Africa can finance its development but needs a paradigm shift

By Matilda Moyo

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Africa faces its worst economic recession in 25 years, largely due to the Covid-19 pandemic. It is estimated that the continent's economy will contract by 2.6% at worst, pushing about 29 million people into extreme poverty and causing 19 million job losses, while remittances to Sub-Saharan Africa are likely to decline by 23.1% ($37bn) in 2020 alone.

Construction of Maseru Maqalika Water Intake System in Lesotho. Image ©

World Bank/John Hogg

The continent's leaders urgently need to look at new ways to finance development, or risk falling further behind.

Financing Africa's development was already off-track, but the Covid-19 pandemic threatens to further reverse the slow progress towards meeting the Sustainable Development Goals (SDG) and the African Union Agenda 2063 — the blueprints for a more sustainable future and that address global challenges, such as poverty and climate change.

African Union (AU) chairperson and South African president, Cyril Ramaphosa, says, "The pandemic has set back the SDG process, and we now require additional financial resources to enable developing economies to respond effectively not just to the pandemic, but to recover and rebuild."

Impact of Covid-19

Ramaphosa maintains that the pandemic has vastly reduced the fiscal space of countries to meet their commitment to support development. He adds that the challenges facing developing countries are compounded by weak public health systems, limited social safety nets, high levels of inequality, high debt burdens, reduced tax revenues, capital outflows and lack of adequate and sufficient access to financial markets.

In March 2020, African finance ministers called for a $100bn stimulus package to provide governments much-needed fiscal space and liquidity. UN under-secretary-general and special adviser on Africa Cristina Duarte believes that Africa should adopt a new approach to development financing, one that strengthens its systems and institutions to enhance domestic resource mobilisation so it can fund most of its development and turn its fortunes around.

Illicit financial flows

In explaining this new approach, Duarte says, "Africa's challenge is not the absence of liquidity or funds to finance development. Its problems are massive illicit financial flows that are draining funding capacity and the lack of ownership over natural resources, coupled with a whole narrative built around managing poverty instead of development, and depicting Africa as a poor continent in need of help from the international community."

Africa loses $89bn annually, about 3.7% of its gross domestic product (GDP) in illicit financial flows, according to the UN Conference on Trade and Development (UNCTAD). The organisation reports that curbing such flows could enable the continent to retain substantial funds that can be directed to responding to the Covid-19 pandemic and to development.

Different approach to development financing needed

Duarte, who heads the UN Office of the Special Adviser on Africa (OSAA), which works with the AU and other multilateral institutions to ensure coherent support to the continent, believes that African countries, as well as international financial and multilateral systems, need to change their approach to development financing in Africa.

This entails moving from a predominantly poverty management perspective to a development management approach. The poverty management approach identifies debt relief and official development assistance (ODA), among others, as the main tools for financing development, while the development management approach focuses more on domestic resource mobilisation as the fundamental way to ensure sustainable financing. The latter approach is more sustainable and helps to safeguard developing countries' ownership of their resources.

Building Africa's new narrative

"African countries are responsible for building Africa's new narrative by changing the thinking from relying on external assistance, which is much needed, to relying first on domestic and internal capacities and capabilities," Duarte says, adding that tackling corruption, tax evasion and illicit financial flows are the cornerstones of successful domestic resource mobilisation. African leaders also need to honour commitments under the Addis Ababa Action Agenda of the Third International Conference on Financing for Development, especially to substantially reduce illicit financial flows, combat tax evasion and corruption, reduce the cost of remittances and support other efforts to strengthen domestic resource mobilisation.

Duarte says this new thinking also means a shift in the perception of Africa as an aid-recipient continent to one that is a key stakeholder and an actor on the global stage, with the same rights and standing as any other region in the United Nations and other international organisations.

Green industrialisation

In addition, Duarte contends that Africa can leverage its potential on green industrialisation by focusing on three key drivers: First, exercising ownership over natural resource management; second, moving up along global value chains; and lastly, taking advantage of the African Continental Free Trade Area (AfCFTA) to create integrated regional value chains. In this context, the development of African capital markets to mobilise the continent's financial liquidity will be crucial.

She further recommends for financing solutions to be tailored to the unique circumstances of different categories of African countries, including Small Island Developing States (SIDS), Least Developed Countries (LDC) and Landlocked Developing Countries (LLDC).

Solutions should also be customised for countries in conflict situations and fragile middle-income countries with limited fiscal space, as they are vulnerable to external shocks. This will assist these countries to relieve the negative impact of Covid-19 on their economies and build back better, she says.

Finally, Duarte says, there is a need to enhance efficiency and to strengthen accountability in existing mechanisms. African countries need to constructively engage the various ongoing processes, notably the recently established High-Level Panel on International Financial Accountability, Transparency and Integrity for Achieving the 2030 Agenda (FACTI Panel). The panel complements current efforts at enhancing development finance, especially through addressing illicit financial flows and fighting corruption.

“These are crucial measures to help African countries unlock resources to finance recovery and build better beyond Covid-19,” Duarte concludes.

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