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New Partnership for Africa's Development: nineteenth consolidated progress report on implementation and international support

Financing for development in the era of the COVID-19 pandemic: primacy of domestic resource mobilization

Report of the Secretary-General**

Summary

The present report, which is submitted pursuant to General Assembly resolution 75/322 of 9 September 2021, reviews the financing for development landscape in Africa in light of the impact of the coronavirus disease (COVID-19) pandemic. While the pandemic has reshaped financing for development in Africa and exacerbated existing vulnerabilities, it provides an opportunity for African countries to strengthen domestic resource mobilization to underpin sustainable development financing.

Effective domestic resource mobilization is essential for obtaining the financing required to effectively drive the continent's economic growth and development in an inclusive and sustainable manner. Increased domestic resource mobilization would also be fundamental to Africa's reclaiming its policy space for development, channelling resources towards productive capacity development and structural transformation, and industrialization. However, for domestic resource mobilization to play an effective role in advancing the continent's sustainable development agenda, fundamental changes in both policy and institutions will be required, including improving efficiency in public expenditures, strengthening revenue collection, harnessing private savings and the private financial sector for development and stemming illicit financial flows.

* A/77/150.

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I. Introduction

1. Insufficient financing and limited fiscal space, as a result partly of unsustainable debt burdens, has been a major barrier to Africa's development over the years, constraining the capacity of African countries to provide resources at scale for investment in social and productive sectors. Africa's financial sector consequently remains shallow and unable to play an effective role in savings mobilization. Many African countries suffer from weak institutions and capacity which hampers their capacity to tackle tax evasion and tax avoidance particularly by multinational companies. As a result, the continent has had to borrow externally, often at very high interest rates, to fill the financing gap. Further, the substantial institutional savings (pension, assurance and sovereign wealth funds) are not always harnessed towards financing the region's sustainable development.

2. When the coronavirus (COVID-19) pandemic struck in 2020, the region's economy was already relatively weak, with limited production and diversification, heavy import dependence, mounting debt burdens and a narrow domestic revenue base, which left the region in a weakened position for responding to the multidimensional socioeconomic impacts of the pandemic. Measures pursued to contain the spread of COVID-19, including combined national lockdowns and border closures, aggravated the impact of the pandemic.

3. These challenges were not caused, however, by the COVID-19 pandemic alone but had been building up over decades.[1] The pandemic has magnified and exacerbated these and other existing fault lines in both the multilateral governance system and the international financial and debt architecture. In addition to being affected by the challenges posed by the ongoing COVID-19 pandemic, these structural asymmetries are being compounded as a result of the war in Ukraine, whose impact on Africa is being felt through rising food, energy and fertilizer prices and increased inflation. International solidarity at scale will therefore be required to help Africa build forward better from the COVID-19 pandemic within the context of today's multiple and cascading crises.

4. As the experiences of countries that have undergone successful growth and structural transformation have shown, sustained and lasting change starts from within. Therefore, while additional support is needed from the international community to enable African countries to survive the immediate impacts of today's crises, Africa must also break with the past and look within and rely on its own domestic financial resources[2] for sustainable solutions to its development finance needs.[3] Part of that shift must include prioritizing domestic and regional production and value chains and integration into global value chains. The African Continental Free Trade Area provides an immense opportunity to promote national and regional value chains and diversify economies.

5. While COVID-19 pandemic-related disruptions pose a significant challenge for the continent's development, they also present an opportunity to promote a new approach to development through structural transformation and industrialization, strengthening the continent's resilience to external shocks. Strong domestic resource mobilization systems are key in this regard. The report of the High-level Panel on International Financial Accountability, Transparency and Integrity for Achieving the 2030 Agenda (FACTI panel) lays out a bold vision for a fairer international tax system

[1] This build-up has been due to misguided policies, weak capacity and institutions and unfavourable external conditions as well as asymmetric power relations and inequities in both multilateral systems and the international financial and debt architecture.

[2] Indeed, not only financial resources but also physical flows of natural resources.

[3] Economic Commission for Africa, *Economic Report on Africa 2019: Fiscal Policy for Financing Sustainable Development in Africa* (United Nations publication, March 2019).

anchored on the values of integrity and legitimacy and underpinned by a strengthened policy and institutional framework.[4]

6. The present report provides an overview of the financing landscape and the importance of Africa's own financial resources in development financing with a view to demonstrating the potential of domestic resource mobilization to fill financing gaps; discusses mobilizing domestic resources through increased tax revenue and improved expenditure; demonstrates the potential role of private savings in development financing; shows that addressing the inequities in international taxation is at the heart of ensuring equitable globalization and securing a better future for Africa in the post-pandemic world; underscores the need to align global partnerships with Africa's development aspirations; and proposes a road map for resource mobilization.

7. The report has been prepared through engagement in an in-depth review of relevant documents and analysis of relevant data sets. Stakeholders consulted include staff members of the Africa Knowledge Network of the Office of the Special Adviser on Africa. A sounding board has also been established comprising continental organizations and United Nations system entities working on financing for development issues, including the New Partnership for Africa's Development, the United Nations Conference on Trade and Development (UNCTAD), the United Nations Development Programme (UNDP) and the African Development Bank.

II. Overview of the financing for development landscape in Africa and the impact of the COVID-19 pandemic

8. The African continent experienced adverse socioeconomic repercussions from the COVID-19 pandemic, with real growth of gross domestic product (GDP) having declined by 2.2 per cent in 2020. Regional growth recovered in 2021, reaching 3.8 per cent, and is projected to reach 4.0 per cent in 2022 and 3.6 per cent in 2023. However, this is below the figure of 6 per cent required for the region to return to its pre-pandemic growth trajectory.[5]

9. The pandemic has reshaped the financing for development landscape in Africa. Domestic financing including revenue and private savings has been negatively impacted but it remains the largest sources of finance. External financing such as foreign direct investment (FDI) and official development assistance (ODA), already stagnant prior to the pandemic, has suffered a further setback. Meanwhile, remittances have proved to be resilient.[6] The geopolitical ramifications of the ongoing war in Ukraine and the disruption of global trade supply chains could trigger a food crisis.

10. Africa's development is already financed to a large extent by its own resources (table 1). In 2018, the sum of public revenues and private savings totalled $911.4 billion, about 20 times the amount of FDI and 16.5 times the amount of net ODA.[7] Banks made available $566.5 million in domestic credit to the private sector.

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[4] United Nations, *Financial Integrity for Sustainable Development: Report of the High-Level Panel on International Financial Accountability, Transparency and Integrity for Achieving the 2030 Agenda* (2021).

[5] "Africa", in *World Economic Situation and Prospects 2022* (United Nations publication, Sales No. E.22.II.C.1), chap. III, pp. 103–112. Available at www.un.org/development/desa/dpad/wp-content/uploads/sites/45/WESP2022_CH3_AFR.pdf.

[6] World Bank, *Recovery: COVID-19 Crisis Through a Migration Lens, Migration and Development Brief*, No. 35 (Washington, DC, November 2021), p. 58. Available at www.knomad.org/sites/default/files/2021-11/Migration_Brief%2035_1.pdf.

[7] African Union and Organisation for Economic Co-operation and Development, *Africa's Development Dynamics 2021: Digital Transformation for Quality Jobs* (Paris, 2021). Available at www.oecd-ilibrary.org/development/africa-s-development-dynamics-2021_0a5c9314-en.

This supports the new narrative for the continent, which puts Africa in the driver's seat of its own development, without downplaying the catalytic role of external financing.

Table 1
Sources of financing for Africa's development, 2014–2018
(Billions of United States dollars)

	2014	*2015*	*2016*	*2017*	*2018*
Public revenues excluding grants	524.7	438.2	394.2	425.9	483.6
Private savings	507.0	419.6	408.2	415.6	427.8
Inward foreign direct investment (FDI)	53.9	56.9	46.5	41.4	45.9
Portfolio investments	30.4	22.2	6.2	57.1	36.5
Remittances	71.8	71.4	57.6	77.6	84.2
Official development assistance (net total ODA)	54.1	50.1	50.4	53.8	55.3
Total foreign inflows	**210.1**	**200.5**	**170.5**	**229.8**	**221.8**

Source: African Union and Organisation for Economic Co-operation and Development, *Africa's Development Dynamics 2021: Digital Transformation for Quality Jobs* (Paris, 2021), table 8.1.

11. Africa still has a long way to go to fully maximize domestic revenue mobilization. While tax revenue as a share of GDP rose steadily in the past decade, reaching 16.6 per cent in 2019, Africa consistently lags behind other developing regions (figure I). Countries in Northern Africa have the highest average tax-to-GDP ratio (22.7 per cent), while Central Africa recorded the lowest (10.1 per cent).

12. A large portion of Africa's development financing needs are supported by domestic savings, which remained steady in 2020, with sub-Saharan Africa reporting total gross domestic savings of $353 billion (20.1 per cent of GDP), lower than $918 billion for Latin America and the Caribbean and $866 billion for South Asia (figure II).

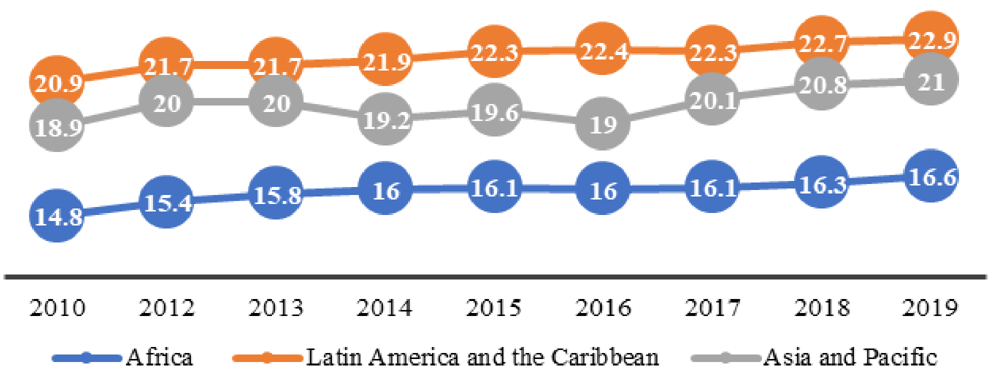
13. Assets managed by pension funds represent another important source of domestic financing. This amounted to $676 billion in 2017 and was estimated to reach $1.1 trillion by 2020.[8] However, many countries invest a substantial portion of their pension funds abroad. If invested domestically, those funds could help reduce the financing gap significantly.

14. FDI, a vital source of financing for development, was severely affected by the COVID-19 pandemic. The declining trend of FDI in per capita terms is displayed in figure III. Moreover, Africa's share of global FDI remains marginal, averaging 4 per cent in 2020, considerably below the level for Latin America and the Caribbean (8.8 per cent).[9]

[8] Katja Juvonen and others, "Unleashing the potential of institutional investors in Africa", African Development Bank Working Paper, No. 325 (Abidjan, 2019).

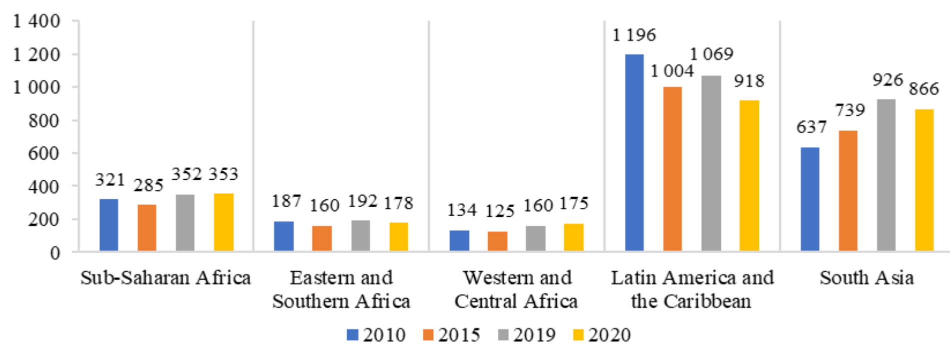
[9] UNCTAD bilateral FDI database on flows and stocks. Available at https://unctad.org/topic/investment/investment-statistics-and-trends.

Figure I
Tax-to-GDP ratio in Africa, 2010–2019



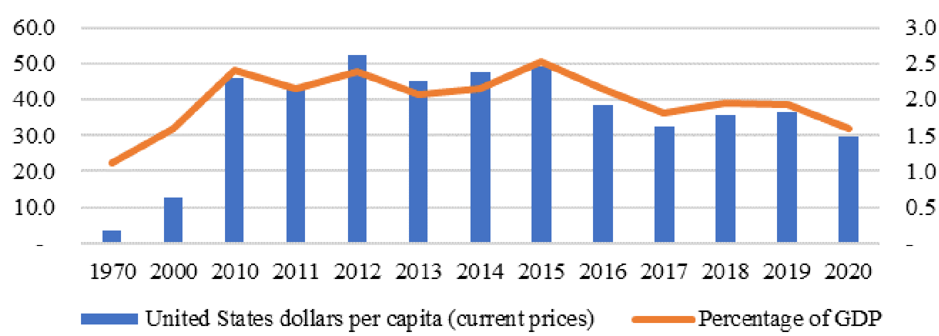
Source: Organisation for Economic Co-operation and Development, African Union and African Tax Administration Forum (ATAF), *Revenue Statistics in Africa 2021* (Paris, 2021).

Figure II
Africa's gross domestic savings: lower than those of other developing regions
(Billions of current United States dollars)



Source: World Bank Group, World Development Indicators 2021.

Figure III
Trend of FDI flows to Africa

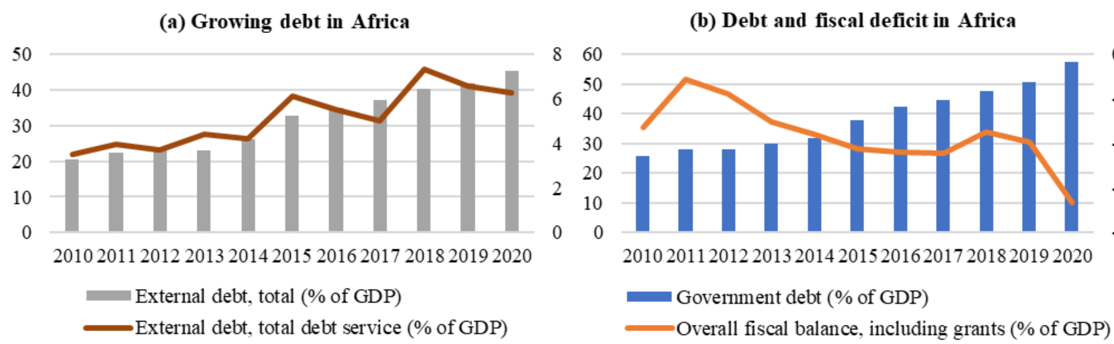


Source: UNCTAD bilateral FDI database on flows and stocks.

15. Rising debt levels continue to pose a considerable burden for African countries. External debt rose from 21 per cent of GDP in 2010 to 45 per cent in 2020, while total external debt service increased from 3.5 to 6.3 per cent over the same period (figure IV (a)). The growing debt mirrors the shrinking fiscal space, which has

worsened owing to the pandemic (figure IV (b)). Difficulties in meeting debt service obligations may lead to sovereign credit downgrades, pressure on foreign exchange reserves and currency depreciation.

Figure IV
Sub-Saharan Africa's growing debt problem and shrinking fiscal space

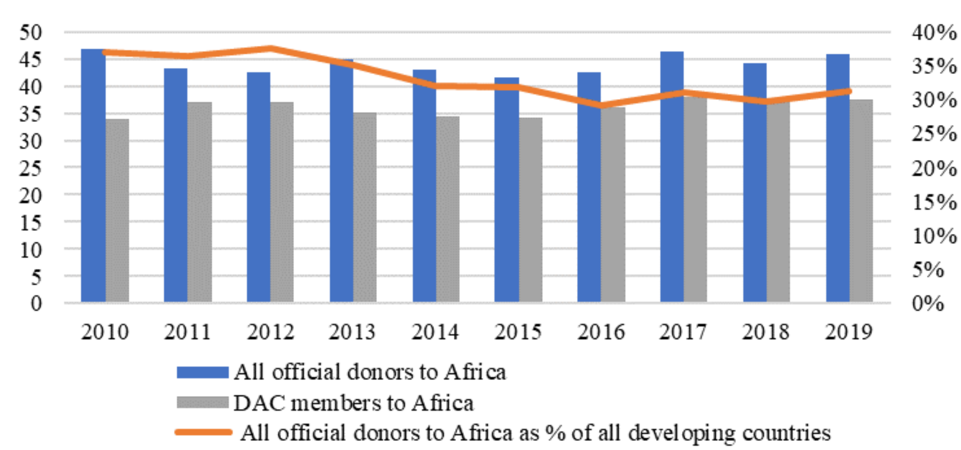


Source: International Monetary Fund, World Economic Outlook database, October 2021.

16. Remittances have become an important source of financing for development, yet they remain a relatively untapped source of financing. Excluding Nigeria, the region's remittance inflows remained resilient, declining marginally by 1.4 per cent in 2020.

17. ODA to Africa has registered a small increase in nominal terms since 2010; however, the share of Africa among developing countries had declined from 37 per cent in 2010 to 35 per cent in 2019 (figure V). In 2019, ODA disbursements from all official donors to Africa reached $57.7 billion ($44.1 per capita), about 35.3 per cent of disbursements to all developing countries. According to the Organisation for Economic Co-operation and Development (OECD), ODA to Africa from members of the Development Assistance Committee (DAC) reached $39 billion in 2020, out of a total amount of $161.2 billion. This falls below the level of commitment made and is insufficient to support the continent's development needs.

Figure V
Trend of net ODA disbursements to Africa
(Billions of United States dollars)



Source: Author calculations based on OECD statistics.

18. Illicit financial flows continue to drain large amounts of financial resources from the continent, estimated at $88.6 billion annually and equivalent to 3.7 per cent of GDP. Through reduction in illicit financial flows, the continent can increase the capital available to local businesses and the fiscal space for investment in infrastructure, health and education.

19. The pandemic has led to severe economic disruptions, decreased tax revenue, increased debt levels and heightened fiscal constraints in Africa. Limited fiscal space and low vaccination rates have led to a slower recovery. Although international cooperation has mitigated some of the impact, the response also exposed serious gaps in the effectiveness of multilateral action when it was needed the most,[10] as demonstrated by the inability of international financial institutions to provide adequate debt relief to Africa and investments to support vaccine production and post-pandemic recovery.[11] Africa's recovery and building forward from the pandemic and its long-term sustainable growth will need to rely increasingly on domestic sources of finance.

III. Mobilizing domestic public resources through increased tax revenue and improved expenditure

20. Over the last several decades, African countries have made considerable efforts to mobilize increased domestic resources. Much of those efforts, however, were focused on revenue. However, strengthening domestic resource mobilization is not just about raising taxes but also about ensuring progressive tax systems and improving expenditure management. A comprehensive approach underpinning a domestic resource mobilization strategy within the African context must therefore ensure the quality of public expenditure by reducing inefficiency, eliminating waste, increasing savings and rationalizing fiscal incentives and measures to increase public revenue by identifying underutilized tax resources including taxation of the digital economy. This must be complemented by measures designed to leverage the potential role of sovereign wealth funds and tackling illicit financial flows, tax evasion and tax avoidance (see sect. V).

A. Enhancing the quality of public expenditure as a pro-development source

21. The quality of public expenditure is important not only from the standpoint of domestic resource mobilization but also for long-term growth and sustainable development. Overall efficiency in public spending as proxied by the average efficiency score shows that African countries are more inefficient than other developing countries, with an average efficiency score of 0.585 compared with a score of 0.825. This has suggested that the same level of output could have been achieved with a 41.5 per cent reduction in spending[12] or with 48 per cent fewer resources.[13] At the sectoral level, spending inefficiency for education, health and infrastructure is high compared with that of other regions (figure VI). Public spending inefficiency

[10] *Our Common Agenda*, report of the Secretary-General (United Nations publication, 2021), p. 48.

[11] Remarks of the Secretary-General in Senegal, May 2022. Available at www.usnews.com/news/world/articles/2022-05-01/un-chief-calls-for-debt-relief-post-covid-investment-on-w-africa-trip.

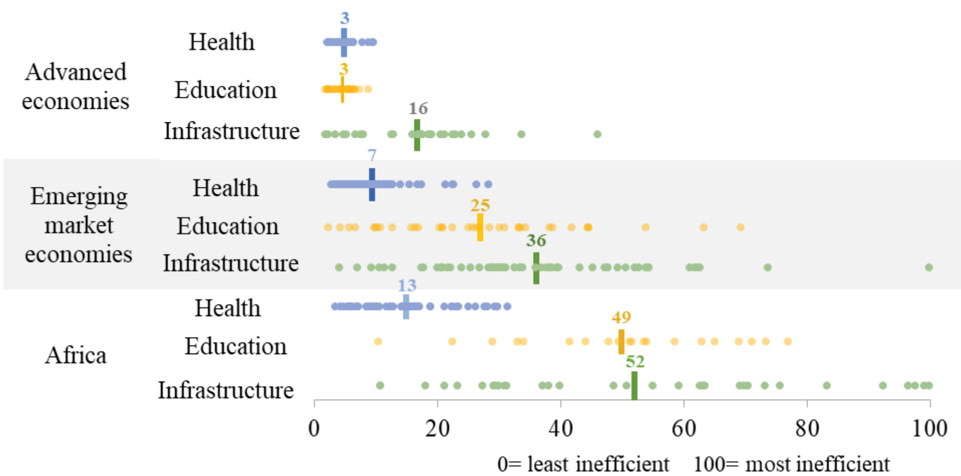
[12] Djedje Hermann Yohou, "In search of fiscal space in Africa: the role of the quality of government spending", *Études et Documents*, No. 27 (Clermont-Ferrand, France, Centre d'Études et de Recherches sur le Développement International, 2015). Available at https://halshs.archives-ouvertes.fr/halshs-01222812/document.

[13] Dickson O. Wandeda, Wafula Masai and Samuel M. Nyandemo, "The efficiency of public spending in sub-Saharan Africa", *European Scientific Journal*, vol. 17, No. 19, p. 173. Available at https://eujournal.org/index.php/esj/article/view/14439/14405.

reached almost 5 per cent and 49 per cent in infrastructure and education, respectively, whereas in health it averaged only 13 per cent.

22. In absolute terms, the inefficiency of public spending amounted to roughly $12 billion for education, $30 billion for infrastructure and $28 billion for health, representing a combined annual loss of 2.87 per cent of Africa's GDP.[14] Efforts to address this substantial dissaving could be harnessed towards achieving sustainable development financing. According to the International Monetary Fund (IMF), sub-Saharan Africa loses more than 10 years of life expectancy owing to inefficiency in health spending.[15]

Figure VI
Sectoral spending inefficiencies



Sources: International Monetary Fund, *Fiscal Monitor: A Fair Shot* (Washington, DC, April 2021); and calculation of staff of the Office of the Special Adviser on Africa.

23. Given the above observations, the focus must be on aligning national budgets, strategies and policies with the Sustainable Development Goals, including through the use of integrated national financing frameworks, and enhancing integrated and interlinked analysis to enable coherent and mutually supportive policy choices and avoidance of negative spillover effects in order to minimize inefficiencies in budget expenditures and free up budget resources for strengthening resilience in responding to emergency challenges, such as the COVID-19 pandemic.

24. Based on the above considerations, the starting point for any domestic resource mobilization strategy in the context of Africa should be identification of potential areas for optimizing spending and savings. On the expenditure side of the budget, savings could also be found through addressing the cost of the wage bill which alone consumes a third of all government expenditures of sub-Saharan African countries.[16] The large public wage bill increases the rigidities of expenditure, leaving little wiggle room for Governments and thus limited policy space. In addition, reducing non-productive and costly spending, such as generalized subsidies including energy

[14] Calculation of staff of the Office of the Special Adviser on Africa.

[15] Mercedes Garcia-Escribano, Pedro Juarros and Tewodaj Mogues, *Patterns and Drivers of Health Spending Efficiency*, IMF Working Paper, No. 22/48 (Washington, DC, International Monetary Fund, 2022). Available at www.imf.org/en/Publications/WP/Issues/2022/03/04/Patterns-and-Drivers-of-Health-Spending-Efficiency-513694.

[16] World Bank, "Governance COVID-19 response: managing the public sector wage bill during COVID-19" (June 2020).

subsidies, and introducing progressive taxation and targeted transfers to the poor and vulnerable, including through expanded social protection systems, could free up additional resources for development while laying the groundwork for future returns on investment. Limiting the fiscal risk associated with inefficient and unprofitable State-owned enterprises could also help.

B. Public expenditure and debt sustainability

25. Owing to a low revenue base and relatively underdeveloped debt markets, African countries have had to borrow to finance large financing gaps. This has led to an increase in external debt, currently accounting for 60 per cent of Africa's public debt, with debt servicing absorbing on average more than 20 per cent of government revenues. African countries are borrowing increasingly in private credit markets including from commercial banks. The share of commercial borrowing in Africa's public external debt has increased over the years from 27 per cent in 2011 to 52 per cent in 2020. Because of the flexibility in using the proceeds from Eurobonds, there has been a considerable increase in Eurobond issuance starting from 2014 with several African countries becoming frequent participants. By February 2022, the total stock of Eurobonds outstanding had reached $136.2 billion, with 57 per cent of the stock being held by only four countries: Egypt, Morocco, Nigeria and South Africa. This has led to massive borrowing which will result in a wall of maturities in 2024 and 2025. With the expiration of the Debt Service Suspension Initiative at the end of 2021, and the limited take-up of the G20 Common Framework for Debt Treatment, many African countries will need to service existing debt but with little ability to increase borrowing, further increasing indebtedness and reducing their ability to invest in sustainable development and social services to ensure a robust recovery.

26. While many African countries have invested the proceeds from debt in infrastructure development, countries that have failed to do so face major problems related to the governance of their public spending. Challenges in planning, allocation and implementation of public investment in infrastructure in Africa compared with other regions (figure VII) results in poor management of public expenditure especially when financed by sovereign external debt. African countries therefore need to improve efficiency in public spending to avoid being trapped in a vicious debt cycle, especially given the limited fiscal space and elevated public debt stemming from the pandemic. At the international level, efforts are needed to extend debt relief and undertake systemic reforms of the global debt architecture to bolster resilience to future shocks, particularly given the added complications for Africa's economy posed by the war in Ukraine.

Figure VII
Public investment management assessment: effectiveness of infrastructure governance

Note: The greater the distance from the centre, the higher the public investment management assessment (PIMA) score.
Source: IMF, Infrastructure governance website (https://infrastructuregovern.imf.org/).

C. Strengthening domestic public revenue mobilization

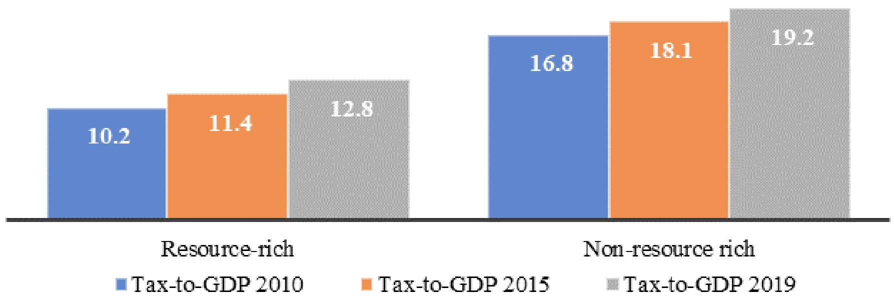
27. Over the last several decades, African countries have undertaken measures to mobilize increased tax revenues, leading to a modest increase in those revenues. This, however, has come at a high cost as illustrated by the decreasing level of efficiency in resource mobilization (-14 per cent between 2011 and 2020).[17] For example, the cost of tax collection in Africa was 60 per cent higher than that in Asia and 32 per cent higher than that in Latin America and the Caribbean.[18] The share of trade taxes in GDP has been declining over time, having gone from 3.9 per cent in 2008 to 2.7 per cent in 2018,[19] owing to trade liberalization, a trend that is likely to continue with the implementation of the African Continental Free Trade Area.

28. The structure of tax revenues varies across countries. As can be seen from figure VIII, resource-rich countries in Africa have consistently registered lower tax

[17] Country Policy and Institutional Assessment (CPIA) efficiency of revenue mobilization rating.
[18] See country data at the International Survey on Revenue Administration (ISORA) website (rafit.org), powered by the Revenue Administration Fiscal Information Tool (RA-FIT).
[19] Organisation for Economic Co-operation and Development, African Union and African Tax Administration Forum (ATAF), *Revenue Statistics in Africa 2021* (Paris, 2021).

revenue as a percentage of GDP compared with non-resource rich countries. However, the share of non-tax revenues (bonuses, royalties and production sharing revenue) in GDP is higher (more than 50 per cent) in oil exporters compared with oil importing countries (less than 20 per cent). The latter mobilized more resources through indirect taxes (more than 35 per cent).

Figure VIII
African resource-rich countries have lower tax revenues compared with non-resource rich countries



Source: Organisation for Economic Co-operation and Development, African Union and African Tax Administration Forum (ATAF), *Revenue Statistics in Africa 2021* (Paris, 2021).

D. Strengthening governance and institutions for enhanced efficiency in revenue collection and spending

29. The quality of public institutions significantly influences the efficiency of both public spending and resource mobilization. In addition, institutional governance of public spending has a significant impact on a country's infrastructure development. For example, analysis from IMF[20] shows that by strengthening institutions for infrastructure governance, African countries could reduce inefficiency in public spending and cut their losses by half, estimated at 53 per cent of the potential returns to their infrastructure investments. In fact, in a Secretary-General's policy brief there was a call for action on strengthening governance and revenue management in countries by enforcing clear regulatory frameworks, harmonizing national standards and enhancing the coordination and cooperation of government agencies to ensure proper oversight of all companies and strengthening anti-corruption laws and law enforcement.[21]

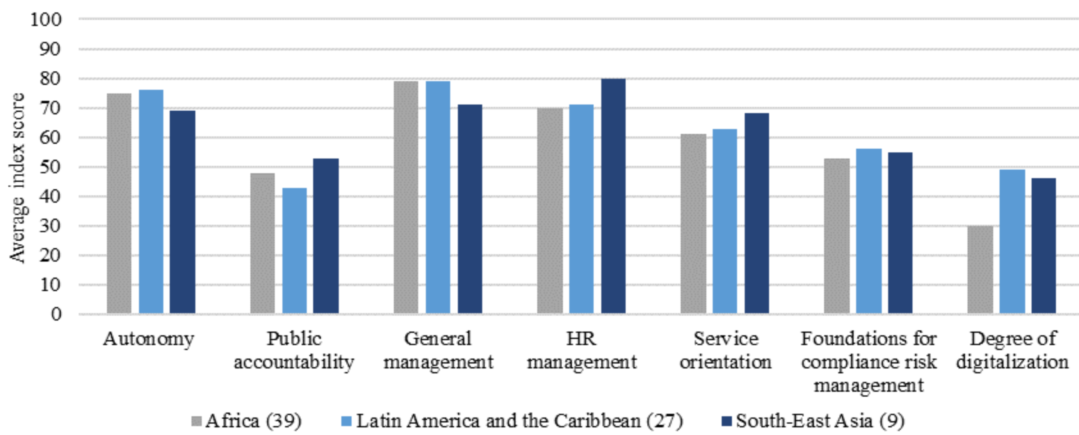
30. African countries suffer from a persistent problem of weak institutions and capacity which undermines domestic resource mobilization and development more generally. In addition, financial intelligence units and law enforcement agencies lack both the capacity to conduct research and investigations and the levels of transparency needed to ensure effective engagement with corporations to combat illicit financial flows. This is reflected in the poor performance of African countries on all indices related to tax administration performance, including degree of digitalization (figure IX). This underscores the urgency of investing in digital tax collection processes combined with other initiatives such as digital identification, digital finance and electronic payment systems. Countries that have gone this route have reaped benefits. Ethiopia, for example, saw an increase of 32 per cent in value added tax

[20] Gerd Schwartz and others, "How strong infrastructure governance can end waste in public investment" (3 September 2020), IMF blog. Available at https://blogs.imf.org/2020/09/03/how-strong-infrastructure-governance-can-end-waste-in-public-investment/.

[21] See Secretary-General's policy brief on transforming extractive industries for sustainable development (May 2021). Available at www.un.org/sites/un2.un.org/files/sg_policy_brief_extractives.pdf.

collections and payments[22] owing to the introduction of electronic cash registers. Further digitalization of tax administration would facilitate and simplify processes and improve transparency, thereby reducing inefficiency and corruption.

Figure IX
Tax administration performance and efficiency



Source: IMF, ISORA 2018: *Understanding Revenue Administration*, Departmental Paper No. DP/2021/025.
Note: Average index scores are related to practices and structural foundations for effective tax administrations. The composition of the indices may be found in the publication ISORA 2018. Scores lie between 0 and 100 (from least to most performant and efficient).
The numerals in parentheses signify number of countries (data points)

E. Fiscal incentives: counterproductive and race to the bottom

31. Another factor that undermines domestic resource mobilization is the use of fiscal incentives granted by African countries to foreign investors. The nature of fiscal incentives differs from one country group to another. The overuse of tax incentives might be due to the absence of overall favourable investment conditions such as good infrastructure and logistics, political and macroeconomic stability, a developed financial market and good governance.

32. However, fiscal incentives extended for private investments, especially to multinational corporations, are the least effective for attracting FDI compared with favourable business climates and macroeconomic and political stability.[23,24] Evidence suggests that the incentives were redundant and that 70 per cent of the investment would have been made in any case, regardless of the presence of such incentives. For example, the redundancy ratio for Rwanda was at 98 per cent and at over 90 per cent for Guinea and the United Republic of Tanzania.[25,26]

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[22] See “Ethiopia reaps rewards of tax policy reform, according to research from the African Development Bank”, 6 May 2019. Available at www.afdb.org/fr/news-and-events/ethiopia-reaps-rewards-of-tax-policy-reform-according-to-research-from-the-african-development-bank-19257.

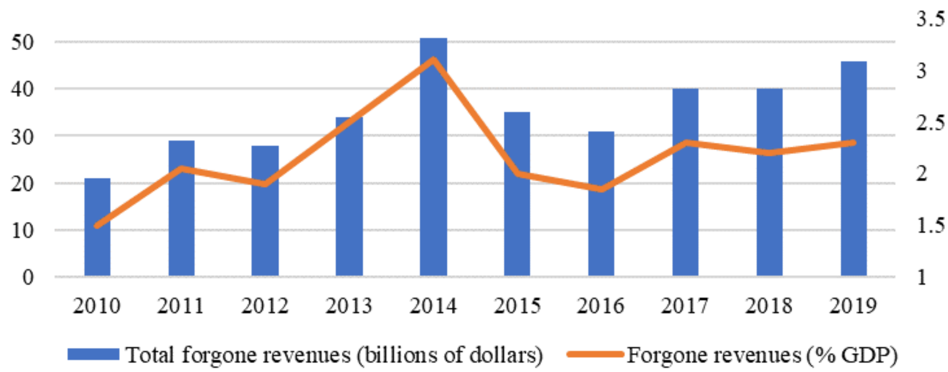
[23] United Nations Industrial Development Organization, *Africa Investor Report: Towards Evidence-Based Investment Promotion Strategies* (2011).

[24] Emmanuel Cleeve, “How effective are fiscal incentives to attract FDI to sub-Saharan Africa?” *Journal of Developing Areas*, vol. 42, No. 1 (September 2008), pp. 135–153.

[25] Sebastian James, “Incentives and investments: evidence and policy implications” (World Bank, December 2009), p. 21.

[26] Stefan Van Parys and Sebastian James, “The effectiveness of tax incentives in attracting investment: panel data evidence from the CFA franc zone”, *International Tax and Public Finance*, vol. 17, No. 4 (3 August 2020), pp. 400–429.

Figure X
Sub-Saharan Africa: Total and average revenue forgone (percentage of GDP) 2010–2019



Source: Global tax expenditures database.

33. Tax expenditures are costly and deprive Governments of important financial resources. It is estimated that sub-Saharan Africa experienced forgone revenues of roughly $46 billion (2.5 per cent of GDP)[27] (figure X) owing to tax incentives in 2019, which surpassed total FDI to the region. As a result, the region loses $14 billion per year in net terms. For example, the share of tax expenditure represented 5 per cent and 2.7 per cent of GDP for South Africa and Ethiopia, respectively, in 2019. Eliminating tax expenditures would increase health expenditure in sub-Saharan Africa by 47 per cent.

F. Taxing the digital economy

34. In recent years, there has been an increased trend towards digitalization globally and in Africa. The pace has quickened considerably in response to the COVID-19 pandemic. The contribution of the digital economy to economic activity in Africa is estimated to potentially reach $180 billion (5.2 per cent of GDP)[28] by 2025. However, the nature of the sector brings additional challenges that are not exclusive to Africa. Owing to the intangible nature of this sector and the difficulty in measuring its assets for tax sectors, for instance, Governments face challenges related to taxation of the digital economy. Further, the jurisdictions of digital platforms might differ from the locations at which they conduct their businesses, increasing the possibility of shifting profits to low-tax jurisdictions.[29] Contention over issues related to the taxation of the digital economy has complicated the full implementation of the OECD/G20 Inclusive Framework on Base Erosion and Profit Shifting.

35. The COVID-19 pandemic crisis exerted an impact on consumption patterns and pushed millions of people around the world towards use of online platforms for buying digital products and services, including in Africa. More than before African

[27] Jenny Rickard, Joe Kraus and Lauren Bredar, “Is there a place for tax incentives in post-COVID Africa?”, ONE blog, 26 May 2021. Available at www.one.org/africa/blog/true-impact-tax-incentives-africa/.

[28] Because of the blurred lines between traditional businesses that are using digital tools and new digital business models, measurement of the size of the digital economy is complex and difficult. Estimation was calculated by Google and International Finance Corporation (see *e-Conomy Africa* 2020 (2020)), based on Accenture Africa iGDP Forecast.

[29] UNCTAD, *Digital Economy Report 2019: Value Creation and Capture – Implications for Developing Countries* (United Nations publication, 2019).

countries are starting to adapt their regulations for taxing digital businesses and platforms, especially those that they host.

G. Harnessing African sovereign wealth funds for development

36. Although Africa's sovereign wealth funds remain small, they have grown considerably over the years and based on favourable demographics are likely to grow by leaps and bounds in the years ahead, generating much needed resources for financing the continent's development. African countries face difficulties, however, in harnessing these long-term savings. The total assets under management in 2020 of the 13 sovereign wealth funds,[30,31,32] are very small in comparison with those of the world's largest players. Norway's sovereign fund, for example, is worth $1.3 trillion.[33] More than half of Africa's sovereign wealth fund assets under management are accounted for by the Sovereign Fund of Egypt (SFE) ($12.7 billion), which is ranked forty-third in the world.

37. Most African sovereign wealth funds have mandates that are national development-oriented rather than characterized by the search for capital investment profits in global financial markets.[34] While small by global standards, African sovereign wealth funds could play an important role in supporting and stabilizing national economies with spill over effects for the entire subregion. They could also potentially help attract international capital to Africa, thereby demystifying the perception of risk attached to investment in Africa.

38. During the COVID-19 pandemic, some Governments have drawn large amounts from their sovereign funds – largely those with a stabilization and savings mandate- to support public spending, such in Botswana ($300 million), Ghana ($200 million) and Nigeria ($400 million).[35] African sovereign wealth funds can be instrumental in funding and attracting funding to long-term projects such as infrastructure and clean energy.

IV. Leveraging private financial resources

39. The domestic financial sector plays a central role in economic development by allocating resources, creating liquidity for businesses and avenues for managing risk. However, the shallow nature of the financial sector including capital markets in Africa militates against its playing an effective role in mobilization of savings and channelling them into productive uses. While Africa's pension and assurance funds are growing, they tend to invest largely abroad. From a domestic resource mobilization perspective, necessary conditions should be created to enable the domestic private sector to move along the national, regional and global value chains through facilitation of access to finance and strengthening of capital mobilization. Development banks and institutional investors should lead the way in mobilizing long-term capital for Africa's structural transformation.

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[30] This figure excludes the Libyan Investment Authority which has $65 billion in frozen assets under international sanctions. According to international standards, the latter is the only fund that has substantial assets under management in Africa.

[31] Namibia launched its Welwitchia Fund in May 2022.

[32] International Forum of Sovereign Wealth Funds and Franklin Templeton, "Investing for growth and prosperity: in Africa sovereign wealth funds focus on G, S and E" (2020).

[33] See Sovereign Wealth Fund Institute (SWFI), "Top 100 largest sovereign wealth fund rankings by total assets". Available at www.swfinstitute.org/fund-rankings/sovereign-wealth-fund.

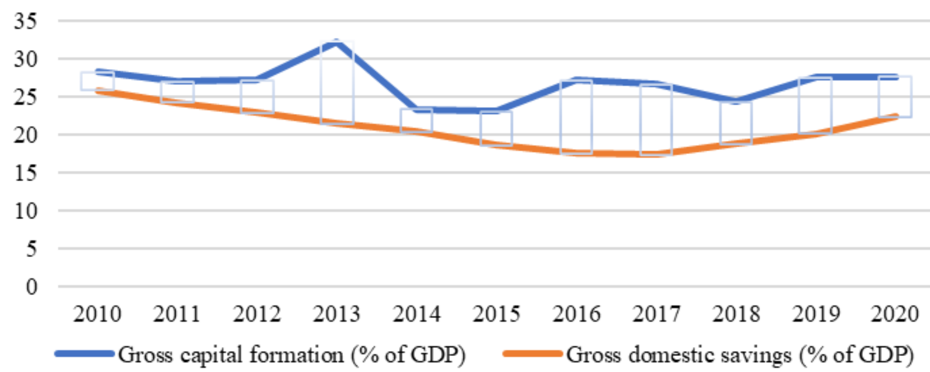
[34] International Forum of Sovereign Wealth Funds and Franklin Templeton, "Investing for growth and prosperity: in Africa sovereign wealth funds focus on G, S and E", p. 30.

[35] Andrew Bauer, "How have Governments of resource-rich countries used their sovereign wealth funds during the crisis?", Natural Resource Governance Institute blog, 21 August 2020.

A. Increasing domestic savings

40. The savings rate of Africa is among the lowest in the developing world, with the domestic savings rate having averaged about 20 per cent between 2010 and 2020, considerably below the figures of 35 per cent and 28 per cent for East Asia and the Pacific and South Asia, respectively. However, this rate varies considerably across countries. Oil exporting countries recorded the highest savings rate (24.6 per cent) compared with 13.5 per cent for low-income countries. However, the low level of savings does not reflect the true picture of savings generated in Africa owing to the high level of informality, illicit financial flows and financing through savings of illegal and criminal activities.

Figure XI
Investment-savings gap in Africa (percentage of GDP), 2010–2020



Source: World Bank, World Development Indicators.

41. Owing to the large financing gap which has been heightened by the COVID-19 pandemic, additional domestic savings are needed to close the financing gap. For example, between 2010 and 2020, the average investment rate in Africa had been about 2 per cent of GDP, which resulted in an investment-savings gap of 6 per cent of GDP (fluctuating within a range of from 2 to 10 points) (figure XI).

B. Developing financial and capital markets

42. Despite a series of financial sector reforms undertaken by African countries in the late 1990s and 2000s, the financial sector remains shallow. This is reflected in a low financial development index[36] of 0.16 in 2019 compared with an average of 0.33 for Asia and the Pacific[37] (figure XII). There are variations across countries with respect to financial development. In countries that have experienced rapid financial development such as Botswana and Namibia, this has been manifested in the growth of financial institutions and financial markets, with the combined assets of pension and insurance funds exceeding the share of commercial banks in total financial assets in Namibia.[38] However, in most countries financial markets and institutions are less developed. There is considerable scope for deepening financial sector development. This would contribute to increased growth through relaxation of the credit constraint.

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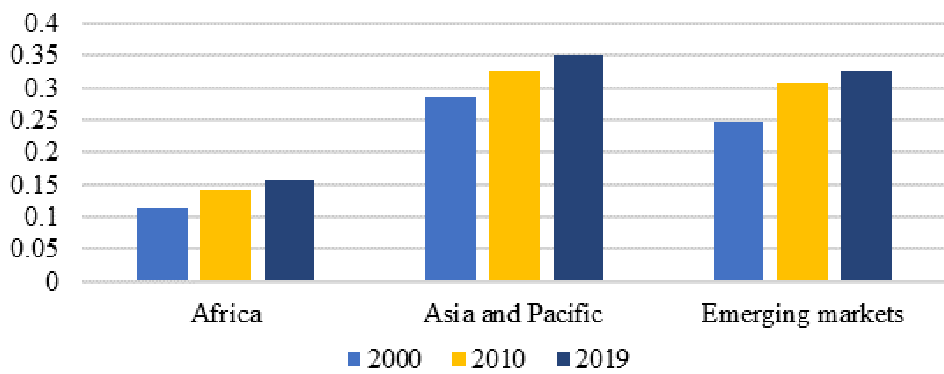
[36] The index measures a country's financial institutions (banks, insurance, mutual funds, pension funds) and financial markets including stock and bond markets.

[37] IMF, Financial development index database.

[38] Daniela Marchettini, "Namibia: macro-financial risks associated with housing boom: selected issues", IMF country report, No. 15/277 (Washington, D.C., 2015).

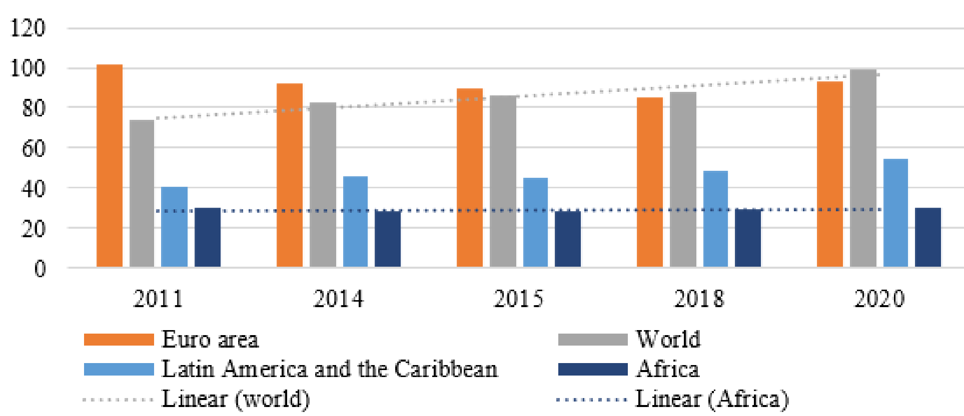
43. Another indicator of financial depth, the ratio of domestic credit to the economy provided by banks, remained low in 2020 at 30 per cent of GDP compared with 54 per cent and 42 per cent for Latin America and the Caribbean and East Asia and the Pacific, respectively. The ratio has stagnated in the last 10 years (figure XIII). The banking sector is growing fast and is profitable (its profitability was twice the global average in 2018). Africa's financial sector is dominated by commercial banks that typically tend to provide short- to medium-term loans.[39] Despite increased competition, the cost of lending remains high owing mainly to market imperfections.

Figure XII
Financial development index, 2000–2019



Source: IMF, Global financial development index.

Figure XIII
Domestic credit to the private sector by banks (percentage of GDP) 2011–2020



Source: World Development Indicators.

44. In recent years, the financial landscape has been changing with the expansion of pan-African banks, filling the void created by the retrenchment of European and American banks following the 2008 global financial crisis. These banks have broad geographical coverage in Africa: seven pan-African banks have a presence in at least 10 countries, while others are present in more than 36 countries.[40] Most of the pan-African banks operate in areas that extends beyond traditional commercial banking

[39] United Nations, Economic Commission on Africa, *Economic Report on Africa 2020: Innovative Finance for Private Sector Development in Africa* (United Nations publication, 2020).

[40] Montfort Mlachila and others, *Financial Development in Sub-Saharan Africa: Promoting Inclusive and Sustainable Growth* (Washington, D.C., IMF, 2016).

activities including capital markets, insurance, pensions, money transfers, microfinance and leasing. They also cater for small and medium-sized enterprises which are largely underserved by other banks. To overcome the constraint of financial infrastructure, African countries have sought to leverage the power of mobile technology to expand financial services to many people. The development of mobile banking has contributed to an increase in financial inclusion. In fact, the region has been on the frontiers of mobile banking technology with the introduction of M-Pesa, M-Shwari and M-Kopa in Kenya. While this has helped reduce transaction costs and facilitate personal transactions, there is still a large section of the population that remains unbanked across Africa.

45. While public development banks have the potential to contribute to bridging the finance gap, their assets and financing capacities are small considering the sizeable financing needs[41] of the continent. For example, the African Development Bank Group committed $5.85 billion in 2020, 43 per cent below funds committed for 2019. The group's disbursements increased from $5.3 billion in 2019 to $7.18 billion in 2020 to support African countries fighting the COVID-19 pandemic. Given the need for long-term financing, development banks should focus on promoting productive development and structural transformation. They could also play a countercyclical role during economic downturns by sustaining investment levels and protecting the country's productive structure.

46. The stock markets in Africa have contributed to the financing of the private sector. They have grown over the years, with market capitalization for the current 30 stock markets estimated at $1,4296 trillion in 2021.[42] Although the number of listed shares and the traded volume continue to increase, the figures remain low compared with those of other regions. Five stock exchanges[43] account for about 90 per cent of total capitalization, with JSE in South Africa accounting for 80 per cent of total capitalization. However, African exchanges (except in South Africa and to some extent Egypt) are illiquid and highly fragmented and are operating under weak regulatory environments. Capital market integration, technology and improved regulations and governance could help overcome the challenges to capital markets development. Further development of capital markets including stock and bond markets as well as regional stock exchanges will be necessary to provide long-term development finance.

C. Promoting public-private partnerships

47. African countries have always faced difficulties in attracting private sector investment in infrastructure. Only a handful of countries, namely, Egypt, Ghana, Morocco, Nigeria and South Africa, accounted for more than half of all successful public-private partnerships from 2008 to 2018.[44] In terms of the sectoral distribution of public-private partnerships, most were in the energy sector (57 per cent), followed by transport (24 per cent) and information and communications technology (ICT) (16 per cent) over the period 1999–2019. A major barrier to attracting private capital to infrastructure is the perceived riskiness associated with African countries. While financial de-risking instruments are important, there is a need to adopt a more comprehensive approach which tackles policy, governance, institutional and regulatory constraints.

[41] For example, the African Development Bank estimates the annual infrastructure financing gap at $130 billion–$170 billion per annum.
[42] See World Federation of Exchanges statistics portal (www.world-exchanges.org/our-work/statistics).
[43] Those of Egypt, Kenya. Morocco, Nigeria and South Africa.
[44] World Bank, PPI database 2019.

48. Although the share of domestic and external private financing in Africa's infrastructure has been increasing through the years, their contribution remains very small compared with that of the other regions. De-risking domestic private sector investment is critical and institutional investors have the potential to play a critical role in this regard. However, African institutional investors' assets accounted for less than 1 per cent of private placement in infrastructure in Africa between 2011 and 2017.[45]

D. Harnessing pension funds for development

49. Africa's pension funds have grown substantially over the years and if fully harnessed could provide vital resources for financing of development. For example, assets under management by pension funds stood at $676 billion in 2017 and are estimated to reach $1.1 trillion by 2020.[46] Pension assets have also experienced strong growth in some countries such as Namibia where they exceed GDP (102 per cent). However, there are variations across countries. In South Africa, pension assets represent 92 per cent of GDP, and the figure is even lower in other countries such as Nigeria (8 per cent), Zambia (3 per cent) and Egypt (1.5 per cent). Because of the high level of informality, unstable income levels and financial illiteracy, participation rates in pension fund systems in Africa remain relatively low.[47]

50. Diversification of pension portfolios minimizes risk, reduces potential loss and may also enhance overall system resilience. With respect to investment of pension funds, approaches of countries vary. For example, Nigeria allocates most of the shares to bonds (88 per cent), while Botswana invests two thirds in equity (figure XIV). The proportion of pension assets invested abroad increased in many countries (figure XV). For example, in Botswana, 62 per cent of assets were invested abroad in 2020 compared with 30 per cent in 2010.

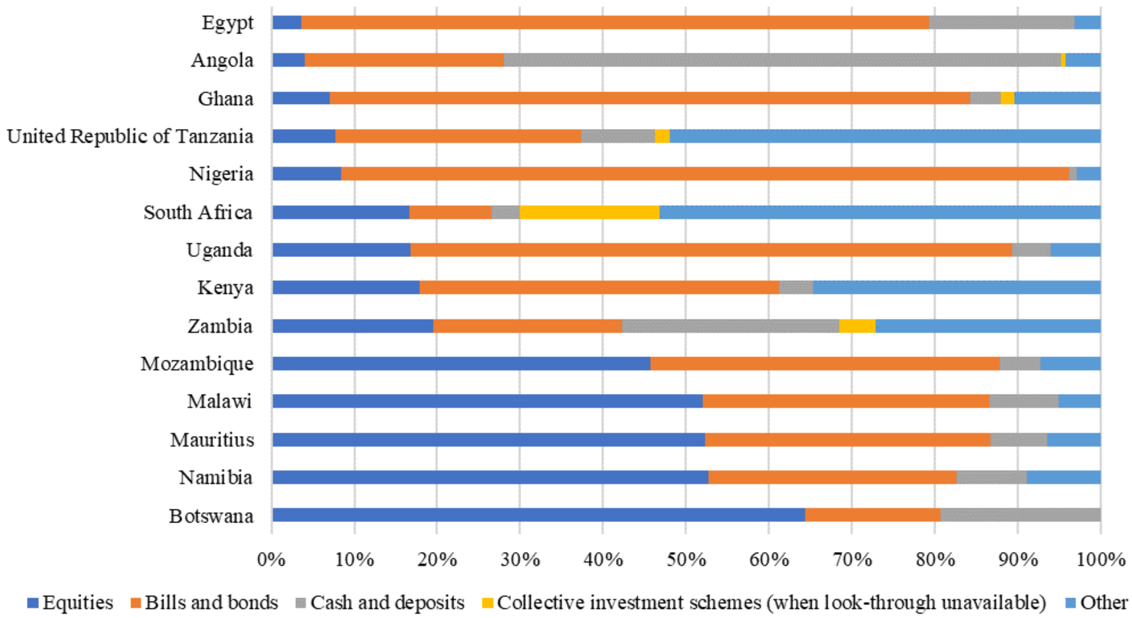
51. Few African countries have statutory requirements for pension investment in infrastructure. If African countries were able to invest an allocation of 2.8 per cent of their pension fund assets in infrastructure, similar to South Africa, this would generate an additional $20.9 billion per year for infrastructure development, reducing the infrastructure financing gap by 30 per cent. Taking advantage of the African demographic dividend, the rising middle class and the increased subscription to pension funds, African pension funds' assets are expected to grow substantially in the coming years. African countries could take advantage of this favourable trend to amend their regulations by loosening investment limits for pension funds to allow them to expand their exposure to infrastructure.

[45] See World Bank, "Contribution of institutional investors: private investment in infrastructure, 2011-H1 2017". Available at https://ppi.worldbank.org/content/dam/PPI/documents/PPI_InstitutionalInvestors_Update_2017.pdf.

[46] PricewaterhouseCoopers (PwC) "Beyond their borders: evolution of foreign investment by pension funds" (2015).

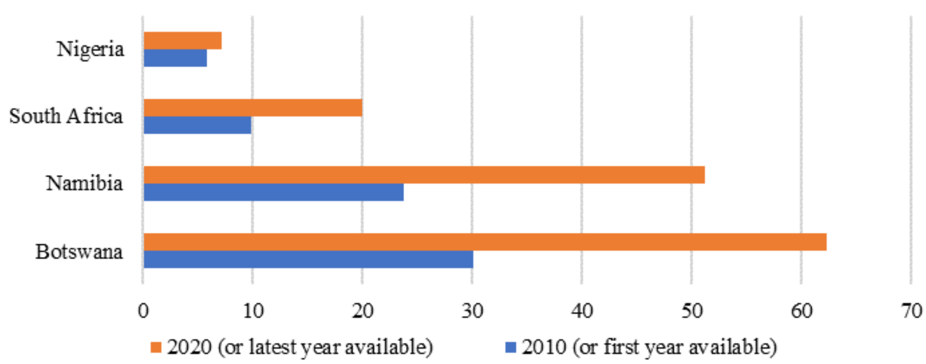
[47] Jacqueline Irving, "How the COVID-19 crisis is impacting African pension fund approaches to portfolio management" (International Finance Corporation, 6 October 2020).

Figure XIV
Allocation of pension savings in selected asset classes and investment vehicles (2020 or latest year available)



Source: OECD, *Pension Markets in Focus 2021*.

Figure XV
Share of pension assets invested abroad, 2010 and 2020



Source: OECD, *Pension Markets in Focus 2021*.

V. Stemming illicit financial flows for Africa's sustainable development

52. Illicit financial flows[48] remain a serious impediment to Africa's sustainable development. This poses a significant challenge to domestic resource mobilization by depriving African countries of vital financial resources for financing investment in the Sustainable Development Goals. Since illicit financial flows move from Africa

[48] UNCTAD defines illicit financial flows as cross-border exchanges of value, monetary or otherwise, which are illegally earned, transferred or used. This is broadly in line with the definition adopted by the High-level Panel on Illicit Financial Flows from Africa.

(capital constraint) to developed countries, they perpetuate existing inequalities in the global financial system. Tackling illicit financial flows is therefore key to ensuring a more equitable globalization. This has become even more urgent considering the devastating impact of the COVID-19 pandemic on Africa. A major challenge with respect to addressing illicit financial flows identified by the report of the High-level Panel on Illicit Financial Flows from Africa chaired by Thabo Mbeki is the lack of a global framework. The adoption of a comprehensive global framework will therefore be indispensable for addressing the issue of illicit financial flows out of Africa.

A. Trends in illicit financial flows

53. Illicit financial flows out of Africa are large and growing. Capital flight from the continent, which serves as a good proxy for illicit financial flows, grew substantially over the period 2008–2018, peaking in 2012 and amounting to $129.1 billion (figure XVI). Africa lost a combined $2.0 trillion through illicit financial flows over the period 1970–2018.[49] As discussed in section II of the present report, illicit financial flows from Africa far outstrip the annual inflows of ODA (at $48 billion) and FDI ($54 billion).

54. There is considerable subregional variation in illicit financial flows out of Africa (figure XVII). West Africa and Southern Africa account for the largest shares of illicit financial flows at 29.57 per cent and 28.5 per cent, respectively, followed by Northern Africa (19.82 per cent) and Eastern Africa (12.74 per cent). Central Africa has the lowest share (9.38 per cent). The revenue loss associated with capital flight alone ranges from about 2 per cent of GDP in Southern Africa to 2.3 per cent in Western Africa.[50] Illicit financial flows tend to be large for resource-rich African countries.[51]

55. The 2015 High-level Panel on Illicit Financial Flows from Africa identified commercial practices related to trade and tax abuse as the largest driver of illicit financial flows from Africa, accounting for 65 per cent, followed by criminal activities (30 per cent) and corruption (5 per cent).[52] However, determining the illegal/illicit nature of commercial activities is a challenge. Given their sheer size, targeting this source of illicit financial flows will be critical to strengthening domestic resource mobilization in Africa.[53] Furthermore, commercial activities contribute the most to payment of taxes, employment and production of critical goods and services. Therefore, addressing this challenge is crucial for stemming the haemorrhaging effect of illicit financial flows on Africa.

[49] This is based on the capital flight database of the Political Economy Research Institute (PERI) at the University of Massachusetts Amherst, which calculates capital flight as trade misinvoicing + balance-of-payments residual. See Léonce Ndikumana and James K. Boyce, “Capital flight from Africa 1970–2018: new estimates with updated trade misinvoicing methodology”, PERI research report, May 2021.

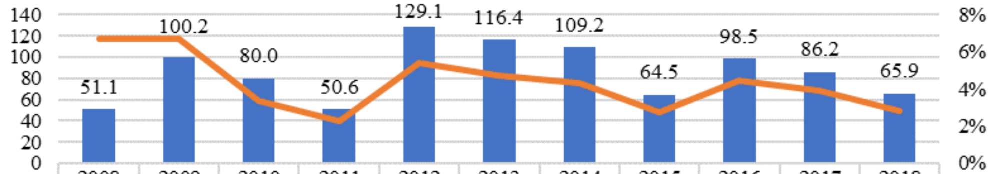
[50] UNCTAD, *Economic Development in Africa Report 2020: Tackling Illicit Financial Flows for Sustainable Development in Africa* (United Nations publication, 2020). Data are median by subregion.

[51] The top seven largest illicit financial flows remitting countries over the period 1970–2018 were Nigeria, South Africa, Mozambique, Algeria, Angola, Egypt and the Democratic Republic of the Congo.

[52] African Union/Economic Commission for Africa, *Illicit Financial Flow: Report of the High Level Panel on Illicit Financial Flows from Africa* (2015).

[53] United Nations, Office of the Special Adviser on Africa, “Tackling illicit financial flows arising from taxation and illegal commercial practices in Africa” (working document, forthcoming).

Figure XVI
Aggregate capital flight from Africa 2008–2018



	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Capital flight (billions)	51.1	100.2	80.0	50.6	129.1	116.4	109.2	64.5	98.5	86.2	65.9
Capital flight (% of GDP)	6.7%	6.7%	3.3%	2.3%	5.4%	4.7%	4.3%	2.8%	4.5%	3.9%	2.8%

Sources: Capital flight: Political Economy Research Institute, University of Massachusetts Amherst; GDP: African Development Bank, *African Statistical Yearbook*.

Figure XVII
Aggregate capital flight from Africa 2005–2018 (billions)

Source: UNCTAD.

B. Causes and drivers of illicit financial flows out of Africa

56. Illicit financial flows are generally influenced by a wide range of factors. As regards the drivers of illicit financial flows out of Africa, the literature shows that illicit financial flows in the African context are influenced by structural factors as well as domestic policies impacting illicit financial flows. The report of the High-level Panel on Illicit Financial Flows from Africa identifies corruption as a cross-cutting factor which drives those flows at every stage. Illicit financial flows are facilitated by a global shadow financial system including tax havens, secrecy jurisdictions, disguised corporations, anonymous trust accounts, fake foundations, trade mispricing and money laundering techniques.

57. The dependence of African countries on natural resource extraction, particularly fossil fuels, makes them particularly susceptible to illicit financial flows and has historically locked many African countries into patterns of primary product export specialization, leading to the so-called paradox of plenty, that is, a situation in which countries rich in resources do not actually benefit from their own natural wealth. Corruption is a worldwide problem and weak institutions and governance deficit make Africa vulnerable to corruption and abuse of power which can fuel illicit financial flows out of Africa. Illicit financial flows are enabled by several actors both in Africa and outside, including financial institutions and professional service providers in the areas of accounting, auditing and legal services.

58. Illicit financial flows constitute a serious constraint on Africa's growth and sustainable development, as they deprive the region of vital resources for its development. Illicit financial flows also have a negative impact on domestic resource mobilization. This is manifested through reduced government funding for capital and development expenditure programmes, for example, in the areas of social protection, education and health.[54] Indirectly, illicit financial flows affect development negatively through curtailing investment and saving. UNCTAD estimates that curbing illicit financial flows across Africa could close the Sustainable Development Goals financing gap by 33 per cent.[55]

C. Recent regional and global efforts to address illicit financial flows

59. In recent years several efforts have been made at regional and global levels to tackle illicit financial flows. At the regional level, the African Union established a High-level Panel on Illicit Financial Flows from Africa to develop an assessment of the magnitude of those flows out of Africa and their drivers, sources and impacts and provide specific actionable and practical recommendations to be undertaken by African countries and the rest of the world.

60. In recognition of the vital importance of strengthening integrity within the global financial system for achieving the transformative vision of the Sustainable Development Goals, the High-level Panel on International Financial Accountability, Transparency and Integrity for Achieving the 2030 Agenda (FACTI Panel) was convened on 2 March 2020 by the President of the General Assembly at its seventy-fourth session and the President of the Economic and Social Council at its 2020 session. The FACTI Panel and the associated global pact seek to strengthen and promote values of integrity and legitimacy and strengthen the policy and institutional framework for fostering financial integrity for sustainable development.

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[54] Janvier D. Nkurunziza, "Illicit financial flows: a constraint on poverty reduction in Africa", Association of Concerned Africa Scholars, Bulletin No. 87 (fall 2012).

[55] UNCTAD, *Economic Development in Africa Report 2020: Tackling Illicit Financial Flows for Sustainable Development in Africa* (United Nations publication, 2020).

61. Other important initiatives worth highlighting include the Global Forum on Transparency and Exchange of Information for Tax Purposes[56] and the Inclusive Framework on Base Erosion and Profit Shifting established in 2009 and 2016, respectively. The Africa Initiative was launched in 2014 by the Global Forum to help African countries combat tax evasion and illicit financial flows through transparency and exchange of information. The regional economic commissions have also advanced efforts to combat illicit financial flows through analysis and proposed tools. Despite all of these efforts, as of yet there is no global architecture for tackling illicit financial flows.

D. International tax cooperation

62. Several measures have been taken to limit tax avoidance and evasion through improved transparency and disclosure including the adoption of instruments and frameworks to enable tax authorities to clamp down on cross-border tax evasion. For example, according to a publication of the Department of Economic and Social Affairs of the United Nations Secretariat,[57] through voluntary disclosure and offshore tax investigation a total of 107 billion euros was recovered in 2018 with $29 billion going to developing countries. Despite the large potential revenue gains from exchange of information, only 20 African countries participate in the multilateral Convention on Mutual Administrative Assistance in Tax Matters.

63. As of November 2021, 27 African countries (out of a total of 141 countries globally) were members of the OECD/G20 Inclusive Framework on Base Erosion and Profit Shifting, a global initiative aimed at reforming international taxation rules, reducing tax avoidance and ensuring that multinational corporations pay their fair share of taxes.[58] In October 2021, the Inclusive Framework set out a Statement on a Two-Pillar Solution to Address the Tax Challenges Arising from the Digitalization of the Economy, which had been signed by 137 member jurisdictions as of 4 November 2021. They also agreed on a global minimum corporate tax rate of 15 per cent for multinational enterprises.

64. This is significantly below the global corporate minimum tax rate of 21–25 per cent proposed by developing countries. From a tax equity standpoint, it is feared that the agreement would worsen inequities in the multilateral tax system which has cost Africa billions in lost tax revenue. Unlike OECD countries which are able to mobilize more payroll taxes, African Governments lack the capacity to levy and collect such types of taxes. Instead, they depend heavily on corporate tax revenues. For example, in 2015 alone, the total amount in corporate taxes collected by African Governments was estimated at 67 billion United States dollars.

VI. Strengthening partnerships for domestic resource mobilization

65. A better future for Africa can be secured through African-led initiatives from within the continent supported by strengthened partnerships at the national, regional and global levels. The lack of vaccine equity is emblematic of the failure of existing partnerships to respond to Africa’s aspiration. This calls for a paradigm shift towards

[56] The following twenty-nine African countries are members of the Forum: Benin, Botswana, Burkina Faso, Cabo Verde, Cameroon, Chad, Côte d’Ivoire, Djibouti, Egypt, Eswatini, Gabon, Ghana, Kenya, Lesotho, Liberia, Madagascar, Mauritania, Mauritius, Morocco, the Niger, Nigeria, Rwanda, Senegal, Seychelles, South Africa, Togo, Tunisia, Uganda and the United Republic of Tanzania.

[57] Inter-agency Task Force on Financing for Development, *Financing for Sustainable Development Report 2020* (United Nations publication, 2020).

[58] OECD, Inclusive framework on base erosion and profit shifting (see www.oecd.org/tax/beps/).

more sustained and impactful partnerships. The present section explores partnerships needed at domestic, regional and global levels for strengthening domestic resource mobilization to finance Africa's sustainable development.

66. Domestic partnerships targeting both the revenue and expenditure sides of government budgets are critical for domestic resource mobilization. This requires a broad coalition, akin to a social contract, between Governments and their constituencies. As noted in the report of the Secretary-General entitled *Our Common Agenda*: "[N]ow is the time to renew the social contract between Governments and their people and within societies … People need to see results reflected in their daily lives. This must include the active and equal participation of women and girls without whom no meaningful social contract is possible."

67. Agenda 2063 encompasses blueprints and frameworks, encompassing, for example, free movement of people and goods, open skies and African continental financial institutions, to further Africa's regional integration, which can be implemented through partnerships at the regional and subregional levels. Given the scale needed to create a viable market, regional partnerships constitute the crucial backdrop for cross-border infrastructure investments as well as reforms aimed towards deepening regional financial markets. Regional harmonization of financial regulations and banking sectors across borders would be critical to facilitating cross-border capital flows, including through investment within the continent of the resources of African sovereign wealth funds and pension funds.

68. Through domestic political will and international partnerships, Africa can strengthen its institutions, enhance transparency and accountability and improve the governance of its public resources. Africa's development partners may channel part of ODA and other concessional financing towards capacity-building and strengthening institutions in Africa, for example, through investments in modernizing tax collection systems and simplification of customs and business registrations procedures.

69. It will take strong international partnerships to improve international tax cooperation including through exchange of information among jurisdictions to eliminate conditions that are exploited by multinational corporations for profit shifting and tax avoidance. International partnerships will also assist in stemming the flow of illicit financial flows out of the continent and help address ODA effectiveness by earmarking part of ODA flows for strengthening institutions with a view to building a strong domestic resource mobilization system, thus underpinning the continent's efforts to sustainably finance its own development.

70. International partnerships for accelerating technology transfer and knowledge sharing, where progress has been uneven as demonstrated by the setbacks regarding vaccine production in Africa, are the key to strengthening productive capacity in Africa. They must also support African countries in addressing infrastructure bottlenecks which impede the provision, distribution and manufacturing of vaccines on the continent, leveraging the implementation of the African Continental Free Trade Area and its potential for creating further regional integration.

71. The international community must move away from pursuing a set of narrow objectives and targets towards initiating transformative change which underpins sustainable development in all its dimensions. Among the key areas that must be addressed urgently are energy, finance, digital connectivity and people-centred policies, such as those involving investments in social protection, decent jobs, food and nutrition security, education and health systems. Partnerships will be the key to the continent's harnessing its demographic dividend, transforming extractive industries to support sustainable development outcomes and bolster renewable energy potential, and leveraging intra-African trade through the African Continental Free

Trade Area, which holds great potential for increasing manufacturing value added and contributing towards Africa's industrialization.

72. International partnerships have a key role in securing concessional financing for and ensuring debt sustainability in Africa. Prior to the COVID-19 pandemic, there had already been a rapid debt build-up, considered to be a fourth wave of debt in developing economies, which has only grown and become more vulnerable to currency risk since then.[59] As noted above, the international community provided temporary relief through measures such as the Debt Service Suspension Initiative, which expired in 2021, and the G20 Common Framework for Debt Treatment. These initiatives have provided temporary relief during the crisis but are not sufficient to address debt levels and risk exposure. Additionally, the Common Framework has proved to be less effective and appealing to countries, having been taken up only by three to date, namely, Chad, Ethiopia and Zambia, – none of which have seen their debt become successfully restructured. With the expiration of the Debt Service Suspension Initiative, however, this leaves the Common Framework as the main available vehicle for debt relief, which means that no effective sovereign debt workout mechanism currently exists, despite all of the signs pointing towards a debt crisis unfolding in developing economies.

73. Despite the effective rapid response to the liquidity crisis with short-term emergency measures, a historic opportunity was missed, as much-needed medium- to long-term debt sustainability measures have still not been implemented. What are needed are forward-looking measures intended to reform the international financial and debt architecture and make it more resilient and fit for purpose including through a global compact to provide concessional finance with a minimum 10-year maturity, efforts to lower the cost of borrowing, including through full capitalization of the Liquidity and Sustainability Facility and increased resources for the Poverty Reduction and Growth Trust, integration of Sustainable Development Goals-related and climate-related objectives into debt contracts, including through State-contingent clauses designed to provide immediate debt standstills to countries in times of crisis, investments in renewable energy, and reforms for digitalizing revenue collection and expenditure which would increase transparency and accountability. Also needed is a concerted push away from debt suspension towards debt restructuring and debt forgiveness. A fragmented creditor base and overconcentrated power in the hands of a few large credit rating Agencies creates frictions which can be avoided through an African home-grown credit rating system giving countries fair and equitable access to international capital markets.

VII. Conclusions and policy recommendations

74. African countries have made progress in mobilizing financial resources for their development. Resources from domestic sources already account for two thirds of total financial resources and have further potential to drive Africa's financing for development. Further reforms will be required to expand domestic resource mobilization, including by reducing inefficiency in public expenditure. Currently, such inefficiencies in public expenditure, including in health, education and infrastructure, cost Africa the equivalent of 2.87 per cent of its GDP. The priority for African countries should be to identify waste and potential savings in domestic budgets and take steps to eliminate ineffective tax incentives.

75. The relative importance of ODA in Africa's financing has diminished over the years, as private external financial resources including FDI, debt, bond flows and

[59] M. Ayhan Kose and others, "What has been the impact of COVID-19 on debt? turning a wave into a tsunami", World Bank Policy Research Paper, No. 9871 (November 2021).

remittances are playing an increasingly significant role in financing Africa's sustainable development and closing the financing gap, which has widened on account of the COVID-19 pandemic Nevertheless, ODA remains an important source of budget support. In this regard, recent decisions and proposals to markedly cut ODA to address the impact of the war in Ukraine on refugees are concerning. This is the exact moment when countries and the United Nations system are required to respond to surging humanitarian and development needs by bringing forth additional resources needed to meet Member States' ODA-related pledges. These resources must also be bolstered in the short term to support African countries dealing with the socioeconomic shocks created by the COVID-19 pandemic, the impact of the war in Ukraine on food, energy and finance, and the evolving climate crisis. These resources should be strategically invested in sectors most vital to strengthening resilience and enhancing countries' ability to cope with crises while ensuring that they can contribute to long-term sustainable development outcomes and thus be progressively replaced by domestic resource mobilization, such as through investments in universal social protection, energy, digital connectivity, decent jobs, food and nutrition security, education and health systems.

76. The pandemic has also laid bare the vulnerabilities of African economies to external shocks, including narrow production, limited diversification, heavy dependence on global trade and finance, a shallow financial sector, high levels of inequalities and poverty. Weak domestic resource mobilization is the Achilles heel of Africa's development. Therefore, Africa must break with the past and look within and rely on resources for its own sustainable development. This calls for addressing several long-standing issues that have hamstrung Africa's development, including through mobilizing domestic public resources through increased tax revenue and improved expenditure; leveraging private financial resources and mobilizing savings; stemming illicit financial flows; and harnessing partnerships for Africa's sustainable development, including by ensuring that resource-rich countries in Africa can capitalize on their natural wealth while contributing to the green transition and sustainable development outcomes.

77. The following road map is proposed:

(a) Improving efficiency in public expenditure

- Efforts must be taken to strengthen domestic resource mobilization and improve the alignment of national budgets and strategies with the Sustainable Development Goals, including by prioritizing investments that remain vital to bolstering resilience and countries' ability to cope with crises, including in universal social protection, energy, digital connectivity, decent jobs, food and nutrition security, education, and health systems
- African countries should carry out a comprehensive audit/review of their government expenditure by 2025 with a view to identifying wastages and potential savings for the budget along with potential expenditure reallocation gains (within and across sectoral allocations, all with the support of United Nations entities and relevant regional and international organizations including the African Development Bank, IMF, the African Union Commission, the African Union Development Agency, the World Bank and African regional economic commissions)
- African countries should fast-track the adoption of e-procurement services and e-government in general by 2026 to promote transparency and accountability and improve overall efficiency with the support of United Nations entities and relevant regional and international organizations including IMF, the World Bank, the African Development Bank, the African Union Commission and the United Nations system

(b) Improving tax revenue mobilization

- African countries should digitize their revenue collection system by 2024 in order to build strong domestic revenue mobilization systems, with the support of United Nations entities and relevant regional and international organizations including IMF, the World Bank, the African Union Commission, the African Tax Administration Forum and UNDP

- African countries should digitize their customs processes and systems by 2024, with the support of United Nations entities and relevant regional and international organizations including UNCTAD, UNDP, the World Bank, IMF and African regional economic commissions

- African countries, supported by the international community, should assess and review their tax incentives regimes by 2026 by adopting a comprehensive and balanced approach which rationalizes their usage and reconciles countries' investment promotion objectives and resource mobilization strategies, with the support of United Nations entities and relevant regional and international organizations including IMF, the World Bank, the African Development Bank, the African Union Commission, UNCTAD, the Economic Commission for Africa and the African Tax Administration Forum

(c) Leveraging the contribution of pension funds to financing for development

- African countries should amend their relevant regulations by 2025 by loosening pension funds' investment limits to allow them to expand their exposure to infrastructure, with the support of United Nations entities and relevant regional and international organizations including IMF, the African Development Bank the World Bank and the African Union Development Agency

(d) Stemming illicit financial flows out of Africa

- The international community should adopt a global framework for tackling international tax cooperation and illicit financial flows with the support of United Nations entities and relevant regional and international organizations including the African Union Commission, OECD and the African Tax Administration Forum