Financial Flows.

Africa's Development-Finance Challenges

Marvellous Ngundu

Last updated 15 September 2026 using IFs 8.72

Table of contents

Africa’s Development-Finance Challenges

Briefly

Africa’s development-finance challenge is shaped by both the scale of its financing needs and the structure of the resources available to meet them. Domestic revenue remains constrained, debt-service pressures are rising and financial markets remain unevenly developed, while external finance is often volatile, concentrated or costly. These pressures vary across income groups and are compounded by illicit financial outflows and weaknesses in domestic resource mobilisation. The challenge is therefore not only to mobilise more finance, but to build a financing mix that is sustainable, resilient and capable of supporting structural transformation.

A widening development-financing gap

Africa’s development challenge is increasingly a financing challenge. The African Development Bank (AfDB) estimates that accelerating the continent’s structural transformation requires closing an annual financing gap of about US$402.2 billion by 2030. This aggregate shortfall coexists with long-standing sectoral deficits, including an infrastructure financing gap of US$68–108 billion per year and climate-related investment needs of approximately US$250–277 billion annually. These figures illustrate why Africa cannot realistically finance its development through any single channel: domestic public revenue remains insufficient, local financial markets are generally shallow and external finance is often costly, concentrated or volatile.

These constraints differ substantially across income groups. Africa’s 22 low-income economies remain the most dependent on grants, concessional loans and remittances because they have smaller tax bases, weaker export baskets and thinner domestic financial systems. The continent's 24 lower-middle-income economies have greater scope to mobilise FDI, portfolio finance and domestic borrowing. Still, they remain highly sensitive to exchange-rate pressure, global interest rates and investor sentiment. Africa’s 8 upper-middle-income economies generally have deeper markets and greater access to commercial finance, but that access is often cyclical, costly and susceptible to sudden reversals. In accordance with the 2025/6 World Bank classifications, Seychelles is Africa’s only high-income country (Mauritius became a second in 2026/7). Continental financing policy is therefore overwhelmingly concerned with the different requirements of low-, lower-middle- and upper-middle-income countries.

The problem has become more difficult to manage because debt-service burdens have risen while access to affordable external capital has tightened. The IMF has described the region as facing a “big funding squeeze”, with shrinking concessional inflows, limited market access and rising debt-service costs. Africa owed roughly US$707.9 billion to external creditors in 2024, of which almost 42% was owed to private creditors, 37% to multilateral creditors and 21% to bilateral creditors. External debt-service payments are projected to reach a record high of approximately US$101.3 billion in 2025, then decline to about US$63.6 billion by 2030. At the same time, 95% of low-income African countries are either in or at risk of debt distress. The implications extend beyond deteriorating solvency indicators. High debt-service burdens constrain fiscal space by diverting scarce public resources away from infrastructure, health, education and other productivity-enhancing investments, potentially weakening long-term growth and reinforcing dependence on external financing.

Africa's financing structure relative to peer regions

Compared with peer-developing regions, Africa's financing structure remains comparatively constrained. South Asia benefits from exceptionally large remittance flows supported by extensive labour-migration corridors. Latin America and the Caribbean combine substantial remittance receipts with broader access to domestic and international capital markets. East and Southeast Asia attract larger volumes of manufacturing- and export-oriented FDI, supported by dense production networks, stronger logistics systems and deeper domestic supplier bases. These comparisons reinforce the view that the development effect of external finance depends on the institutions and productive capabilities through which it is absorbed. Thus, the composition, stability and domestic linkages of financial flows matter at least as much as their aggregate volume.

Retaining and mobilising Africa's own resources

Any assessment of Africa's development-finance landscape must also acknowledge that the continent loses a considerable proportion of its own investible resources. UN Trade and Development (UNCTAD) estimates that Africa loses around US$88.6 billion annually through illicit financial flows (IFFs), equivalent to 3.7% of GDP. This amount is almost equivalent to the combined average annual aid and FDI inflows received by African countries between 2017 and 2020. Africa's financing constraint is therefore partly self-reinforcing: governments seek to attract foreign capital while substantial domestic and foreign-owned resources simultaneously leak out through illicit channels.

IFFs are not confined to corruption in the narrow sense. They also involve trade misinvoicing, abusive transfer pricing, profit shifting, criminal markets and weak asset-recovery systems. These losses weaken public revenue, reduce foreign-exchange availability and can discourage investment in health, education and productive infrastructure. UNCTAD has estimated trade misinvoicing losses at US$30–52 billion per year, and it has shown that countries with high IFFs tend to invest less in health and education. Measures to curb IFFs should therefore be treated as an integral component of development-finance policy. Stronger tax cooperation, customs administration, ownership transparency and asset recovery could retain more domestic resources while improving the legitimacy of the investment environment.

Domestic resource mobilisation remains the most sustainable source of development finance because it improves fiscal sovereignty, strengthens accountability and reduces vulnerability to external shocks. The latest Revenue Statistics in Africa, produced by the OECD, African Union Commission and African Tax Administration Forum (OECD/AUC/ATAF), show that the average tax-to-GDP ratio among the 38 participating African countries reached 16.1% in 2023, up for the third year in a row. It nevertheless remained below the averages for Asia and the Pacific (19.6%), Latin America and the Caribbean (21.3%) and the OECD (33.9%). The continental average also conceals substantial variation: tax-to-GDP ratios ranged from 2.9% in Somalia to 34% in Tunisia, while 20 of the 38 countries recorded ratios below 15%. Africa, therefore, faces both an overall revenue shortfall and pronounced differences in fiscal capacity across countries and regions.

Closing this revenue gap does not simply require higher statutory tax rates. Durable gains are more likely to come from economic growth, broader tax bases, rationalised exemptions, more effective taxation of property and high-net-worth individuals, improved natural-resource taxation, digital registration, cleaner taxpayer databases and stronger customs administration. Formalisation is important, but it should not be pursued through coercive taxation of subsistence workers and microenterprises. Simplified compliance regimes, affordable business registration, digital identification, access to financial services and visible improvements in public services can create stronger incentives for firms and workers to participate in the formal economy.

Institutional integrity is central to this agenda. IMF work on governance in sub-Saharan Africa shows that corruption weakens institutions, reduces programme effectiveness and impairs trust in public policy. At the same time, digitalisation and transparency can produce a measurable "governance dividend". This implies that tax systems perceived to be arbitrary, captured by elites or disconnected from public services will struggle to secure voluntary compliance. Revenue reform should therefore be accompanied by greater transparency, digitalisation and stronger oversight to reduce corruption and reinforce the fiscal relationship between citizens and the state.

External finance as part of a broader financing mix

External financial inflows nevertheless remain indispensable because different flows address different constraints. Aid is particularly valuable where it finances public goods, humanitarian assistance and institutional capacity that private markets will not provide. FDI can add productive capital, technology, skills and access to export markets, but its development impact depends on sectoral allocation, domestic supplier linkages, employment creation, taxation and profit-repatriation arrangements. Remittances contribute directly to household consumption, education, healthcare and resilience and may also support savings and small-scale investment. Portfolio flows can deepen financial markets and expand financing options for governments and firms. Still, they are generally more sensitive to global interest rates, exchange-rate expectations and changing risk perceptions. Debt can accelerate development where borrowed funds generate sufficiently high economic and social returns. Still, it can intensify external vulnerability when maturities are short, interest costs are high, or revenues are denominated in local currency while repayments are denominated in foreign currency.

The appropriate policy question is therefore not which single financial flow Africa should prefer. It is how governments can construct a financing mix that mobilises domestic savings, protects fiscal sustainability, improves investment quality and supports structural transformation. The answer will vary by country income, economic structure, institutional capability and exposure to fragility. It will also require stronger sovereign balance-sheet management, more transparent investment governance and closer alignment between external financing and national development priorities.

This theme examines recent trends in aid, FDI, remittances and portfolio investment and constructs an ambitious External Financial Inflows scenario using the International Futures (IFs) platform. The scenario combines higher external financial inflows with a productivity intervention that represents stronger domestic absorptive capacity[x]. The analysis assesses effects on economic output, income per person, poverty, government revenue and inward FDI stock through 2043, the end of the third ten-year implementation period of AU Agenda 2063.

Donors and sponsors

Hanns Seidel Foundation

Sweden Sverige

AUDA-NEPAD AFRICAN UNION DEVELOPMENT AGENCY

HUMANITY UNITED

Cite this research

Marvellous Ngundu (2026) Africa Financial Flows Forecast . Published online at futures.issafrica.org. Retrieved from https://futures.issafrica.org/thematic/10-financial-flows/ [Online Resource] Updated 15 September 2026.

About the authors

Dr Marvellous Ngundu is a Senior Research Consultant at AFI. He holds a Ph.D. in Economics from the University of Johannesburg in South Africa. He is the recipient of the 2024 Megatrends Afrika Research Fellowship at the Kiel Institute for the World Economy (ifw) in Germany, as well as the 2020/2021 fellowship program of the China Africa Research Initiative (CARI) at Johns Hopkins University's School of Advanced International Studies in the United States. His research interests lie in the fields of international, political, and development economics, with a particular emphasis on Africa-China economic relations.

About African Futures & Innovation

Scenarios and forecasting can help Africa identify and respond to opportunities and threats. The work of the African Futures & Innovation (AFI) program at the Institute for Security Studies aims to understand and address a widening gap between indices of wellbeing in Africa and elsewhere in the world. The AFI helps stakeholders understand likely future developments. Research findings and their policy implications are widely disseminated, often in collaboration with in-country partners. Forecasting tools inspire debate and provide insights into possible trajectories that inform planning, prioritisation and effective resource allocation. Africa's future depends on today's choices and actions by governments and their non-governmental and international partners. The AFI provides empirical data that informs short- and medium-term decisions with long-term implications. The AFI enhances Africa's capacity to prepare for and respond to future challenges. The program is headed by Dr Jakkie Cilliers.