–2.7	–2.4
Botswana	1.2	3.5	6.3	4.7	–6.7	–4.4	–8.9	–8.0
Burkina Faso	5.4	5.8	2.1	1.7	–3.0	–2.4	–4.2	–3.8
Burundi	4.3	4.6	22.1	13.7	–6.3	–5.4	–3.6	–3.1
Cabo Verde	4.7	5.0	2.6	2.3	1.1	–1.8	–1.3	–1.0
Cameroon	4.0	4.1	3.5	2.7	–4.1	–3.9	–1.9	–0.7
Central African Rep.	2.9	3.9	3.9	2.9	–6.6	–5.1	–4.0	–3.4
Chad	3.6	3.5	4.0	3.3	–3.0	–3.9	–2.2	–2.8
Comoros	3.4	4.0	3.7	2.6	–5.9	–5.0	–2.7	–2.4
Congo	3.3	3.4	3.4	3.1	2.9	2.6	4.3	3.9
Congo, Dem. Rep.	5.0	5.6	6.4	5.4	–4.2	–2.8	–3.4	–2.1
Côte d'Ivoire	6.2	6.5	2.6	2.0	–2.0	–2.5	–3.0	–3.0
Djibouti	6.5	6.8	2.4	1.7	14.1	14.6	–1.9	–1.0
Egypt	4.0	4.3	14.7	14.6	–4.6	–4.5	–7.0	–6.4
Equatorial Guinea	–1.7	–1.4	3.1	2.9	–2.4	–3.3	–2.1	–3.4
Eritrea	2.8	3.2	5.1	4.9	10.1	12.4	–3.3	–2.9
eSwatini	4.0	3.5	4.0	3.5	–1.0	–1.2	–6.4	–5.4
Ethiopia	7.8	8.5	14.1	8.8	–1.1	–0.9	–2.4	–1.9
Gabon	2.7	3.1	3.1	2.3	1.1	–2.4	–4.4	–5.7
Gambia, The	4.9	5.0	5.2	4.9	–5.6	–4.5	–1.7	–1.2
Ghana	5.0	5.4	9.0	7.2	3.0	2.7	–2.6	–2.2
Gunea	9.3	9.8	4.2	3.6	9.6	9.2	–3.5	–3.7
Guinea-Bissau	4.9	5.1	2.5	2.2	–5.2	–3.4	–3.6	–3.2
Kenya	4.6	4.7	5.4	4.8	–2.8	–2.2	–6.1	–5.8

Country	Real GDP growth 2026	Real GDP growth 2027	Inflation 2026	Inflation 2027	Current account balance 2026	Current account balance 2027	Fiscal balance 2026	Fiscal balance 2027
Lesotho	0.5	1.8	5.7	4.3	–8.7	–4.5	2.1	3.1
Liberia	5.0	5.3	8.2	6.7	–14.8	–13.2	–2.7	–2.4
Libya	6.5	4.3	2.5	2.2	6.1	3.5	2.2	1.6
Madagascar	3.0	4.5	9.0	6.5	–7.5	–6.0	–4.4	–3.8
Malawi	2.3	3.3	24.6	18.7	–17.5	–15.3	–10.7	–10.0
Mali	6.0	5.9	3.1	2.5	–5.8	–5.0	–3.2	–2.9
Mauritania	4.4	4.7	2.5	2.6	–8.6	–6.7	–0.9	–0.5
Mauritius	2.8	3.8	6.0	3.9	–7.0	–4.3	–7.3	–5.4
Morocco	4.2	4.3	2.4	2.3	–3.5	–3.4	–3.7	–3.2
Mozambique	2.1	3.5	6.2	5.2	–28.8	–32.7	–6.4	–7.0
Namibia	2.0	3.5	6.1	4.5	–16.4	–12.6	–6.0	–4.8
Niger	6.6	6.4	3.8	2.3	–6.3	–5.7	–3.6	–2.7
Nigeria	4.1	3.7	16.2	13.0	5.8	4.1	–2.3	–2.5
Rwanda	7.0	7.4	5.6	4.8	–14.9	–14.2	–6.0	–5.6
São Tomé and Principe	2.4	3.2	11.5	8.6	–6.4	–5.0	–1.4	–1.6
Senegal	5.2	5.9	2.3	1.2	–8.9	–5.7	–8.1	–7.2
Seychelles	3.1	3.4	1.8	1.9	–5.6	–4.6	–1.2	–0.7
Sierra Leone	4.2	4.8	9.2	7.2	–5.9	–4.6	–4.3	–2.8
Somalia	3.1	3.4	5.2	4.1	–9.9	–8.8	1.1	–0.7
South Africa	1.2	1.6	3.9	3.6	–1.4	–1.6	–5.1	–4.7
South Sudan	22.0	6.8	21.8	16.8	–0.4	–1.5	1.6	3.0
Sudan	2.1	3.2	78.3	51.3	–5.1	–4.4	–2.9	–2.4
Tanzania	5.4	6.1	3.8	3.7	–3.0	–2.2	–3.4	–3.5
Togo	5.9	6.2	2.1	1.6	–3.2	–2.5	–2.9	–2.6
Tunisia	2.1	2.8	5.7	5.4	–5.3	–4.7	–6.1	–5.6
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

Source: African Development Bank statistics.
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.

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 push up 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. 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. Official development assistance 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 that account 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.

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

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.

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 p.a. to reach $1.9 trillion in 2024, from $1.6 trillion in 2020, driven by the large public spending needs. On the positive side, the debt-to-GDP ratio declined from an average of 63.9 percent in 20232024 to 62 percent in 2025 and is projected at 61.4 percent in 2026. The declining debt-to-GDP ratio reflects the 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 infrastructure and social services. The share of government revenue devoted to external debt service increased from 23.7 percent in 2017 to 31 percent in 2024.

Policy recommendations for the short term

Strengthen their 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 ministries of finance, 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.

Implement prudent fiscal policies to mitigate the effects of rising energy and food prices to lower business costs and alleviate pressures on the poor and other 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. African 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 shuld 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 fiscal risks.

Use oil and gas windfall revenues 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 channel windfall revenues from the price boom into sovereign wealth funds or other countercyclical buffers 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. They can achieve this by diversifying asset portfolios, investing in human and physical capital, and scaling up exports to boost non-oil revenues.

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 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.

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

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 through preferred pooled fuel procurement and emergency food corridors. They also need to diversify the 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 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 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 African countries and mitigate implementation challenges.

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

Policy recommendations for the medium to long term

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 premia, 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 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—are all 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 improving 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 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 aligned to administrative capacity. They should align fiscal and customs frameworks with regional agendas by harmonizing policies and procedures in line with AfCFTA to reduce multiple/double taxation. They should institutionalize high-performance revenue administrations by investing 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 use 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 supporting sustainable economic growth. It will help in leveraging the over $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 to address heightening debt refinancing risks and the African Monetary Institute to establish the African Central Bank and the Africa Credit Rating Agency to address information bias in sovereign risk ratings in African countries.

Sustain peace and security. 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. In an increasingly fragmented world, deepening regional economic integration and trade and fostering political unity and peace are critical aspects of macroeconomic policy stability and resilience.

CHAPTER 2: MOBILIZING CAPITAL AT SCALE FOR ACCELERATED AND RESILIENT GROWTH IN AFRICA

The strong economic recovery from COVID-19 ushered in a new era of strategic agency for Africa's development. With an average real GDP growth of 3.8 percent over the past two decades, Africa is among the world's fastest growing regions. Its rapidly expanding youthful working-age population, deepening digital adoption shaping banking and finance, improving macroeconomic management, and continuing regional integration have provided additional impetus to the growth momentum. While economic growth has been relatively solid, it has been uneven. Nor has it translated into structural transformation to create enough and decent jobs for the growing youth population. Africa remains the least industrialized region globally and is far from achieving the 7–10 percent growth required to deliver broad-based prosperity.[3] At the core of these challenges lies a widening development financing gap—with spending pressures outstripping resources mobilized to fund the growing development needs. Mobilizing capital at scale calls for increasing the volume of financing, improving efficiency, strengthening institutions, and deploying Africa's vast resources to drive inclusive growth.

Mobilizing capital at scale calls for increasing the volume of financing, improving efficiency, strengthening institutions, and deploying Africa's vast resources to drive inclusive growth

Heightening the urgency of this agenda is tightening fiscal constraints. Rising debt-service burdens, declining concessional financing, and mounting spending pressures related to investment in infrastructure, climate adaptation, energy transitions, social protection, and demographic expansion—are all compressing fiscal space. Debt service was estimated at about one-third of government revenue in 2024, exceeding social sector spending in many countries. And access to international capital markets has become more costly and volatile amid tighter global liquidity, higher risk aversion, and persistently high sovereign risk premium.

At the same time, global fragmentation and multipolarity are reshaping the financing 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 foreign direct investment

(FDI). Although Africa has shown resilience and recorded improved exports in 2024 and 2025, uncertainties around FDI inflows, declining official development assistance, impacts of multiple shocks and tighter global liquidity conditions pose risks to the external financing outlook.

This shifting environment also creates new opportunities. Changes in global supply chains, rising demand for green and critical minerals, carbon and biodiversity credit markets, and global institutional capital offer alternative innovative 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 crowds in private capital. Harnessing these opportunities to enhance Africa's financial agency in a fragmented world requires strong institutions and deep, well-regulated, and integrated financial systems.

Africa can realize its untapped potential in domestic resource mobilization by improving efficiency of collection rather than increasing statutory tax rates

Africa's development challenge is increasingly about mobilizing, retaining, and productively deploying domestic capital. High-growth experiences show that sustained structural transformation, large-scale job creation, and rapid poverty reduction are feasible, if underpinned by continuous capital deepening, human capital upgrading, and productivity gains. But inefficiencies in public spending, weak governance, and public investment management reduce the developmental impact of mobilized resources. Addressing these gaps and could unlock up to $1.43 trillion a year in additional financing for Africa's development.[4]

Mobilizing capital at scale and improving efficiency of use

Mobilizing capital at scale requires unlocking Africa's domestic resource potential. Despite rising nominal tax revenues, tax effort has declined in several countries over the past decades. Africa's untapped domestic revenue potential is estimated at about $469 billion a year (14.4 percent of GDP) if countries converge toward higher peer performing benchmarks.[5] Value-added tax (VAT) accounts for the largest source of additional revenue potential, at about $140.8 billion. The potential of domestic institutional investors—including pension funds, insurance companies, and sovereign wealth funds—is equally substantial. Together, these institutions manage large and steadily expanding asset pools, estimated at $4 trillion, but less than 3 percent of this is invested in infrastructure and other productive projects in Africa.[6] Diaspora remittances also represent a large but underleveraged source of financing. Unlocking these resources requires stronger project pipelines and investable instruments capable of absorbing both institutional capital and diaspora savings.

Addressing structural weaknesses in tax policy, compliance, and administration reduces the need for high tax rates. Africa can realize its untapped potential in domestic resource mobilization by improving efficiency of collection rather than increasing statutory tax rates. These potential gains stem from tackling structural weaknesses in tax policy and improving compliance and administration. Opportunities for raising domestic revenue include strengthening VAT compliance, managing excise taxes and arrears, broadening property taxation, enforcing corporate income tax, particularly in extractives, and embracing the growing digital economy. VAT could be the largest source of additional revenue, estimated at about $140.8 billion, or more than double Africa's current VAT collections.[7]

Direct taxes offer scope for gains, with estimated additional yields of about $83.3 billion each from corporate and personal income tax. 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). Complementary gains could be realized from trade and consumption-related taxes, including import duties ($48.1 billion) and excise taxes ($39.9 billion), other domestic taxes ($50.5 billion), and other customs revenues ($23.5 billion).[8] These potential gains 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 manner. Effective revenue mobilization can be achieved through mutually reinforcing tax instruments and non-tax instruments supported by safeguards to protect vulnerable populations from the adverse effects of additional revenue measures, including disproportionate tax burdens, increases in the cost of basic goods and services, and reduced access to essential public services. Tax instruments include reforms to VAT, excise taxes, corporate income and property taxes, alongside measures to expand taxation of the digital economy and telecommunications sectors, and modernization of customs and domestic tax administration. Non-tax instruments should focus on increasing dividends from state-owned enterprises, improving mineral royalty regimes, streamlining user fees, and enhancing the management of natural resource revenues. Equity safeguards, such as targeted subsidies and social protection mechanisms, can ensure that revenue mobilization reforms remain socially sustainable and politically acceptable while supporting inclusive growth.

Broadening the tax base is essential to strengthen domestic revenue mobilization. This can be achieved by reducing inefficient and poorly targeted tax exemptions and incentives, improving VAT design, and expanding tax coverage to emerging activities such as the digital economy. Over the past two decades, Africa's total tax revenue has increased more than fourfold —from about $100 billion in the early 2000s to nearly $450 billion in the early 2020s.[9] Structural constraints—including widespread exemptions and incentives, a narrow tax base, weak compliance, the large size of the informal sector, and administrative inefficiencies—limit revenue performance. Targeted reforms can help unlock additional revenue while supporting broader policy objectives. For example, strengthening excise taxes on alcohol and tobacco offers scope for revenue gains alongside public health benefits. Excise duties play a significant role in domestic revenue mobilization, with fuel taxes accounting for about 40.2 percent of collections, followed by alcoholic beverages (29.6 percent) and tobacco products (15.8 percent). At below 0.8 percent of GDP, property taxation in Africa presents an untapped and growth-friendly source of revenue. Strengthening property tax systems, through improved land registration, property valuation, and local administration capacity, offers potential to expand domestic revenues.[10]

Improving tax compliance is central to boosting revenue mobilization across African countries. Key measures include deploying risk-based audit systems, streamlining large taxpayer offices to enhance collection efficiency, and scaling up electronic services to improve filing, payment, and reporting, particularly for value-added and corporate income taxes.[11] But administrative capacity constraints remain significant. In 2023, the average number of taxpayers per auditor increased over 2022 by 2.4 percent to 11,173, indicating heavy workloads across many jurisdictions. This underscores the need to prioritize automated and more targeted risk-based audit selection. In addition, improvements in audit performance suggest a large scope for strengthening enforcement. The average audit yield, measured as a share of assessed amounts collected, across the 47 member countries of the Africa Tax Administration Forum increased to 55 percent in 2023, from 52 percent in 2022. Notably, Botswana, Côte d'Ivoire, and Mauritius recorded audit yields at or above 100 percent, reflecting strong post-assessment collection systems.[12]

Strengthening property tax systems, through improved land registration, property valuation, and local administration capacity, offers potential to expand domestic revenues

Domestic revenue mobilization in Africa must extend beyond taxation to harness non-tax revenue (NTR) from fees and charges, public assets (including SOEs), and natural resource rents. In nominal terms, NTR (excluding grants) rose from about $45.1 billion in 2000 to a peak of $161.7 billion in 2012, driven by favorable commodity prices, improved resource rent collections, and higher user fees. But it declined during subsequent commodity price downturns and the COVID-19 shock, reaching $92.9 billion in 2024. Strengthening NTR requires improving the pricing and collection of revenues from public services, especially in energy, water, transport, and urban municipalities. Establishing clear performance targets, enhancing financial oversight, and aligning SoE incentives with fiscal objectives can expand revenues while improving accountability and efficiency. Royalty and profit-sharing arrangements in energy, mining, and telecommunications should be periodically reviewed to ensure that public returns remain aligned with market conditions.

Africa's binding constraints lie in both the quantity of investment and the quality of execution. Public investment inefficiency, estimated at about 41 percent based on 2023 dataset, means that a large share of spending does not translate into productive capital.[13] Absorptive capacity constraints further complicate rapid scaling: once public investment approaches 7–10 percent of GDP, cost pressures and implementation gaps tend to intensify.[14] Improving project selection, procurement, maintenance, multiyear fiscal planning, and oversight is therefore critical to maximizing growth returns. In low-efficiency environments, where absorptive capacity is a constraint, a gradual scaling of public investment can help limit cost overruns. Ensuring that a greater share of allocated resources translates into effective infrastructure and productive assets can significantly raise returns within existing spending envelopes. Estimates suggest that closing the efficiency gap could generate fiscal savings of about $299 billion a year, resources that could be redeployed to ease financing constraints while amplifying growth. These savings amount to roughly 75 percent of the estimated $402 billion annual financing gap to accelerate structural transformation and more than double current education spending of about $106 billion.[15]

Well-chosen public investments in Africa tend to crowd in private capital: every additional public dollar investment is associated with about $1.40 in private investment

Scaling-up the agenda for financing PPPs

In the face of limited fiscal space, the private sector can contribute to investment via public–private partnerships (PPPs). Well-chosen public investments in Africa tend to crowd in private capital: every additional public dollar investment is associated with about $1.40 in private investment. In 2024, Africa mobilized roughly $6.0 billion in private participation in infrastructure, relative to $56.6 billion in East Asia and the Pacific and $21.3 billion in Latin America and the Caribbean.[16] Although Africa's investment levels remain above those of South Asia and broadly comparable to Europe and Central Asia, the gaps with EAP and LAC highlight the continent's untapped potential to scale up private infrastructure financing.

African countries are making progress in PPP adoption, with reform momentum accelerating after 2015. A 2024 survey by the African Legal Support Facility 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. This approach undermines effective project delivery.[17] To scale up PPPs in Africa, projects need robust feasibility analysis, risk identification, value-for-money testing, and fiscal affordability checks.

Formalizing the informal sector

The scale of informality in African economies constrains 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 in some countries. Estimates indicate that each percentage point of GDP produced in the informal sector is associated with a loss of 0.17–0.41 percentage point of GDP in tax revenues.[18] Informality also affects financial deepening because incomes remain outside the banking sector; records are limited or non-existent, and collateral is difficult to verify. By contrast, formalization can deliver sizable growth and fiscal dividends. Building on global evidence, the AfDB estimated that a 10-percentage point reduction in the size of the informal sector could increase annual GDP growth by about 1–2 percent, and transforming informal activities into the formal sector can generate up to $125 billion in additional revenues per year.[19]

Mobilizing long-term capital from regional and institutional investors

Africa's domestic financial institutions, including banks, pension funds, and sovereign wealth funds (SWFs), manage sizeable and growing asset pools, estimated at up to $4 trillion. But less than 2.7 percent of assets on institutional balance sheets are deployed into long-term productive infrastructure in domestic markets.[20] Addressing regulatory, market, and pipeline bottlenecks could catalyze and direct these resources toward infrastructure financing. Leveraging Africa's pension funds and SWFs and deepening regional capital markets and financial integration will help mobilize long-term capital at scale.

Pension funds are structurally well suited to long-tenor investments (patient capital) given their long-dated liabilities, relatively stable contributions, and predictable payout profiles. Africa's pension fund assets remain below those of advanced regions, and their allocation patterns limit their transformative potential. The distribution of pension funds is highly uneven, but even in larger systems where aggregate pension assets exceed $200 billion, portfolio allocation is conservative.[21] They concentrate on investment in government securities and short-term bank deposits, with modest exposure to corporate credit and minimal allocation to infrastructure. Pension fund allocations to alternatives in selected African markets ranged from 0 to about 2.7 percent of assets under management (end-2020).[22]

The payoff from investing pension funds in Africa could be significant even through a marginal reallocation of such assets, if done within strong prudential guardrails. Reallocating an additional 1 percent of pension assets a year to domestic long-term investments (infrastructure, housing, and climate-projects) across the six largest African pension markets could cumulatively mobilize about $1.7 trillion by 2050.[23] Cross-country experiences offer 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 is unused. Second, shortages of investable domestic assets that meet fiduciary and risk-management requirements are a key constraint. Strengthening regulatory and prudential frameworks, capital markets, project preparation, and governance standards are essential to unlocking pension funds for Africa's long-term capital mobilization.

Sovereign wealth funds could shift from outward bias to strategic investment windows. SWFs are a major global pool of long-term capital, with $15 trillion in assets under management spread over more than 180 funds globally. This positions SWFs as powerful vehicles for supporting long-term investment and crowding in private finance. Many African SWFs invest more in offshore equities and bonds, often anchored in the conventional 60/40 portfolio mix benchmarked with standards in advanced markets.[24] This outward bias reflects diversification motives as well as the weak domestic project pipelines, underdeveloped capital markets, and macroeconomic volatility.[25] Progress is emerging, however. In 2022, over 73 percent of surveyed African SWFs (11 of 15) reported meeting elements of their development mandates through domestic investments.[26]

Policy reforms need to expand domestic opportunities while preserving robust governance frameworks, ring-fenced development windows, and clear investment rules. Countries with well-structured, bankable projects and credible investment platforms attract higher SWF allocations to emerging markets and domestic investments. Where investable instruments exist —such as infrastructure funds, well-governed PPPs, co-investment platforms, and professionally managed regional vehicles—domestic allocations tend to rise. With credible pipelines and institutional architecture, African SWFs can thus play a larger role in mobilizing long-term capital, complementing private finance and enhancing resilience in fiscally constrained and shock-prone economies. Aligning large domestic institutional balance sheets (including pension funds and SWFs) with national development priorities requires regulatory and market reforms. Statutory frameworks that recognize infrastructure as an investment asset class, alongside minimum domestic allocation of thresholds consistent with prudential norms, are central to this effort.

Leveraging diaspora capital

Extending the average trend since 2000, remittance flows to Africa could reach $179 billion in 2030, $433 billion in 2040, and $1,051 billion in 2050. The flows to Africa are relatively

Africa's pension fund assets remain below those of advanced regions, and their allocation patterns limit their transformative potential stable—about three times less volatile than FDI.[27] Transparent and secure institutional frameworks that promote the transfer of remittances through formal channels are key to attracting diaspora capital for investment into growth-enhancing sectors. Country experiences show that clarity of instruments, legal certainty, reduced frictions, and the presence of targeted public incentives are key determinants of diaspora financial mobilization. Nigeria, for example, has institutionalized the state–diaspora relationship through a dedicated commission—the Nigerians in Diaspora Commission—and specifically designed financial instruments have helped to strengthen confidence in official channels. If most African countries could move to the average performance of the top five countries in diaspora receipts, Africa could generate an additional $92.1 billion a year from this potential.[28]

Africa's abundant natural capital remains largely invisible in economic statistics and weakly integrated into public and investment decision-making

Harnessing Africa's natural resource assets

Africa's abundant natural capital remains largely invisible in economic statistics and weakly integrated into public and investment decision-making.[29] Natural capital represents between 30 and 50 percent of total wealth in many countries,[30] with an estimated value of nearly $7.6 trillion in 2020, or about two and a half times annual GDP.[31] The emergence of carbon markets, bio-credits, and the bio=digital 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 sustainability. Integrating natural capital into national accounting systems provides a foundation for moving beyond the extractives model of natural resource exploitation. Emphasis on local value addition, downstream processing, and ecosystem-based production systems can strengthen value chains, create jobs, and limit environmental degradation.

Crowding in global private capital in a fragmented world

Global fragmentation and the emergence of multipolarity are reshaping the international finance landscape. Recurring multiple risks and shocks alongside increased defense spending in advanced economies are reshaping global patterns of production, trade, and finance. Facing these challenges, African countries need to design de-risking mechanisms to attract the flow of global private capital and blended finance and channel it to key sectors of the economy—energy, transport, digital infrastructure, and industry. For effectiveness, de-risking must be sequenced, beginning with policy and sector credibility, predictable rules, enforceable contracts, and reliable tariffs or user fees.

Policy recommendations

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 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 multidimensional 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 may 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.

Governments should prioritize reducing the cost and complexity of formalization by simplifying tax regimes and streamlining business registration procedures

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

Strengthen fiscal and private capital mobilization as complementary instruments. 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 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 enrolment. 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.

Project bonds and infrastructure funds, supported by de-risking tools such as guarantees and blended finance, can help expand capital mobilization

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.[32]

Improve the quality and bankability of infrastructure projects to attract funding from national pension funds SWFs and other investors. 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, and introducing new savings instruments. In the medium term, priority should be given to structuring 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.

CHAPTER 3: STRENGTHENING AND CONSOLIDATING AFRICA'S FINANCIAL SYSTEMS AND AGENCY IN THE CHANGING WORLD

The contrast between the emerging global financial realities and the development financing landscape has never been sharper. Overseas development assistance (ODA) is increasingly volatile and under pressure. And foreign direct investment (FDI), remittances, commercial loans, and other external financial flows, despite periodic upticks in recent years, remain too low to meet Africa's development financing needs. Financing requirements to achieve the 2030 Agenda on Sustainable Development Goals (SDGs) and Agenda 2063 have increased in the post-COVID-19 era. This, combined with the rapidly evolving global economic and financial landscape, with geopolitical and trade tensions and inward-looking policies, calls for Africa to unlock the potential of its financial systems to mobilize capital for its development.

Africa's ability to mobilize capital for development is constrained by a shallow, underdeveloped, and bank-based financial system

Africa's ability to mobilize capital for development is constrained by a shallow, underdeveloped, and bank-based financial system. Measured by standard metrics, Africa's financial system is smaller than in other regions of the world. For instance, despite marginal improvements in the last two decades, domestic credit to the private sector in Africa averaged 34.6 percent of GDP in 2020–24, well below the 52.0 percent in Latin America and the Caribbean. Credit to the private sector remains low as share of GDP, even in relatively major African economies such as Kenya (31.6 percent), Egypt (28.3 percent), Côte d'Ivoire (21.4 percent), and Nigeria (9.4 percent). Compare that with emerging market economies such as Vietnam (121.6 percent) Malaysia (121.5 percent), and Chile (111.8 percent).[33]

Similarly, at 44.6 percent of GDP, Africa's stock market capitalization is low compared to 100.1 percent in South Asia. Interest rate spreads also remain high, averaging 14.7 percent in 2023 compared with 5.9 percent in Latin America and the Caribbean.[34] These weaknesses highlight Africa's failure to leverage its financial potential and opportunities in accessing long-term capital. So, strengthening and consolidating Africa's financial systems present an important and sustainable pathway for mobilizing development financing for the continent.

Strengthening Africa's financial system: Addressing bottlenecks and expanding reach and impact

To deepen Africa's financial sector and expand access to finance, it is essential to strengthen regulatory frameworks and risk management systems. Regulatory weaknesses and high credit risk are interlinked. Weak supervision undermines market discipline and underwriting standards, while high non-performing loans constrain financial intermediation. Addressing these constraints requires strengthening the independence and enforcement capacity of regulatory agencies—central banks, securities and exchange commissions, pension and insurance authorities, and other financial watchdogs. And doing this while modernizing prudential frameworks and supervisory tools in line with international standards and best practice. It also calls for stronger credit risk management, improved data quality and transparency and stronger coordination between the regulators and the national and regional development financial institutions (DFIs) to facilitate the development of innovative financial instruments and risk-sharing tools.

The continent boasts abundant natural resource wealth and capital tucked in an unregulated informal economy, where a large but unbanked population and small businesses thrive

To strengthen capital markets and attract investors, African countries must maintain macroeconomic stability. Africa's capital markets are concentrated in a small number of exchanges, particularly the South African market, while secondary market trading is thin across much of the continent. This explains the small value of stocks traded in Africa, about 4.4 percent of GDP in 2024, compared with 120 percent globally. The low capital mobilization of Africa's stock exchanges reflects macroeconomic instability and structural constraints, including limited listing, liquidity, and institutional investor participation. Low and stable inflation, exchange rate stability, and fiscal prudence are keys to expanding the pool of domestic savings and ensuring positive real returns to investors.

Africa's vast domestic capital present opportunities to develop its financial market and expand development capital. African countries hold large untapped domestic capital, including pools of assets under management in pensions, SWFs, and insurance companies. The continent also boasts abundant natural resource wealth and capital tucked in an unregulated informal economy, where a large but unbanked population and small businesses thrive. These domestic resources present scope to expand capital for development through the introduction and better intermediation of financial instruments suited to local conditions and circumstances. Achieving this requires a better-structured financial system that will allow African countries to mobilize domestic resources at scale, while engaging global markets more effectively and unlocking investment for sustainable development.

Consolidating Africa's financial system: For a cohesive and integrated financial architecture

Establishing an agile and integrated network of pan-African financial institutions backed by strong and deep national and regional financial systems is critical to consolidating Africa's financial architecture. The expansion of pan-African banks (PABs) is creating innovation and competition in many African economies. As of 2025, 14 PABs with subsidiaries in at least five countries had a total assets value of $657 billion.[35] They 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 PABs, the authorities need to strengthen regulatory cooperation and cross-border banking supervision and harmonize prudential standards across regional economic communities. Partnerships with DFIs and NDBs will help crowd in private investment for infrastructure and other productive sectors. Such measures will enable PABs to expand domestic savings mobilization, provide credit to the private sector, and strengthen financial integration and regional value chain development.

Africa's equity markets have expanded in the last two decades—with market capitalization rising nearly six-fold, to reach $1.2 trillion in 2024. But activity is highly concentrated in a few economies, including South Africa, Egypt, Nigeria, and Morocco. The low capital mobilization of Africa's stock exchanges reflects structural constraints. Harmonizing regional standards will help address these constraints and further deepen Africa's financial markets. Key initiatives such as the West African Capital Markets Integration Council, the Pan-African Payment and Settlement System, and the African Exchanges Linkage Project are important steps in strengthening Africa's capital markets that need to be capitalized.

Strengthening coordination and leveraging such new financing platforms as climate finance and Islamic finance will help to expand the reach and development impact of Africa's financial system. Nascent climate finance instruments in Africa are 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.[36] Leveraging innovative climate financing instruments and related asset classes can contribute to deepening domestic financial markets and mobilizing capital for climate resilient infrastructure projects, traditionally perceived as high-risk and unattractive to private investment.[37] Islamic finance assets, estimated at about $6 trillion globally in 2024, present additional sources of development financing for Africa. Several African countries have introduced legislation and supervisory guidelines to imbed Shariah-compliant finance within existing financial systems.[38] But Islamic banking assets in Africa constitute less than 10 percent of total banking assets and are confined to few countries. 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 in the formal financial system.

Leveraging insurance companies will strengthen Africa's financial system through capital mobilization and the deployment of other types of finance at scale. Africa's insurance market generated just $64 billion in 2023, less than 1 percent of the global insurance market premiums, compared with $4.8 trillion (67.1 percent) in the G7 countries. The penetration rate of the insurance market in Africa is less than 2 percent of GDP. Insurance assets are concentrated in a few countries such as Mauritius, Namibia, and South Africa, with penetration rates averaging 41.2 percent of GDP across the three countries.[39] Africa's insurance sector has the capacity to mobilize capital at scale for long-term investment. 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. Pooling 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, supporting market liquidity, yield-curve formation, and maturity extension.

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

Real estate presents an opportunity to mobilize capital for long-term investment. Africa is the world's fastest-urbanizing region, with the urban population expected to reach 60–65 percent of the total by 2050.[40] Urbanization in Africa presents an opportunity to leverage the expanding middle class for development. Real estate development, in response to growing demand for housing and commercial properties, offers a natural asset class for long-term institutional investors, whose liability structures match the long-duration and inflation-hedging characteristics of property assets. Africa's prime real estate has average yields of 8–12 percent, higher than in other parts of the world.[41] So, by transforming illiquid land and unregistered property into bankable collateral assets, the expanding real estate markets could transform financing for households and SMEs, thereby supporting financial inclusion and stimulating long-term savings mobilization.[42]

A network of pan-African financial institutions will offer a coordination framework to strengthen regional integration

Greater regional financial integration is essential to unlock efficient cross-border capital flows. Africa's financial system is highly fragmented and geographically concentrated, with financial activity and market depth clustered in a small number of large economies such as South Africa and Egypt. Fragmented markets restrict efficient cross-border financial flows, reduce overall 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 transaction costs and undermine investor confidence. Strengthening cross-border financial infrastructure, promoting interoperability of payment and settlement systems, and supporting regional capital market linkages will improve connectivity. A coordinated approach to market development can transform isolated national systems into a regional network of integrated institutions to support broader economic participation.

A network of pan-African financial institutions will offer a coordination framework to strengthen regional integration. Existing initiatives in payments modernization, supervisory collaboration, and market infrastructure demonstrate growing momentum toward continental economic and financial cooperation. A formal coordination structure is needed to align standards, governance practices, and operational systems to ensure consistency and scalability. By linking payment systems, oversight mechanisms, liquidity arrangements, and capital markets, such a framework would facilitate the development of cohesive architecture and long-term integration. A more interconnected financial system improves capital allocation, expands access to funding, and deepens market capacity to support investment. It also enhances resilience by enabling collective responses to economic pressures and facilitating smoother capital flows.

A well-coordinated ecosystem between regional and national DFIs will foster financial integration. A functionally coordinated architecture in which capital is allocated efficiently across borders is key for Africa's financial integration. A subsidiarity-based framework—where multilateral development banks such as the AfDB channel lending through or provide technical assistance to national development banks (NDBs) and regional DFIs—offers a practical roadmap for success. Under this model, national development banks could originate and structure country level projects. Regional institutions could provide risk-sharing, technical oversight, institutional capacity, and cross-border coordination. And continental platforms could crowd in global capital at scale and anchor macro-financial stability. This architecture would create an integrated system that promotes a recycling of African savings within Africa.

Toward financial agency and sovereignty

Financial agency needs to expand inclusivity in order to be impactful and sustainable. A key obstacle to financial inclusion in Africa is the low capacity for contract enforcement and weak market competition. In several countries, credit reference bureaus have been introduced to eliminate information asymmetries between lenders and borrowers. But the impact of these forms on financial market architecture has been modest for three reasons. First, in the absence of population and address registries, it is difficult to monitor borrowers' credit worthiness. Second, collateral registries in many countries are defective or incomplete due to data paucity. Third, the process of sanctioning defaulting borrowers or those with impaired collateral is long and costly. Financial agency requires the development of 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 to strengthen Africa's financial architecture.

Policy recommendations for the short term

Address structural and institutional bottlenecks that constrain effective functioning of Africa's financial systems. Strengthening macro-financial surveillance to facilitate early detection of financial stress and coordinate preventive measures will be critical. Mauritius and South Africa provide lessons on how to develop robust macro-financial 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 the Ministries of Finance could help to strengthen accountability. Countries with transparent domestic debt practices—Egypt, Mauritius, Morrocco, Namibia, and South Africa—could provide useful peer-learning experiences for others.

Build a strong domestic capital market by developing local-currency debt markets. That includes expanding credit guarantees, blended finance, and political risk insurance, and adopting new debt management technologies and risk dashboards. Countries such as Botswana, Egypt, Kenya, Mauritius, Morrocco, Namibia, Nigeria, South Africa, and Uganda have strengthened their domestic capital markets and 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 nonperforming loans and risk of default, will help lower interest rate spreads and lower the cost of capital. The launch of the African Credit Rating Agency in January 2026 is one step in alleviating information asymmetry. But countries need to conduct supplementary analyses of their credit risk and debt distress while also ensuring readily available and quality data that can aid fair rating. This will enhance market confidence and agency.[43]

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 harmonization of regulatory frameworks, prudential standards, payment systems, and cross-listing 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. 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.

Policy recommendations for the medium term

Strengthen regulatory frameworks and risk management systems. Information asymmetries are perverse in Africa's financial markets and undermine contract enforcement and the incentive structure. Addressing these constraints requires strengthening the independence and enforcement capacity of regulatory agencies 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 national development banks and regional development finance institutions. Reforming and capitalizing NDBs, RDBs, and DFIs will help 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 broaden market activities. Stronger coordination between the regulators, and the national and regional DFIs, is critical to promoting the development of innovative financial instruments.

Incorporate pensions, insurance, SWFs, and social welfare fund assets as key means of enhancing capital markets depth and liquidity.

Better systems for borrower vetting, including through increased digitalization, to reduce nonperforming loans and risk of default, will help lower interest rate spreads and lower the cost of capital

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.

Imbed climate finance as a key component of mainstream 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 prime destination for investment in sustainable solutions. A financing vehicle for climate finance in Africa could provide significant returns to investors and mobilize resources, with associated environmental and social benefits. Regional and multilateral development banks, and bilateral development partners could use their concessional resources to de-risk climate investments.

A financing vehicle for climate finance in Africa could provide significant returns to investors and mobilize resources, with associated environmental and social benefits

Search for value in non-traditional sources of finance. Islamic financing, rooted in principles of risk-sharing, asset-backed financing, prohibition of excess speculation, ethical investment, and social responsibility could offer an alternative source of financing for Africa. So could 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 investments. 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.

Policy recommendations for the long term

Develop credible policy and institutional strategies for projecting financial agency and sovereignty. Financial agency and sovereignty imply being at the table when technical aspects of financing are being decided. Capacities for high-level negotiations on risk management, debt acquisition, and repayment must be enhanced. The proposed pan-African ecosystem should help to strengthen managerial and technical skills within Africa's financial systems through tailored capacity building and exchange programs.

Examine the role of international development partners and other international 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. Strong partnerships are required as Africa navigates international regulatory requirements and prudential standards.

Promote financial inclusion as the ultimate goal of financial agency and sovereignty. Enhance the credit bureaus that are gaining traction in several countries, with reliable up-to-date population and address registries and collateral records.

Build a continent-wide financial ecosystem that supports efficient cross-border capital mobilization, inclusive participation, and financing for long-term development. This requires shared digital and payment infrastructure, interoperable platforms, and harmonized regulatory standards and data governance.

Accelerate the reform of the African Financial Architecture to strengthen Africa's agency in global financial markets. Implementing the Africa's New African Financial Architecture for Development will enhance capital mobilization to drive Africa's development. Implementing the African Financing Stability Mechanism will help to pool resources to support African countries facing liquidity gaps to refinance their debt at low cost. The recently launched African Credit Rating Agency (CRA) and the New African Financial Architecture for Development (NAFAD) are also important steps in advancing Africa's quest for financial agency and achieving aspirations of the AfCFTA. And deepening ties with Africa's High Net Worth Individuals, philanthropists, and the African Diaspora Network will help scale up capital mobilization to finance major projects in transport, energy, agriculture, and industry to accelerate Africa's growth.

*　　*　　*

Africa's economic resilience could be stronger if the financing gap of over $1.3 trillion that is critical to achieving the Sustainable Development Goals is addressed. Closing this financing gap requires scaling up the mobilization of domestic and foreign capital, strengthening and integrating financial markets, and enhancing the efficiency of financial intermediation to support private investment. Africa must also assert greater financial agency through a pragmatic strategy that combines stronger domestic financial systems with diversified global partnerships and proactive economic diplomacy—to ensure more resilient and sustainable financing for its development ambitions.

NOTES

1. AfDB 2025a.
2. OECD 2025a.
3. AUC and AfDB 2024.
4. AfDB 2025a, 2025b.
5. AfDB 2025a.
6. AFC 2025.
7. IMF 2022; OECD 2021.
8. African Development Bank staff calculations based on data from the African Tax Administration Forum (2024) and the African Development Bank statistics.
9. IMF 2022; OECD 2021.
10. 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.
11. IMF 2022.
12. African Development Bank staff estimates based data from World Bank (2025).
13. The efficiency gap of 41 percent means that of each $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 inefficiency has increased, calling for concerted policy measures —as highlighted in this report—to address challenges related to public investment spending.
14. Berg et al. 2013.
15. AfDB 2024b.
16. Francois, Konte, and Ruch 2024.
17. ALSF 2024.
18. African Development Bank staff estimates.
19. AfDB 2025a.
20. AFC 2025.
21. OECD 2025a.
22. AfDB, IFC, and Making Finance Work for Africa 2022.
23. AfDB 2025a.
24. OECD 2011.
25. Sovereign Wealth Fund Institute 2026.
26. Konfidants 2022.
27. Volatility is measured by the standard deviation of the growth rate of financial flows over 2000–24.
28. Top five countries are Egypt, The Gambia, Kenya, Nigeria, and Senegal.
29. AfDB 2024a.
30. UNEP 2023.
31. AfDB 2024a.
32. Global Center on Adaptation 2022.
33. African Development Bank staff calculations based on data from World Bank (2025).
34. African Development Bank staff calculations based on data fromWorld Bank (2025).
35. Such as Ecobank, United Bank of Africa, Standard Bank Group, Attijariwafa Bank, Bank of Africa, and Banque Misr.
36. Meattle et al. 2024.
37. Such as green bonds, carbon markets, blended finance, and climate risk insurances and guarantee schemes.
38. CFC Africa Insights 2019.
39. African Development Bank staff computation based on data from Swiss Re Institute (2026).
40. OECD 2025a.
41. The Exchange 2025.
42. IFC 2024.
43. APRM 2025.

REFERENCES

AFC (Africa Finance Corporation). 2025. *The State of Africa's Infrastructure Report 2025: Mobilizing Domestic Capital.* Africa Finance Corporation, Lagos. https://www.africafc.org/our-impact/our-publications/state-of-africa-infrastructure-report-2025.

AfDB (African Development Bank). 2024a. *Measuring the Green Wealth of Nations: Natural Capital and Economic Productivity in Africa.* Report presented at COP29, Baku, Azerbaijan, November 14. AfDB.

AfDB (African Development Bank). 2024b. *African Economic Outlook 2024: Driving Africa's Transformation: The Reform of the Global Financial Architecture.* AfDB, Abidjan, Côte d'Ivoire.

AfDB (African Development Bank). 2025a. *African Economic Outlook 2025.* AfDB, Abidjan, Côte d'Ivoire.

AfDB (African Development Bank). 2025b. *Africa's Macroeconomic Performance and Outlook 2025.* AfDB, Abidjan, Côte d'Ivoire.

AfDB (African Development Bank), IFC (International Finance Corporation), and Making Finance Work for Africa. 2022. "Gauging Appetite of African Institutional Investors for New Asset Class." AfDB, IFC, and Making Finance Work for Africa. https://www.ifc.org/content/dam/ifc/doc/mgrt/gauging-appetite-of-african-institutional-investors-for-new-asset-classes-published.pdf.

ALSF (African Legal Support Facility). 2024. *Public-Private Partnerships: Legal and Institutional Frameworks in Africa—A Comparative Analysis.*

APRM (African Peer Review Mechanism). 2025. *An Africa Credit Rating Agency (AfCRA): Key to Shaping the New Global Financial Architecture.* APRM, Johannesburg. https://au.int/en/documents/20250221/africa-credit-rating-agency-afcra-key-shaping-new-global-financial-architecture.

ATAF (African Tax Administration Forum). 2024. *African Tax Outlook 2024.* https://ataftax.org/library/african-tax-outlook-2024/.

AUC (African Union Commission) and AfDB (African Development Bank). 2024. "Strategic Framework on Key Actions to Achieve Inclusive Growth and Sustainable Development in Africa." https://www.afdb.org/sites/default/files/afdb24-04_igs_standalone_highlights_english_0127.pdf.

Berg, A., R. Portillo, S. Yang, and F. Zanna. 2013. "Public Investment in Resource-Abundant Developing Countries." *IMF Economic Review* 61 (1): 92–129.

CFC Africa Insights. 2019. *Islamic Finance in Africa: The Upcoming Frontier.* https://islamicbankers.center/wp-content/uploads/2019/02/islamic-finance-in-africa.pdf.

Francois, J. N., M. Konte, and F. U. Ruch. 2024. "Crowding In Effect of Public Investment on Private Investment Revisited." Policy Research Working Paper 10881, World Bank, Washington, DC. https://openknowledge.worldbank.org/entities/publication/a78dca5c-dfc1-4d0c-b6bc-9f961fbe8e8e.

Global Center on Adaptation. 2022. *State and Trends in Adaptation 2022: Adaptation Finance Flows in Africa.* https://gca.org/wp-content/uploads/2023/01/GCA_State-and-Trends-in-Adaptation-2022_Adaptation-Finance-Flows-in-Africa.pdf.

IFC (International Finance Corporation). 2024. "Scaling Housing Finance in Africa." IFC, Washington, DC. https://www.ifc.org/content/dam/ifc/doc/2024/scaling-housing-finance-in-africa-factsheet.pdf.

IMF (International Monetary Fund). 2022. *Tax Administration Diagnostic Assessment Tool (TADAT) Field Guide.* IMF, Washington, DC.

Konfidants. 2022. *2022 African Sovereign Wealth Fund Index: A Story of Progress.* https://www.sovereignwealthafrica.com/wp-content/uploads/2023/06/Konfidants_2022_African_Sovereign_Wealth_Funds_Index_Report_.pdf.

Meattle, C., A. Balm, J. E. Diaz, G. Miao, S. Stout, I. Gupta, S. Abraham, A. Sloley, and D. Wignarajah. 2024. *Landscape of Climate Finance in Africa 2024.* https://www.climatepolicyinitiative.org/publication/landscape-of-climate-finance-in-africa-2024.

OECD (Organisation for Economic Co-operation and Development). 2011. "Sovereign Wealth Funds as Investors in Africa: Opportunities and Barriers." Working Paper 303, OECD Publishing, Paris. https://www.oecd.org/content/dam/oecd/en/publications/reports/2011/09/sovereign-wealth-funds-as-investors-in-africa_g17a201a/5kg52k4s0jbx-en.pdf.

OECD (Organisation for Economic Co-operation and Development). 2021. *Infrastructure Governance and Asset Recycling: Unlocking Capital for New Investment.* OECD Publishing, Paris.

OECD (Organisation for Economic Co-operation and Development). 2025a. *Africa Capital Markets Report 2025.* OECD, Paris. https://www.oecd.org/en/publications/africa-capital-markets-report-2025_7d26e1d3-en.html.

OECD (Organisation for Economic Co-operation and Development). 2025b. *Cuts in Official Development Assistance: OECD Projections for 2025 and the Near Term.* OECD, Paris. https://www.oecd.org/en/publications/cuts-in-official-development-assistance-8c530629-en/full-report.html.

Sovereign Wealth Fund Institute. 2026. *Sovereign Wealth Funds Profiles.* Sovereign Wealth Fund Institute. https://www.swfinstitute.org/profiles/sovereign-wealth-fund.

Swiss Re Institute. 2026. *Global Insurance Markets.* https://beinsure.com/top-ranking-the-worlds-largest-insurance-markets/.

The Exchange. 2025. "Why Global Capital Is Moving to Africa's Urban Property Markets." https://theexchange.africa/africas-real-estate-capital/.

UNEP (United Nations Environment Programme). 2023. "Our Work in Africa." https://www.unep.org/regions/africa/our-work-africa.

World Bank. 2025. *World Development Indicators.* World Bank, Washington, DC. https://databank.worldbank.org/source/world-development-indicators.

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.

African Development Bank Group
Avenue Joseph Anoma
01 BP 1387 Abidjan 01
Côte d'Ivoire
www.afdb.org