Financial Flows

Introduction

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Introduction

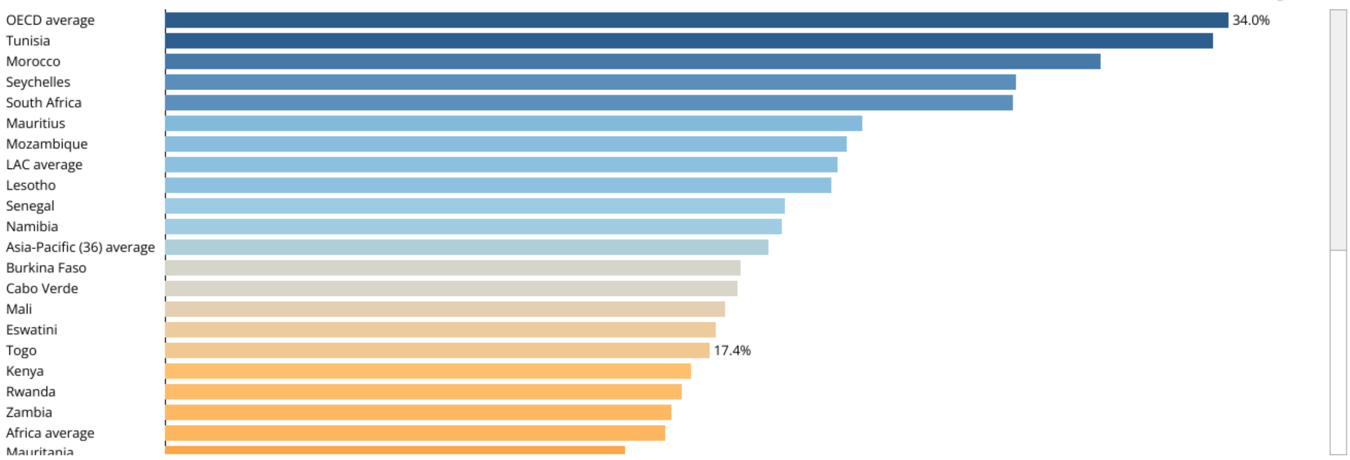
Various themes on this website present Africa's tremendous opportunities and significant challenges. Boasting abundant natural resources, a dynamic, youthful population and expanding markets, the continent has the potential to become an essential player in the global economy.

Yet, in spite of its potential, Africa struggles to achieve sustainable economic and social transformation. Growth rates have not kept pace with population expansion, resulting in only modest improvements in per capita GDP. Economic diversification remains limited, with many countries still dependent on low-productivity sectors such as agriculture and low-skilled services for growth and employment. For example, according to the African Development Bank, economic growth in Africa is expected to increase from a modest 3.8% in 2024 to 4.2% in 2025. Although these rates make the continent the second-fastest-growing region globally, they are significantly below what is required to provide jobs, rapidly grow incomes or reduce poverty when considering Africa's development challenges.

To drive meaningful structural transformation, Africa must prioritise strategic investments in agriculture, health, education, energy, technology, innovation and infrastructure. However, funding these critical investments presents a significant challenge, with an estimated annual financing gap of about US$402 billion until 2030. Domestic revenue mobilisation—primarily through taxation and other government revenue-generating mechanisms—is key to meeting these pressing development needs.

Tax revenues account for over 75% of Africa's domestically generated revenues. However, most African nations face structural and systemic challenges, including narrow tax bases, widespread informal economic activities, weak tax administration systems, tax evasion and corruption that limit their ability to mobilise sufficient domestic revenue. Chart 1 depicts total tax revenues as a percentage of gross domestic product (GDP) in selected African countries for 2022. At 16% of GDP, Africa's average tax-to-GDP ratio is lower than other regions such as Asia-Pacific (19.1%), Latin America and the Caribbean (LAC) (21.5%) and the Organisation for Cooperation and Development (OECD) countries (34%).

Chart 1: Total tax revenues as % of GDP in selected African countries, 2022



Source: Revenue Statistics in Africa 2024, OECD

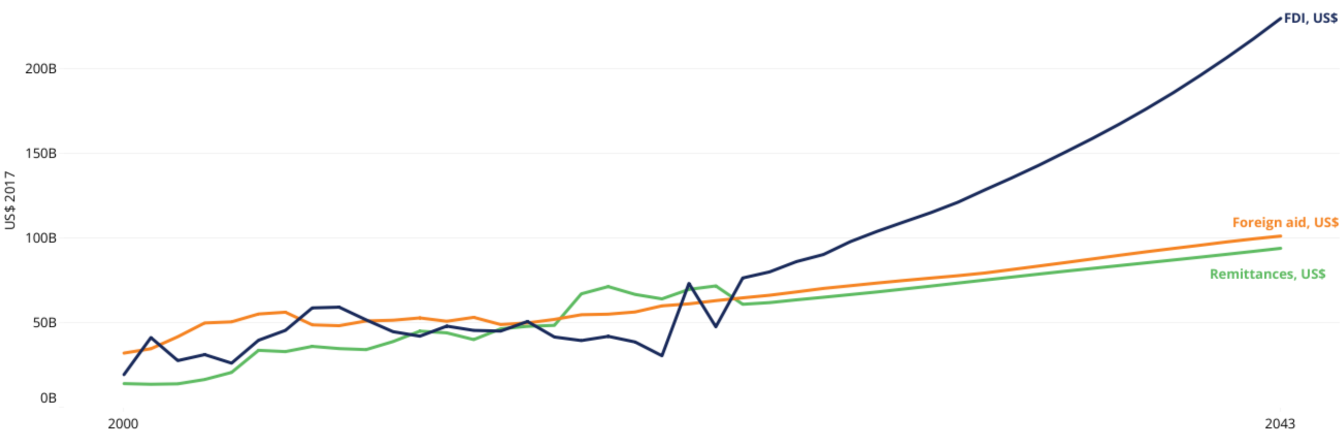
Africa needs external financial resources to complement its domestic revenue shortfall, support sustainable growth and reduce its high poverty level. International capital inflows—including foreign direct investment (FDI), portfolio investments, remittances and development aid—play a pivotal role in shaping Africa's growth and development path. The continent also needs to stem its illicit financial outflows (IFFs).

This theme examines how these financial resources can help bridge funding gaps, drive industrialisation and advance development while addressing the risks of dependency and mismanagement. Examining both the opportunities and challenges associated with external capital inflows provides a perspective on the role of financial flows in unlocking Africa's development potential. The Combined scenario then compares the impact of financial inflows with the contribution from other sectors, such as investments in health and education, allowing for a comparative perspective.

Two developing regions (South Asia and South America) are used to compare Africa's historical and future progress in attracting external financial inflows.

Chart 2 shows financial flows to Africa as a percentage of GDP from 1980 to 2043. While aid accounted for the largest share of capital inflows into Africa in the 1980s, the structural composition of financial flows to Africa has, over time, shifted towards a greater role for private flows in the form of FDI. Yet it is remittances, i.e., money from migrants who move abroad for work and often send funds back to support their families and communities, that have become Africa's largest source of external financial inflows. Since 2007, gross international remittances inflows into Africa have surpassed official development assistance levels and recently overtook FDI. Furthermore, the data from the IMF in Chart 2 probably underestimates remittance flows since a significant share occurs via informal channels, which may represent between 35% and 75% of formal channels, implying that total remittance flows to Africa may exceed FDI and aid combined. This trend will likely continue as remittance volumes grow, driven by the recovery of the job markets in the high-income countries following the onset of the COVID-19 pandemic, and the significant migration pressures resulting from demographic changes, income disparities and climate change.

Chart 2: Financial flows to Africa, 1980–2043



Source: World Bank, UNCTAD

As African Development Bank President Akinwumi A. Adesina pointed out, *'The African diaspora has become the largest financier of Africa! And it is not debt; it is 100% gifts or grants, a new form of concessional financing that is the key for livelihood security for millions of Africans.'*

However, as we examine below, the challenge is that remittances' contribution to economic growth is typically modest.

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About the authors

Dr Jakkie Cilliers is the ISS's founder and former executive director. He currently serves as chair of the ISS Board of Trustees, head of the African Futures and Innovation (AFI) programme at the Pretoria oce of the Institute, and is an extraordinary professor at the University of Pretoria. His 2017 best-seller Fate of the Nation addresses South Africa's futures from political, economic and social perspectives. His three most recent books, Africa First! Igniting a Growth Revolution (March 2020), The Future of Africa: Challenges and Opportunities (April 2021), and Africa Tomorrow: Pathways to Prosperity (June 2022) take a rigorous look at the continent as a whole.

Dr Kouassi Yeboua previously worked as a Senior Researcher at AFI, where he led significant ISS studies on the long-term development prospects of the Democratic Republic of Congo, the Horn of Africa, Nigeria, Malawi, and Mozambique. His research focuses on development economics, macroeconomics, gender, and economic modeling. He holds a PhD in Economics.

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