Launch of the 2022 OSAA Flagship Report

Financing for Development in the Era of COVID-19: The Primacy of Domestic Resources Mobilisation

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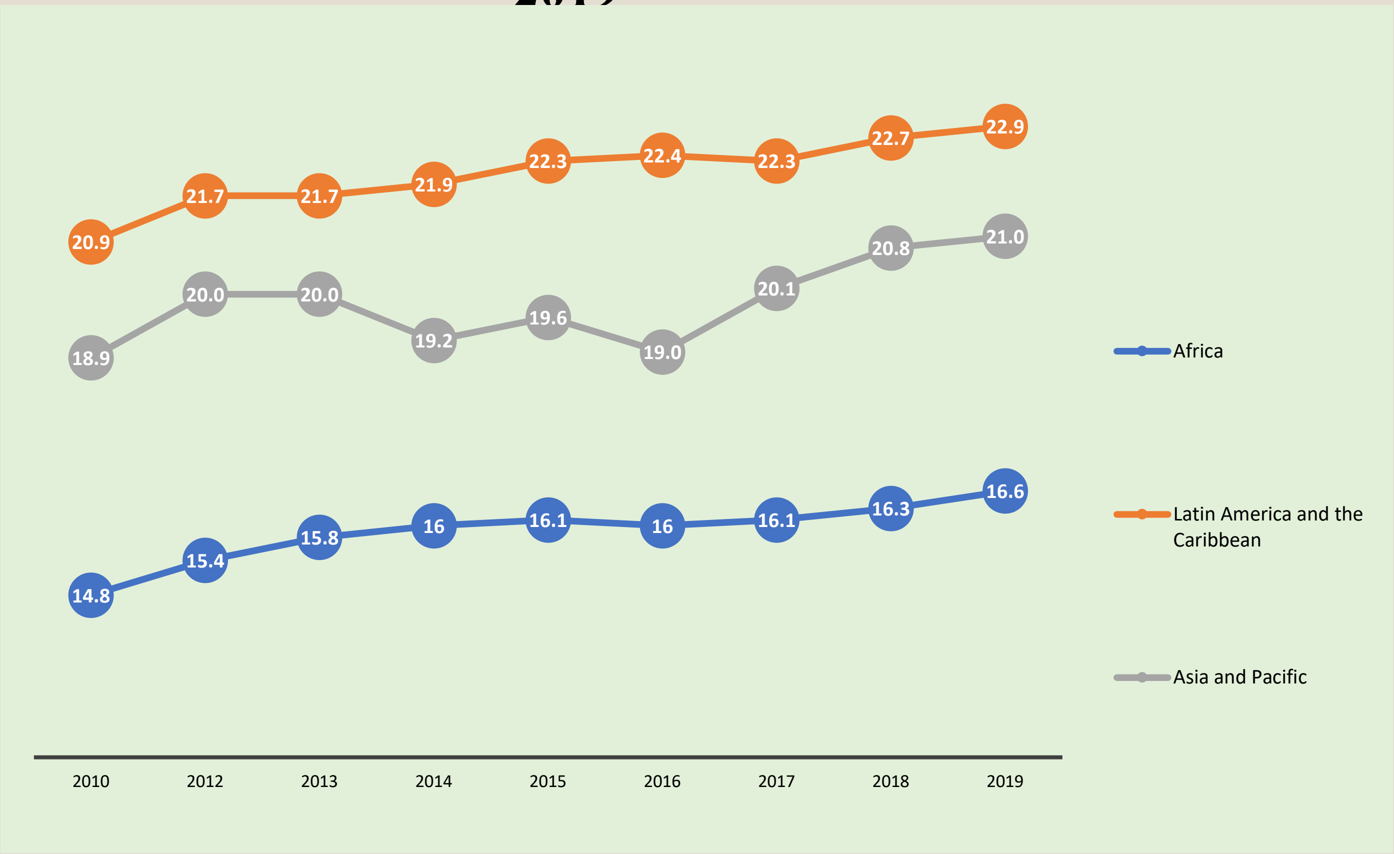
1. Why the Focus on Financing For Development?

- The cascading and intersecting global crises have widened the financing gap for Africa's development.
- The IMF estimated in 2021 that African countries would need between $518 – 719.4 billion in additional financing for investment in physical and human capital to place the continent on its pre-COVID growth trajectory and income convergence path with advanced economies by 2025.
- **To strengthen the resilience of their economies, Africa must break with the past and look within, relying on domestic resources for sustainable development.**

2. Mobilizing domestic public resources

Tax-to-GDP ratio in Africa and other regions, 2010-2019



Source: OECD/AUC/ATAF (2021), Revenue Statistics in Africa 2021.

- African countries have made progress in raising tax revenue over the last decade.
- Tax/GDP ratio rose from 14.8 % in 2010 to 16.6 % in 2019.
- Africa's development is largely financed with domestic resources with public revenues and private saving accounting for over two-thirds of total financing.

Mobilizing domestic public revenue [cont.]

- Despite measures undertaken over the years, the tax base remains low in Africa.
- Africa’s regressive tax system means the burden of taxation is borne by very few (mainly individuals and SMEs).
- Weak institutions and governance adversely affect DRM.
- Digitization of tax collection system could help boost DRM.
- Fiscal incentives granted to foreign investors cost Africa billions in potential tax revenue

Mobilizing domestic public resources [cont.]

Improving quality of public expenditure

- Poor public expenditure drains tax revenue.
- African countries are relatively inefficient compared to other developing countries:
- Average efficiency score for Africa was 0.583; compared to 0.825 in non-African countries.
- Losses from 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% of Africa's GDP.
- Increased budgetary allocation may not achieve the desired outcome.

3. Leveraging Private Financial Resources

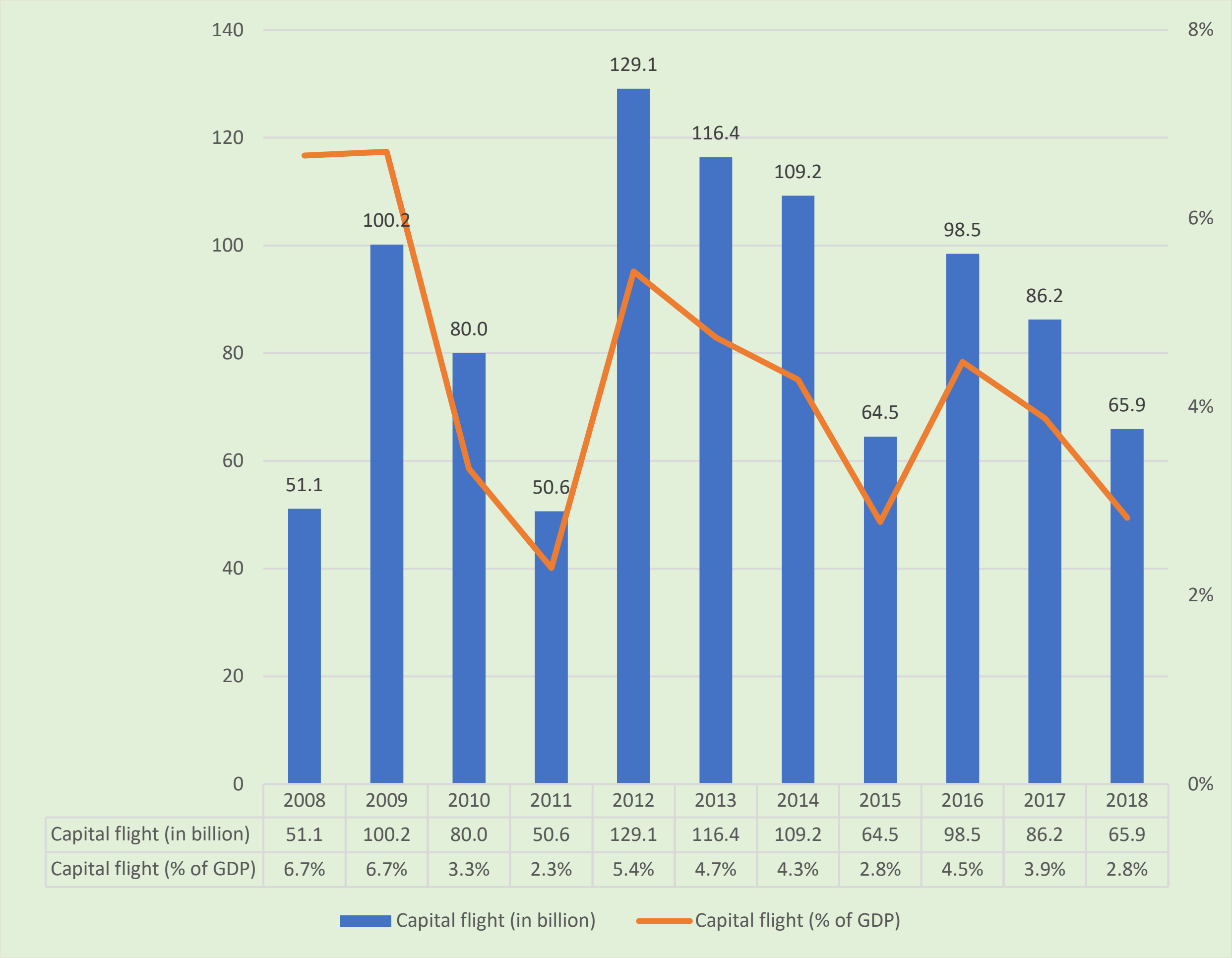
- The financial sector in Africa remains underdeveloped.
- Ratio of domestic credit to the economy is low (30% for Africa; 54 % for Asia and 45 % for LAC).
- National and regional development banks play a limited role in providing long-term financing to productive sectors.
- The pension fund market represents an important untapped source that could be leveraged for development.
- If African countries were able to invest an allocation of 2.8% of their assets into infrastructure, this would generate an additional $20.9 billion per year for infrastructure development, reducing the infrastructure financing gap by 30%.
- Sovereign Wealth Funds is another important potential source of financing for development.

4. Stemming Illicit Financial Flows (IFFs) for Africa's Sustainable Development

Three main sources for IFFs out of Africa: Commercial and tax related IFFs – 65%; Criminal activities – 30%; Corruption induced IFFs – 5%.

- Capital flight from the continent (proxy for IFFs) grew substantially over the period 2008-2018.
- Africa has lost a combined $2.0 trillion through IFFs over the period 1970-2018
- Severe constraint on development and domestic resource mobilization, thereby widening the financing gap and undermining SDGs implementation.
- UNCTAD shows that curbing IFFs could close the financing gap by 33%.

Aggregate Capital Flight from Africa (2008-2018)



	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Capital flight (in billion)	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%

Source: Capital flight – Political Economy Research Institute, University of Massachusetts Amherst.
GDP – African Development Bank, African Statistical Yearbook.

5. Strengthening Partnerships for Domestic Resource Mobilisation

Domestic level

- Importance of involving civil society and other key stakeholder in development
- Investing in modernizing tax collection systems and simplifying customs and registration procedures

Regional level

- Partnerships to facilitate to cross border infrastructure investment
- Harmonization of financial and banking regulations to facilitate cross-border capital flows

International level

- Increased ODA in line with international commitments while addressing its effectiveness
- Improving international tax cooperation including through exchange of information among jurisdictions.

Policy Recommendations

- Improving efficiency of tax administration through modernizing and digitizing tax collection
- Tackling with tackling inefficiency in public expenditure by identifying wastes and leakages.
- Rationalizing tax expenditures by eliminating unproductive fiscal incentives.
- Harnessing private savings (pension funds and SWFs) to de-risk long-term SDG investment
- Strengthening international tax Cooperation to stem IFFs out of Africa
- Increasing aid allocation to Africa in line with international commitments.
- Reforming global economic governance are needed to address the historic under-representation of African Member States in multilateral organizations.

THANK YOU!