**Inputs to the FFD outcome**

**DOMESTIC PUBLIC RESOURCES**

Africa’s potential to define its own development pathway lies in addressing its finance, food, and energy paradoxes. Despite its rich financial resources, Africa fails to mobilize approximately $500-$600 billion[[1]](#footnote-1) annually due to various inefficiencies and losses. Illicit financial flows account for $89 billion, while inefficient public spending and ineffective tax systems contribute to $70 billion and $46 billion[[2]](#footnote-2) in losses, respectively. These financial leakages and inefficiencies hinder the continent’s ability to harness its full economic potential. By addressing its financial challenges, Africa can pave the way for a self-defined development pathway, ensuring sustainable growth and prosperity for its people. Solving the paradoxes will enable African countries to invest in their future and build resilient economies capable of withstanding global economic fluctuations.

**Recommendations**

* **Consolidate Domestic Resource Mobilization**: African countries should prioritize holistic, integrated, and robust domestic resource mobilization systems. This includes enhancing revenue collection and public expenditure efficiency through the digitalization of public financial processes and establishing policy and regulatory frameworks anchored in the Sustainable Development Goals (SDGs).
* **Strengthen Institutions and Systems**: Strengthening institutions through digitizing public financial management, procurement, and revenue mobilization processes can act as de-risking agents for attracting foreign investment. This will enhance transparency, accountability, and good governance, leading to effective resource allocation and better service delivery.
* **Enhance Revenue Collection**: African countries need to enhance revenue collection and spending effectiveness through broadening the tax base, capacity development, and digitization of public budgets and expenditures.
* **Support to strengthen DRM systems**: Developed countries should allocate at least 10% of ODA flows to help strengthen domestic resource mobilization and country systems building in Africa through digitalization and increase support for productive sectors to improve debt sustainability.
* **Integrated National Financing Frameworks (INFFs)**: Use INFFs to coordinate different sources of financing and build cohesion between national financing capacity, development partners, and the private sector. Link financing innovation tools to the reinforcement of capacities for DRM within coherent INFFs.

**DOMESTIC AND INTERNATIONAL PRIVATE BUSINESS AND FINANCE**

Remittances, pension and sovereign funds, and carbon markets represent untapped resources worth $84 billion, $100 billion, and $120-$200 billion[[3]](#footnote-3), respectively. Pension funds and sovereign funds also hold significant potential to contribute to Africa’s development by providing long-term investment capital for infrastructure. Remittances have become an important source of financing for development in Africa, yet they are relatively untapped compared with other developing regions. One key challenge to harnessing the potential of remittances to finance Africa’s development is the high cost of transfer, which averaged around 9 percent in 2023[[4]](#footnote-4), far above the 3% threshold set in SDG 10.c, a major commitment by the international community to cut down the transaction costs of remittances.

**Recommendations**

* **Harness Pension and Sovereign Wealth Funds**: Strengthen the long-term capacity of African pension funds and Sovereign Wealth funds to manage savings and invest in national priorities. Measures include loosening long-term investment limits in infrastructure projects and diversifying assets to reduce investment risks and increase returns.
* **Facilitate Remittance Transfers**: Promote interoperable instant payment systems by harmonizing remittance regulations across jurisdictions, enhancing efficiency in payment systems, and streamlining licensing requirements for market operators. Improve financial education and digital literacy to maximize the impact of remittances.
* **Digitalization and Innovation**: Enhance digital access and bundled financial products linked to remittances to provide savings, credit, and insurance products to vulnerable populations. Improve financial and digital education to foster innovation and capacity building.

**DEBT AND DEBT SUSTAINABILITY**

With the tightening of global financing conditions following the COVID-19 pandemic, many African countries saw an increase in their external debt, reaching $655.8[[5]](#footnote-5) billion in 2022. However, external debt as a percentage of GDP averaged only 28 percent[[6]](#footnote-6)—considerably below the level for other developing countries. More disconcertingly, debt servicing costs have increased stratospherically—faster than the growth in export earnings. Debt servicing costs alone reached a record $89.4 billion[[7]](#footnote-7) in 2024, further straining national budgets and limiting investment in critical areas. This is crowding out development spending, where more than 40 percent[[8]](#footnote-8) of African countries allocated more funds to debt service than to health expenditures in 2020.

As a result, many African states are in debt distress, relying heavily on debt relief and suspensions to manage their financial obligations. The growing debt burden compromises the ability of African countries to use fiscal space to invest in the Sustainable Development Goals (SDGs). This financing paradox—rich in financial resources but in debt distress—severely limits African states’ ability to finance their sustainable development. The wide financing gap to achieve the SDGs by 2030 is estimated at $1.6 trillion[[9]](#footnote-9), highlighting the urgent need for effective financial management, strengthened resource mobilization, and the use of debt as a development tool.

The unfair international financial and debt architecture has heightened Africa’s debt vulnerability through very elevated interest rates and prioritizing repayment of creditors at the expense of investment in resilience. With fiscal space already eroded and very high debt service payments coming up amid tightening global financing conditions and liquidity pressures, and without increased financing and support, African countries are at risk of falling further behind in meeting the SDGs. All these challenges underscore the urgency of reforming the international financial architecture to align it with the imperative of accelerating investment in the SDGs and Agenda 2063.

**Recommendations**

* **Reform International Financial Architecture**: Reform the International Financing Architecture (IFA) to position Multilateral Development Banks (MDBs) for long-term lending, increase MDBs’ capital, and facilitate risk transfers to both public and private entities. Optimize MDB balance sheets by leveraging callable capital and advance lending to countries, especially for Low-income Countries (LICs), in local currencies.
* **Comprehensive Debt Relief**: African countries in debt distress need debt relief, including restructuring, liquidity support, reduction of borrowing costs, credit enhancement, debt write-offs, and debt standstills to create space for investing in the SDGs.
* **Improve G20 Common Framework**: Enhance the effectiveness of the G20 Common Framework by expanding eligibility to Middle-Income Countries in debt distress, providing greater clarity on processes and timelines, and introducing debt service suspension during negotiations.
* **State-Contingent Clauses**: Systematically use state-contingent clauses to suspend debt repayments automatically for countries hit by external shocks, reducing risk perception and providing fiscal space and liquidity to respond to these shocks.
* **Debt Swaps**: Use debt swaps, such as debt-for-development/nature/climate swaps, to smooth repayment profiles, reduce currency exposure, and free up fiscal space for investment in the SDGs.

1. Office of the Special Adviser on Africa (OSAA). 2022. Financing for Development in the Era of COVID-19 Pandemic: The Primacy of Domestic Resource Mobilization. [↑](#footnote-ref-1)
2. Ibid. [↑](#footnote-ref-2)
3. Ibid. [↑](#footnote-ref-3)
4. World Bank, Remittance prices worldwide. [↑](#footnote-ref-4)
5. World Bank International Debt Statistics (IDS). Indicator “External debt stocks, public and publicly guaranteed (PPG) (DOD, current US$)”. [↑](#footnote-ref-5)
6. IMF. World Economic Outlook 2024 [↑](#footnote-ref-6)
7. World Bank International Debt Statistics [↑](#footnote-ref-7)
8. World Bank International Debt Statistics and World Development Indicators. [↑](#footnote-ref-8)
9. OECD. Africa’s Development Dynamics 2023: Investing in Sustainable Development. <https://www.oecd-ilibrary.org/sites/3269532b-en/index.html?itemId=/content/publication/3269532b-en> [↑](#footnote-ref-9)