



Launch of the 2022 OSAA Flagship Report

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

Kavazeua Katjomuise

Senior Economic Affairs Officer

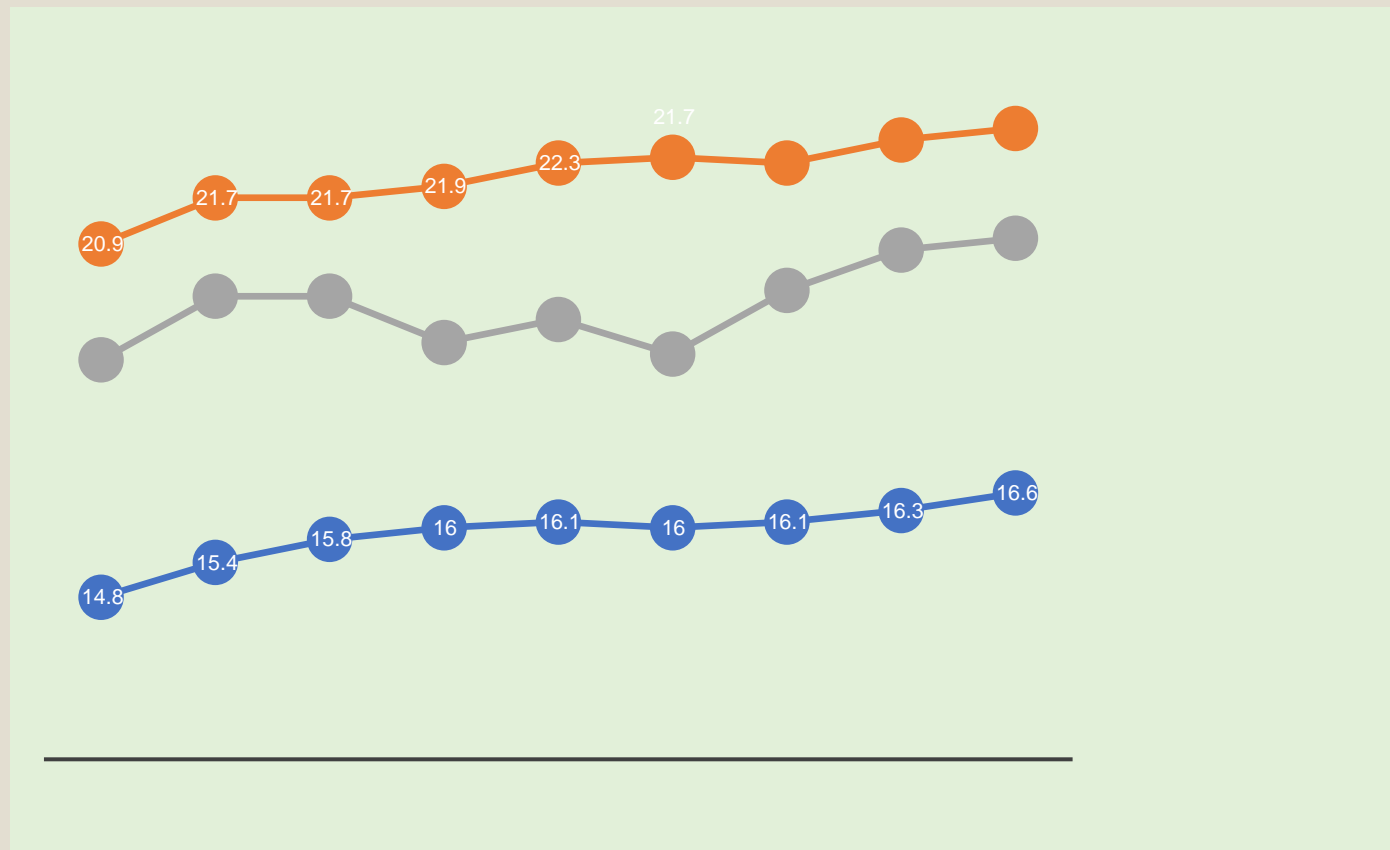
Office of the Special Advisor on Africa

November 29, 2022

# 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



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

## 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.
-

### 3. Leveraging Private Financial Resources

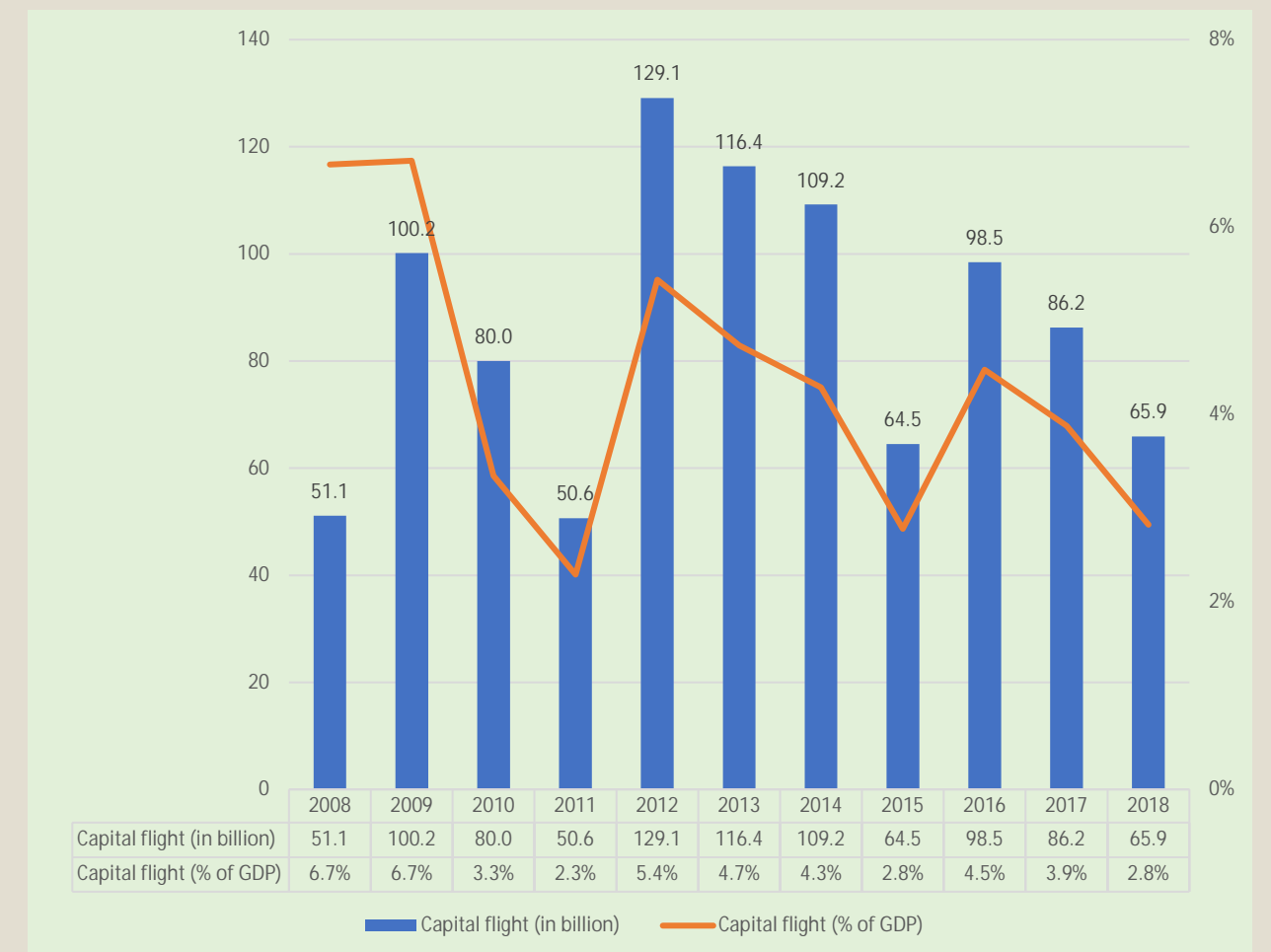
-

## 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)



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
- Impro(es)3.-es 6tfinanc31 (in)2.9 (arOo5 ( )-Tc 0 Tw41mop19.3 (s)3.2(31 (in)2iv)11.7 of)4.1 detlur ca0 (ip)7.8 rvou



## 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.

The background features decorative geometric shapes. On the left side, there are orange shapes, including a large triangle and a smaller square. On the right side, there are green shapes, including a large triangle and a smaller square. The text "THANK YOU!" is centered in the middle of the page.

**THANK YOU!**