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MOBILIZING AFRICA'S RESOURCES FOR DEVELOPMENT

A renewed priority

ESSAYS

VIEWPOINTS

LEVERAGING AFRICA'S NATURAL RESOURCE WEALTH TO BRIDGE THE FINANCING GAP

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Despite sluggish global economic growth prospects, Africa is demonstrating resilience in the face of a series of major global shocks, from the lingering effects of the COVID-19 pandemic to disruptions caused by geopolitical conflict and trade policies. Economic growth in sub-Saharan Africa is projected to remain steady at 4.1% in 2025 with a modest increase in 2026.[1] At the same time, the continent's population continues to expand rapidly and will double by 2050. This demographic momentum and economic resilience present both significant opportunities and formidable challenges, foremost among them the need to scale up investment to create jobs at scale and expand social and economic opportunities. Among the obstacles, none is arguably more important than financing for development. We estimate that sub-Saharan Africa needs at least an additional $245 billion per year in financing. With national savings subdued and external financing dwindling, it is now imperative to explore innovative ways to unlock domestic resources. The natural resource endowment of the region, valued at over $6 trillion in 2020,[2] offers the largest untapped potential and the most promising pathway to mobilize domestic financing at scale.

Africa urgently needs substantial financing to accelerate its development agenda—highlighting the imperative of strengthening domestic resource mobilization.

Global aid in decline

The global aid framework is currently at an inflection point, marked by tight borrowing conditions and a deterioration of available external financing. Official development assistance (ODA) fell by 9% in 2024, according to OECD estimates, and it is projected to decline by another 9-17% in 2025,[3] reflecting a broader rethinking of global aid priorities among donor countries. The dissolution of the U.S. Agency for International Development

1 "Regional Economic Outlook: Sub-Saharan Africa" (International Monetary Fund, 2025).

2 Valuation is based on the 2024 Edition of the World Bank's Changing Wealth of Nations database.

3 "Cuts in official development assistance: OECD projects for 2025 and the near term," (OECD, 2025).

(USAID)—previously the world's largest development agency—illustrates this shift.[4]

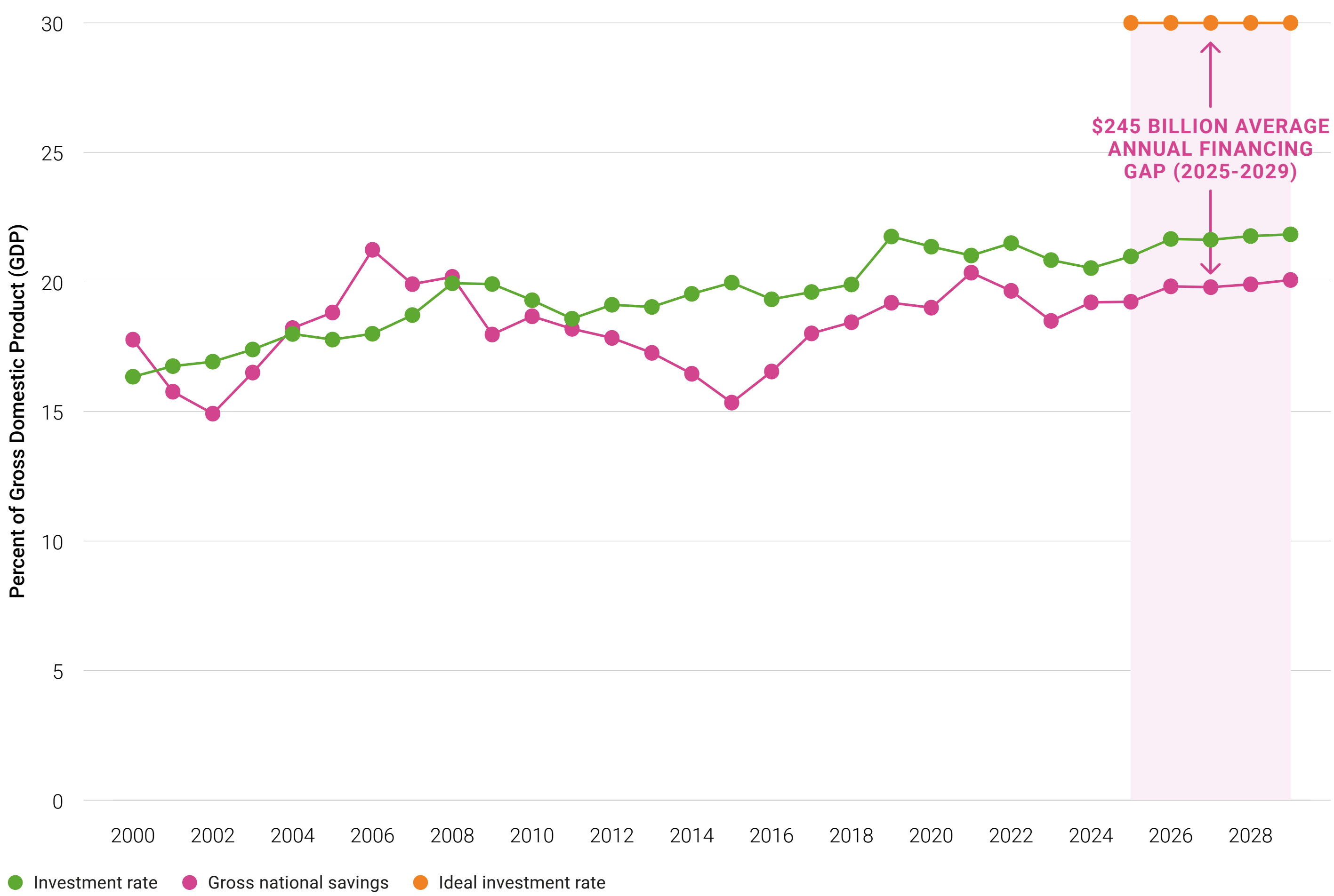
Borrowing on international capital markets offers little relief. The era of ultra-low global interest rates that once encouraged private borrowing has ended, leaving limited fiscal space and far higher borrowing costs. More than 50% of low-income countries in Africa are either in or at high risk of debt distress.[5] Annual expenditure on debt-service in the region exceeded $101 billion last year,[6] crowding out spending on health, education, and social protection. Foreign direct investment flows also remain subdued and increasingly volatile, amid heightened investor risk aversion.

The deterioration in external financing conditions comes precisely at a moment when Africa urgently needs substantial financing to accelerate its development agenda—highlighting the imperative of strengthening domestic resource mobilization.

FIGURE 1

Investments and savings in sub-Saharan Africa 2000-2029

In the next four years, there is a $245 billion gap between Africa's savings and the needed level of investment



Note: Investment rate is measured by gross capital formation.
Source: International Monetary Fund. *World Economic Outlook: Global Economy in Flux, Prospects Remain Dim*. October 2025.

4 Germany has also implemented significant overseas aid cuts as part of its fiscal tightening, redirecting funds to in-country migrant and humanitarian needs. Similarly, the United Kingdom is reducing ODA to help finance higher defense spending, while France is scaling back amid fiscal pressures and growing domestic political opposition to overseas aid.

5 "List of DSAs for PRGT-Eligible Countries, As of September 30, 2025," (International Monetary Fund, 2025).

6 "International Debt Statistics 2024," World Bank, accessed December 10, 2025.

The imperative of domestic resource mobilization

The challenges facing the continent in financing its development agenda are substantial. Over the next five years, sub-Saharan Africa's financing gap is projected to average at least $245 billion annually, reflecting the widening gap between investment needs and available resources.

Figure 1 shows that domestic savings rates averaged under 20% of GDP and are expected to remain at around this rate in the coming years.[7] Accordingly, investment rates have remained subdued at just over 20% of GDP. This rate is significantly below the minimum 30% investment rate generally required over time to finance development.[8]

This sizable financing shortfall cannot be addressed with external financing alone, not only because of its volatility, but also because it would leave African economies vulnerable to economic instability from large current account deficits, high indebtedness, and balance of payment crises.

Policy options to boost domestic revenues

There are a few promising approaches to boost domestic resources. The first is optimizing the collection of tax revenues which currently falls short of the tax capacity. Brookings research shows that sub-Saharan African countries have a relatively low taxation capacity at 20% of GDP, which largely reflects a narrow tax base due to the high share of the informal economy. Even so, tax revenues only average about 15% of GDP. Improving governance in revenue collection, including combatting corruption and strengthening transparency, can raise tax revenues by 3.9 percentage points closer to the 20% capacity.[9] This would mobilize roughly $94 billion dollars, on average, over the next 5 years.

Recent international efforts to promote fair taxation and curb illicit financial flows also have the potential to boost domestic resources. UN Trade and Development (UNCTAD) estimates that Africa loses about $90 billion annually from illicit financial flows, reflecting the critical importance of addressing tax avoidance by multinational enterprises and creating a more equitable international tax system.[10] Both the OECD Inclusive Framework and the U.N. Framework Convention on International Tax Cooperation are important efforts in this regard. While the ongoing efforts at the local and international levels will go a long way to fill the financing gap, the underleveraging of Africa's natural resource wealth offers, arguably, the largest untapped potential to unlock domestic resources.

Leveraging natural resource wealth

Sub-Saharan Africa's natural resource wealth was estimated at over $6 trillion in 2020, with renewable resources valued at over $5.17 trillion and nonrenewable natural resources valued over $840 billion.[11] These estimates, however, are likely undervalued as the available data do not account for the numerous resource discoveries in recent years. The continent holds at least 30% of the proven critical mineral reserves and, by some estimates, Africa could boost its GDP by at least $24 billion annually with the right investments[12] (For more on unlocking Africa's mineral wealth, see page 48.)

The deterioration in external financing conditions comes precisely at a moment when Africa urgently needs substantial financing to accelerate its development agenda—highlighting the imperative of strengthening domestic resource mobilization.

While Africa holds vast reserves of critical minerals essential for the energy transition, much of this wealth is exported as raw materials with little value addition. By scaling local processing and moving up the value chain, Africa can capture

7 "World Economic Outlook, October 2025," International Monetary Fund, p. 151, accessed November 18, 2025.

8 Brahima S. Coulibaly and Dhruv Ghandi, "Mobilization of tax revenues in Africa: State of play and policy options," Brookings Institution, October 2018.

9 Brahima S. Coulibaly and Dhruv Ghandi, "Mobilization of tax revenues in Africa: State of play and policy options," Brookings Institution, October 2018.

10 "Africa could gain $89 billion annually by curbing illicit financial flows," UNCTAD, September 28, 2020.

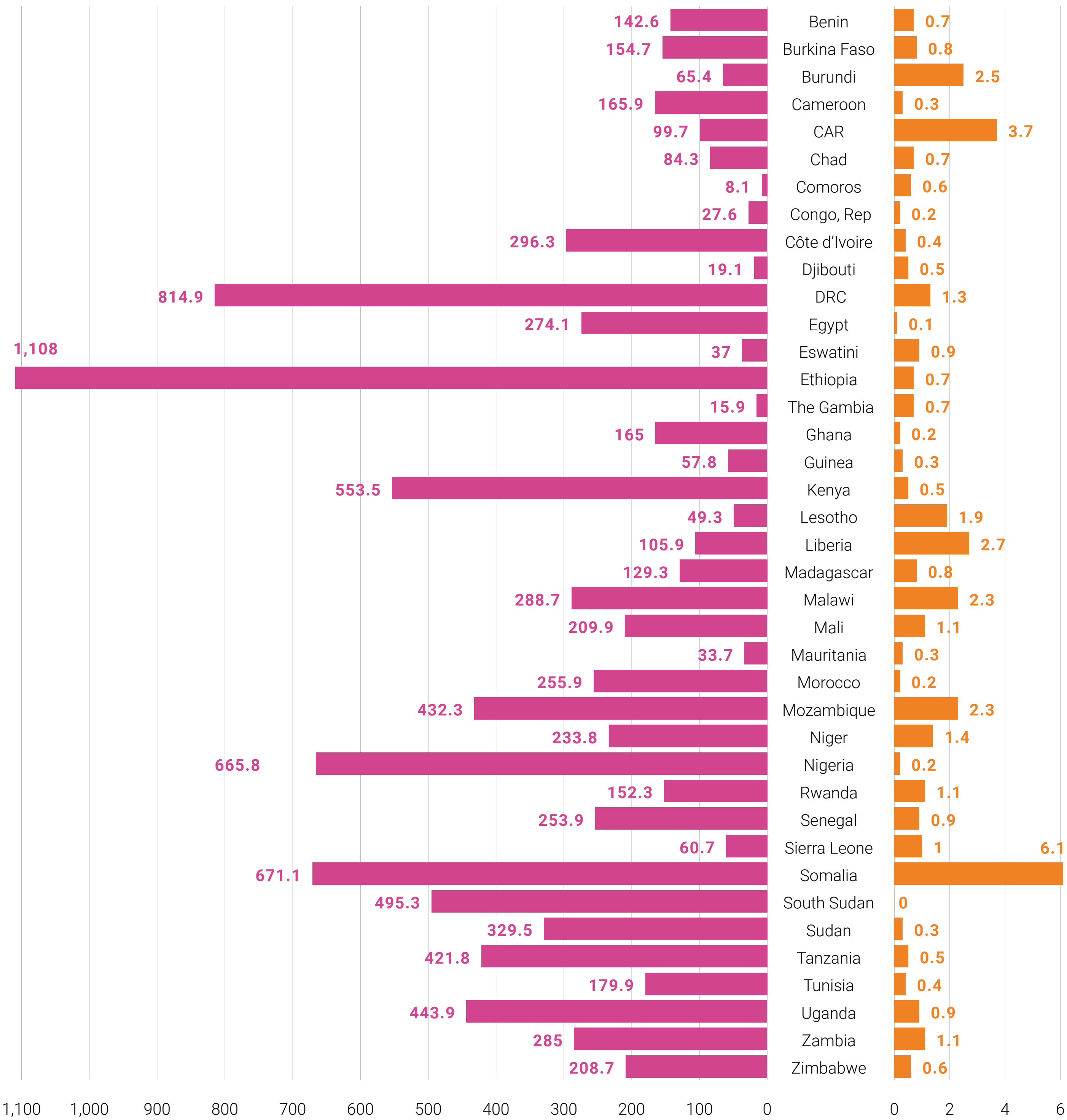
11 Estimates are based on the 2024 Edition of the World Bank's Changing Wealth of Nations database. Renewable natural capital includes agricultural land, forests, mangroves, marine fish stocks, and hydropower. Nonrenewable natural capital includes oil, natural gas, coal, and metals and minerals. Data is available for 39 countries in sub-Saharan Africa; Cabo Verde, Eritrea, Equatorial Guinea, South Sudan, and Seychelles did not have available data.

12 See Ede Ijjasz-Vasquez et al., "Leveraging US-Africa critical mineral opportunities: Strategies for success," Brookings Institution, September 29, 2025.

FIGURE 2

Impact of aid cuts on African countries

Impact of cuts to official development assistance from the U.S. and other donors expressed in millions of USD (left) and in percentage of gross national income (right)



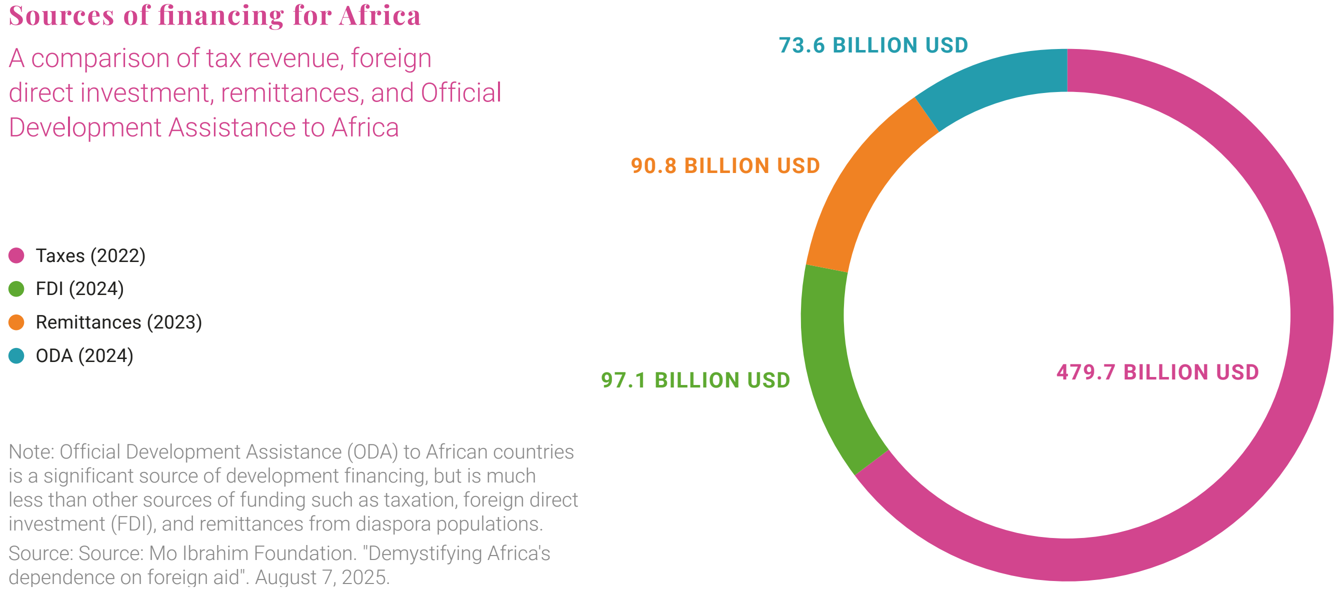
Note: The absolute dollar amount of cuts to specific countries does not always represent the impact on their economies. For example, while Ethiopia faces much steeper cuts than Liberia, these cuts represent a far smaller share of national GNI.

Source: Sam Huckstep et al. 2025. "Which Countries Will be Hit Hardest, as Multiple Donors Cut Budgets?". *Center for Global Development*. June 12, 2025.

FIGURE 3

Sources of financing for Africa

A comparison of tax revenue, foreign direct investment, remittances, and Official Development Assistance to Africa



Note: Official Development Assistance (ODA) to African countries is a significant source of development financing, but is much less than other sources of funding such as taxation, foreign direct investment (FDI), and remittances from diaspora populations.

Source: Source: Mo Ibrahim Foundation. "Demystifying Africa's dependence on foreign aid". August 7, 2025.

greater value from its resources, finance its development agenda, and create jobs. The IMF estimates that global revenues from the extraction of copper, nickel, cobalt, and lithium will total $16 trillion (2023 dollars) over the next 25 years, and sub-Saharan Africa is poised to reap over 10% of these revenues, or nearly $2 trillion (2023 dollars).[13]

Africa's fossil fuel abundance represents another major opportunity for economic growth. The continent holds 7.2% and 7.5% of the world's proven oil and gas reserves, respectively.[14] The ability to harness this wealth should not be constrained by the global agenda on decarbonization. While limiting carbon emissions is a collective responsibility, Africa's share of emissions remains relatively low at about 3-4% of global CO2 emissions,[15] despite constituting 20% of the world's population. Given the region's relatively low emissions footprint, it should be supported to take advantage of these resources without compromising its decarbonization plans. In fact, it could be a more effective way to transition to net zero. The continent also has tremendous potential in renewable energy sources, with renewables like solar, wind, hydropower and geothermal energy capable of supplying over 80% of new power generation capacity.[16] However, the development of renewables is constrained in large part by a lack of adequate financing. A dual-track strategy that facilitates the development of fossil fuels coupled with a reinvestment of a share of the proceeds in renewable energy could offer the most promising pathway to net zero. (For a more in-depth discussion of Africa's energy future and its present energy challenges, see page 58.)

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Contracts from mineral and fossil fuel extraction should also be negotiated in fair, progressive, and transparent terms that ensure that the region benefits when prices and profits rise. Many countries have historically seen limited returns from their natural resources due to imbalanced agreements and weak oversight. For example, the region loses between $470 to $730 million annually in corporate tax revenues from profit shifting in the mining sector alone.[17]

13 Wenjie Chen et al., "Harnessing Sub-Saharan Africa's Critical Mineral Wealth," International Monetary Fund, April 29, 2024.
14 Deloitte, "From Promise to Prosperity: What Will It Take to Unlock Africa's Clean Energy Abundance?" *Forbes*, March 25, 2024.
15 International Energy Agency, "Africa: Countries and Regions," accessed November 25, 2025.
16 International Energy Agency, *Africa Energy Outlook 2022,* World Energy Outlook Special Report, revised May 2023.
17 Albertin et al., "Tax Avoidance in Sub-Saharan Africa's Mining Sector," African and Fiscal Affairs Departments, International Monetary Fund, 2021.

Utilizing sovereign wealth funds

Finally, policymakers should set up sovereign wealth funds (SWFs) to better manage the revenues from natural resources. Currently, sub-Saharan Africa has a few SWFs which hold around $100 billion in assets-under-management.[18] However, most resource-intensive countries do not have SWFs. Among the advantages, SWFs help stabilize the local economy from external shocks, such as swings in commodity prices, and help contain currency appreciation that can adversely impact the competitiveness of the broader export sector. When managed well, SWFs turn nonrenewable revenues into long-term financial assets for the benefit of both current and future generations and serve as a source of funding for the broader development agenda.

While African SWFs are primarily invested overseas, evidence suggests investing these resources domestically could help overcome financing constraints, provided these funds are governed transparently and managed professionally.[19] Investments should focus on assets with the highest social and financial returns and should be subject to independent oversight and transparency. Investments should also be undertaken in partnership with arm's-length institutional investors, such as the private sector, pension funds, and development banks.

Conclusion

The deterioration of the global aid framework undoubtedly poses challenges as Africa seeks to sustain progress on its development agenda. It is a reminder that mobilization of domestic resources is now imperative. Yet it also presents an opportunity to look inward and leverage the continent's inherent comparative advantage. Opportunities to enhance domestic resource mobilization abound, including strengthening tax revenue collection systems, curbing multinational enterprise tax avoidance, and harnessing the potential of SWFs, local pension funds, and national development banks. By seizing these opportunities, African economies can secure a more stable and reliable source of funding for their development agendas.

18 "Global Sovereign Wealth Fund Tracker," *Global SWF*, last updated November 2025.

19 Samuel Wills et al., "Sovereign Wealth Funds and Natural Resource Management in Africa," *Journal of African Economies* 25, no. 2, 27 (2016): ii3–ii19.

TOWARD SELF-RELIANCE

Financing health beyond aid in Africa

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In 2025, major cuts to external aid for developing countries were announced, especially impacting health systems. Development assistance for health (DAH) provided by the United States, United Kingdom, and France is projected to decline, with overall DAH expected to decrease at least 20% from 2024 levels.[1] Over 90% of the projected DAH decline will be through the off-budget channel, currently accounting for two-thirds of health's foreign financing envelope.[2] Funding cuts from donor countries have also forced the United Nations High Commissioner for Refugees to suspend or wind down health services globally, including in African countries such as Ethiopia, the Democratic Republic of the Congo, and Mozambique.[3]

Health systems in low-income countries and those facing fragility, conflict, or violence, still rely heavily on DAH. If we consider countries that rely on DAH for over 25% of public health expenditure to be reliant,[4] then about 79% of African countries experience long term reliance on DAH (Figure 4). The impact of the current DAH cuts on each country depends on its donor mix, the extent of the aid reduction, and its proportion allocated to service delivery.

Development assistance for health (DAH) provided by the United States, United Kingdom, and France is projected to decline, with overall DAH expected to decrease at least 20% from 2024 levels.

For many African countries, the sudden aid cut is aggravated by the failure to mobilize enough financing for the third Sustainable Development Goal on universal health coverage (UHC).[5] Government and donor financing in Africa are already insufficient to cover the costs of basic high priority healthcare, and expanding to UHC goals is predicted to more than double the cost from $36 billion per year to $71 billion in low-income countries.[6] Since 2015, progress in UHC pillars—access to and quality of healthcare and financial protection—has either plateaued or declined.[7]

Compounding this problem is the fact that a decline in DAH may potentially increase out-of-pocket payments (OOP). OOP is a health financing channel that is regressive,

1 Angela E Micah et al., "Tracking Development Assistance for Health and for COVID-19: A Review of Development Assistance, Government, out-of-Pocket, and Other Private Spending on Health for 204 Countries and Territories, 1990–2050," *The Lancet* 398, no. 10308 (2021): 1317–43.

2 Anurag Kumar et al., *At a Crossroads: Prospects for Government Health Financing Amidst Declining Aid*, Government Resources and Projections for Health (GRPH) Series (World Bank Group, 2025), 34–35.

3 Allen Maina, "UNHCR: Funding Cuts Threaten the Health of Nearly 13 Million Displaced People," *UNHCR*, March 28, 2025.

4 Kaci Kennedy McDade et al., "Reducing Kenya's Health System Dependence on Donors," *Brookings Institution*, March 2, 2021.

5 United Nations Trade and Development, *SDG Investment Trends Monitor,* Issue 5 (2024).

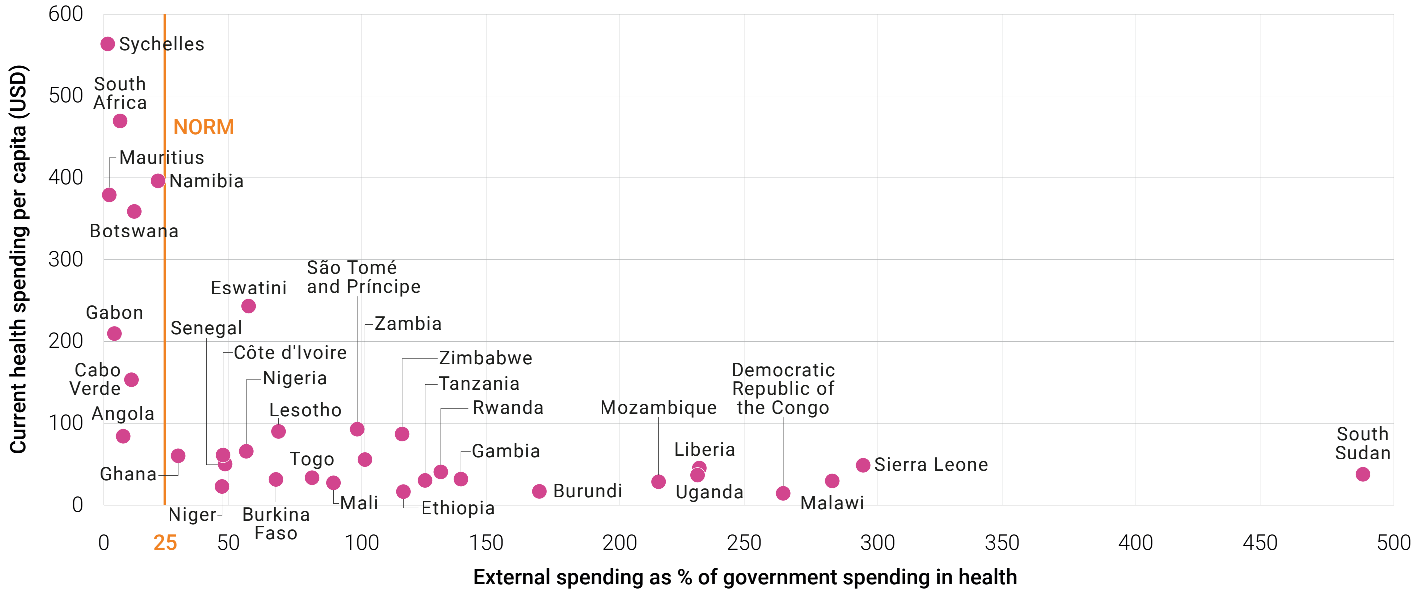
6 David A Watkins et al., "Resource Requirements for Essential Universal Health Coverage: A Modelling Study Based on Findings from Disease Control Priorities, 3rd Edition," *The Lancet Global Health* 8, no. 6 (2020): e835.

7 World Health Organization and World Bank, *Tracking Universal Health Coverage: 2025 Global Monitoring Report* (World Health Organization and World Bank Group, 2025).

FIGURE 4

Dependence on official development assistance for health spending

On average, African countries receive external support for health spending equal to 106% of what their governments spend themselves. In 20 African countries, donor support for health surpasses government health expenditure.



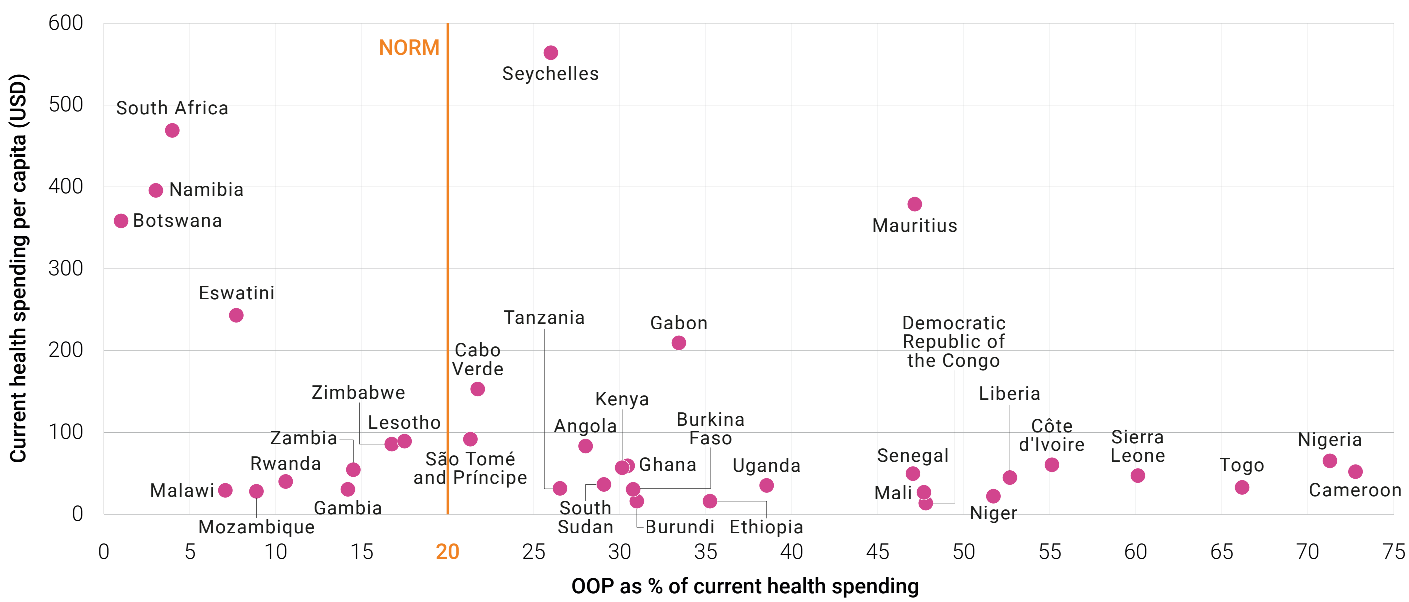
Note: The x-axis indicates the average share of government health spending covered by external support between 2000 and 2022, while the y-axis shows per capita spending on health in the same period. A yellow line indicates 25%, beyond which countries are considered dependent.

Source: World Health Organization's Global Health Expenditure Database (GHED), update December 2024.

FIGURE 5

Out-of-pocket (OOP) health care spending in Africa

The majority of African countries have high OOP health expenditure levels, meaning most households bear the direct costs of health care, often exceeding recommended thresholds intended to protect against financial hardship and ensure health services remain affordable and accessible to all



Note: The x-axis indicates the average share of OOP health care costs between 2000 and 2022, while the y-axis shows the per capita spending on health in the same period. A yellow line marks 20% OOP costs, the maximum level recommended by the WHO.

Source: World Health Organization's Global Health Expenditure Database (GHED), update December 2024.

discourages service use, and reduces financial protection for low-income and vulnerable groups. Based on the WHO's recommendation that OOP should account for less than 20% of total health expenditure,[8] 81% of African countries have excessive OOP (Figure 5).

To craft effective policies for the emerging crisis, countries should first pinpoint weaknesses in their current health financing systems. Health financing systems in many African countries struggle to mobilize sufficient resources, limiting both effective service purchasing and pooling (i.e. the accumulation and management of prepaid funds to enable redistribution and spreading of financial risk[9]) (Table 1). Government health spending also faces constraints from low revenue and competing fiscal priorities with more urgent issues such as food insecurity, epidemics, and debt distress.[10] Given these recurring systemic shortages, African nations should address the impending crisis by optimizing all existing health financing mechanisms—without neglecting any of them (see Table 1).

TABLE 1

The functionality of every health financing channel can be improved

	Mobilization	Pooling	Purchasing
Government health spending	Volume constrained by weak revenue capacity	Underprioritized and poorly executed, undermining pooling	Mostly passive, input-based
Compulsory national health insurance	Payroll-based contributions from a narrow formal sector	Weak informal-sector enforcement, delayed reimbursements	Predominantly passive, Diagnosis-Related Groups /fee-for-service payments
Voluntary national health insurance	Mobilizes only limited funds	Small, limited enrollment and adverse selection	Mostly fee-for-service and passive purchasing
Foreign in-budget	Volatile, disease-earmarked	Partially pooled on-budget, but still heavily earmarked and fragmented	Input-based and rigid, mostly passive purchasing
Foreign off-budget	Can be large, NGO-run	Fragmented, projectized, vertical	Mostly passive purchasing
Private health insurance	Voluntary, low coverage, focused on wealthy groups	Small, fragmented pools for wealthier groups	Selective contracting with private providers on fee-for-service, limited spillover
Micro health insurance	Tiny, voluntary schemes with low premiums and limited benefits	Small community-based pools	Purchasing basic primary healthcare with limited benefits, weak purchasing leverage
Group self-insurance (health)	Optional on health, flat-rate, small community pools	Small and limited cross-subsidization	Passive purchasing with narrow networks and limited bargaining power
User fees/out-of-pocket payments	High, regressive, facility-funding	Minimal to no pooling	Used to fund facility drugs/ operations, passive purchasing

Source: Author's compilation based on existing evidence and deductions

8 World Health Organization et al., eds., *The World Health Report: Health Systems Financing: The Path to Universal Coverage* (World Health Organization, 2010).

9 Inke Mathauer et al. "Pooling Financial Resources for Universal Health Coverage: Options for Reform." *Bulletin of the World Health Organization*, vol. 98, no. 2, 29 Nov. 2019, pp. 132–139.

10 World Bank, *Global Economic Prospects: June 2025* (World Bank Group, 2025).

Strategies to optimize existing health financing mechanisms

First, African governments need to spend better and more on health. In line with the launch of the recent Accra initiative reset for global health governance, the recent decline in donor aid should trigger a sense of self-reliance among African governments. The rest of Africa can learn from the experience of Burkina Faso, which introduced free primary healthcare in 2016, funded by increases to government spending rather than donor reliance.[11] Also, this year, Nigeria's lawmakers proposed a 25% increase in the federal government's health budget in response to DAH cuts.[12] Health administrations in countries should succeed in positioning health spending as a domestic investment that delivers economic growth by building human capital and job creation.[13]

Advocacy should also aim to direct additional resources toward equitable service of a high priority package that provides the highest value for money and is affordable. There is evidence that low-income countries and many lower middle-income countries can raise their tax-to-GDP by 9 percentage points simply by broadening the tax base and strengthening their tax administration capacity.[14]

The health sector can also contribute to the tax base through excise taxes on tobacco, alcohol, and sugary drinks, which aim to discourage consumption and thereby reduce the negative health impacts of these products. Estimates indicate that these "health" taxes could boost government health spending by up to 40%, if the funds are allocated to healthcare.[15] In addition, health budget execution can be improved by coordinating health and finance administrations to address bottlenecks, which could avoid losses in public health spending.

Second, there is an urgent need to define "new compacts" for the remaining DAH in African countries. As an example, Ethiopia has initiated compacts for reproductive, maternal, neonatal, and child health services' commodities and non-communicable diseases where donor and private sector resources complement domestic financing.[16] These new compacts should include health aid for urgent or humanitarian needs.

Most African governments need to spend better and more on health.

The new compacts should also foster greater coordination between donor support and national priorities. Donors' self-alignment to local priorities has not always worked well in the past. Such alignment succeeded only with firm support from local authorities. Foreign in-budget financing is appropriate when well-functioning public finance systems exist and policy options are clearly defined, actionable, and endorsed.

Foreign off-budget support should ideally be utilized only to pilot or reinforce initiatives with strong evidence of cost-effectiveness, market viability, or fiscal and institutional absorbability. The outlook for pharmaceutical manufacturing in specific African countries or regions is a notable example of such an initiative, given its potential market viability in the private sector, an opportunity that is further strengthened by the continued progress of the African Continental Free Trade Area.

Third, compulsory national health insurance should be implemented after an enforceable plan for integrating the informal sector is in place. A study of six African economies shows that about 37% of informal sector households can save for the long-term and contribute to social protection, while 18% remain vulnerable but are able to make precautionary savings.[17] The former category are labeled non-poor informal. Strategies based on innovation and technology are required to expand this group's engagement with formal prepaid health financing schemes. Also, to expand coverage, compulsory national health insurance and voluntary national health insurance need reliable, long-term subsidies for

11 Frank Bicaba et al., "National User Fee Abolition and Health Insurance Scheme in Burkina Faso: How Can They Be Integrated on the Road to Universal Health Coverage without Increasing Health Inequities?," *Journal of Global Health* 10, no. 1 (2020): 010319.

12 Dyepkazah Shibayan, "Nigerian Lawmakers Approve $200 Million to Offset Shortfall from US Health Aid Cuts," *AP News*, February 14, 2025.

13 World Bank, *A Fresh Take on Reducing Inequality and Enhancing Mobility in Malaysia* (World Bank Group, 2024).

14 World Bank and UNESCO, *Education Finance Watch 2024* (The World Bank and UNESCO, 2024).

15 The Task Force on Fiscal Policy for Health, *Health Taxes: A Compelling Strategy for the Challenges of Today* (2024).

16 Solomon Tessema Memirie et al., *A New Compact for Financing Health Services in Ethiopia*, Policy Paper (Center for Global Development, 2024).

17 Melis Guven et al., *Social Protection for the Informal Economy: Operational Lessons for Developing Countries in Africa and Beyond* (World Bank Group, 2021).

the poorest.[18]

Fourth, micro health insurance and self-insurance groups exhibit considerable potential in various contexts and present opportunities for further development. Contributions to micro health insurance or self-insurance groups provide a pool of funds mobilized beyond the amounts that would otherwise be available for health care. The main strengths of micro health insurance and self-insurance groups are the degree of outreach penetration achieved through community participation. They have emerged against the backdrop of severe economic constraints, political instability, and lack of good governance. The full potential of these strategies may therefore be realized if certain design limitations are resolved. Key actions include: (i) gaining a deeper actuarial understanding of these small-scale schemes—especially the self-insurance groups—to inform effective risk transfer or reinsurance strategies, (ii) integrating them with formal financing mechanisms and health service provider networks, and (iii) addressing financial challenges—such as liquidity constraints in rotating savings and credit associations—to incentivize higher participation in health-related risk.

Fifth, the north star for effective public health expenditure should be continuous assessment and enhancement of health service quality across both public and private providers. Quality of health care is essential to a health system's technical efficiency and crucial for increasing participation in protective health financing schemes. Many countries use performance-based financing to strategically purchase health services, encouraging public spending on defined benefit packages adjusted with a quality index.[19]

In total, this unforeseen sharp decline in DAH may present an opportunity for Africa to implement critical reforms and foster innovation in protective health financing. Let us not let this "good crisis go to waste."

18 Watkins et al., "Resource Requirements for Essential Universal Health Coverage."

19 Omer Zang et al., "Impact of Performance Based Financing on Health-Care Quality and Utilization in Urban Areas of Cameroon," *African Health Monitor*, no. 20: Special Issue on Universal Health Coverage (October 2015); Yogesh Rajkotia et al., "The Effect of a Performance-Based Financing Program on HIV and Maternal/Child Health Services in Mozambique—an Impact Evaluation," *Health Policy and Planning* 32, no. 10 (2017): 1386–96..

Leveraging diaspora philanthropy to finance social sector development in Africa

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As donor countries cut foreign funding to prioritize domestic interests, sub-Saharan African countries face a projected 16-28% decline in net bilateral overseas development assistance,[1] revealing weaknesses in the global aid system and urgency to identify alternative sources of flexible capital for the social sectors. This viewpoint explores the potential for leveraging diaspora philanthropy to help finance development, noting benefits both to the African continent and to the African diaspora itself.

Diaspora philanthropy is a form of diaspora engagement.

Diaspora philanthropy is a form of diaspora engagement. It involves the transfer of money, goods, knowledge, skills, or other assets for the social benefit of a country or region tied to one's origin or ancestry, regardless of citizenship. It is important to note that there is a blurred line between diaspora remittances and diaspora philanthropy, particularly in the African context, where "family" extends well beyond the nuclear family.

The potential of diaspora philanthropy depends on supply and demand factors. On the supply side, studies show that the diaspora is motivated to engage. These motivations include expressing care for a community, building or maintaining ties, fostering belonging, or fulfilling a felt obligation.[2] On the demand side, diaspora philanthropy is more sustainable than other sources of aid or investment, as it has

1 *Cuts in Official Development Assistance: OECD Projections for 2025 and the near Term.* 2025. Policy Brief. OECD Policy Briefs. OECD.

2 Appe, Susan, and Satenik Papyan. 2025. "How and Why Do Diaspora Give? A Conceptual Model to Understanding Diaspora Philanthropy." *Nonprofit and Voluntary Sector Quarterly* 54 (3): 518–46; Brinkerhoff, J.M. 2008. "Diaspora Philanthropy in an At-Risk Society: The Case of Coptic Orphans in Egypt." *Nonprofit and Voluntary Sector Quarterly* 37 (3): 411–33; Flanigan, Shawn Teresa. 2017. "Crowdfunding and Diaspora Philanthropy: An Integration of the Literature and Major Concepts." *Voluntas* 28 (2): 492–509; Ouacha, Malika, Lucas Meijs, and Kees Biekart. 2024. "Diasporic Philanthropy and the Sense of Belonging as an Expression of Diasporic Cultural Identity and Inclusion." *VOLUNTAS: International Journal of Voluntary and Nonprofit Organizations* 35 (6): 1081–90.

proven resilient in the face of crisis and economic downturns and as it tends to be passed down to subsequent generations. Moreover, the diaspora typically has a deeper understanding of needs and shared values compared with other foreign sources of capital.[3]

Research on diaspora philanthropy on the African continent is limited; however, two comparative datasets and a literature review offer helpful insights. The 2023 Global Philanthropy Tracker noted that ODA and private capital investment fluctuated during crisis as remittances grew exponentially and philanthropic flows remained steady.[4] It also revealed Africa as the top recipient of cross-border philanthropic support among 15 of 19 donor countries with available data on their recipient regions. The 2025 Global Philanthropy Environment Index, meanwhile, notes rising diaspora philanthropy in Ethiopia, Ghana, Senegal, Uganda, and Zimbabwe, supported by the easing of restrictions on cross-border inflows (Ethiopia), tax benefits or exemptions (Ghana, South Africa, Tanzania), policies focusing on the diaspora (Ghana, Senegal), collective giving platforms (e.g., Ethiopia), and/or digital giving platforms (Zimbabwe).[5]

Successful strategies for attracting philanthropy

Tools and strategies to channel diaspora philanthropy towards development have proven successful in different parts of the world. The Mexican & Moldovan governments introduced two different matching grant initiatives to attract funds from diaspora communities. Mexico introduced the "3x1 Program for Migrants" in 2002, which attracted funds for infrastructure and development via hometown associations,[6] while Moldova's "PARE 1+1" program, launched in 2010, attracted diaspora funds for business development.[7] Another successful tool that helped channel diaspora resources towards development in Israel and India is diaspora bonds. Although efforts in Nigeria and Kenya did not yield the desired results, diaspora bonds proved to be successful in the former two countries. The difference in experience is attributed to Israel and India engaging in trust-building efforts, such as partnering with trusted financial institutions.[8] Other popular tools for pooling resources, both financial and non-financial, and channeling them towards development projects are various collective giving platforms set up by intermediary organizations. A handful of examples focusing on Africa include the African Diaspora Innovation Fund, the Ethiopian Diaspora Trust Fund, AfricanGiving.org, and the African Union's 2019 Continental Forum on the Role of the Diaspora in Higher Education, Research & Innovation in Africa.

Diaspora contributions have extended beyond funding to include knowledge sharing and expertise.

3 Josef Sinigiani, "Remittances or Aid: What's Best for Africa?," *The Generation*, May 19, 2025.

4 *2023 Global Philanthropy Tracker Full Report.* 2023. Indiana University Lilly Family School of Philanthropy.

5 *2025 Global Philanthropy Environment Index: 111 Reports.* 2025. IU Lilly Family School of Philanthropy.

6 Lauren Duquette-Rury, "Collective Remittances and Transnational Coproduction: The 3 × 1 Program for Migrants and Household Access to Public Goods in Mexico," *Studies in Comparative International Development* 49, no. 1 (2014): 112–39.

7 Mihail Hachi and Stela Leonti, "Harnessing on the Potential of Migrants in the Socio-Economic Development of the Republic of Moldova," *Eastern European Journal of Regional Studies* 9, no. 1 (2023): 6–10.

8 Schneidman, Tadesse & Lissanu. 2022. *Diaspora bonds: An innovative source of financing?* Brookings.

As evident from several of the examples shared, diaspora contributions have extended beyond funding to include knowledge sharing and expertise.[9] Several African universities successfully mobilized support from the diaspora to strengthen their higher education programs. In Nigeria, diaspora scholars co-designed and taught STEM curricula in collaboration with local universities.[10] Similar collaborations exist in Ethiopia, Ghana, Kenya, Nigeria, and Zambia, which are successfully engaging the African academic diaspora.

Remaining roadblocks

Despite progress, there are challenges limiting the potential for diaspora philanthropy in Africa. At the individual level, there is a lack of engagement with the diaspora and a lack of information and guidance about opportunities and trustworthy platforms, which makes giving costly or complex.[11] At the institutional level, philanthropy organizations may lack the institutional capacity to successfully identify, understand, and engage diaspora donor segments. At the ecosystem level, a lack of infrastructure of restrictive government policies can make it difficult to realize the potential for diaspora philanthropy. To leverage diaspora philanthropy, coordinated action is necessary to overcome these challenges.

Mechanisms used to attract and channel diaspora funds toward investment may differ depending on the country and region. Designing appropriate policies, programs, and platforms typically requires dialogue and partnership among ecosystem actors, including members of the diaspora. Such dialogues can raise awareness among different segments of the diaspora about opportunities to meaningfully contribute to the development of their homeland. They can also help build understanding about actual costs and hidden costs involved in contributing and identify ways to reduce those costs while building trust through transparency and accountability. Towards this end, the World Bank and United Nations encourage fintech innovations that enhance access and strengthen the transparency of formal channels for diaspora contributions.[12]

In summary, countries that understand the motivations of their diaspora and develop intentional and responsive strategies and cross-sector collaborations are better positioned to leverage diaspora philanthropy to build a more resilient and sustainable social sector.

9 Kumi, Emmanuel. 2024. *A Literature Review of African Philanthropy and Higher Education in Africa.* Indiana University Lilly Family School of Philanthropy.

10 Fateye, Babasola, et al. "Culturally and Contextually Adapted Co-teaching: A Case Study of Collaboration with the Diaspora in Undergraduate STEM Education." *Diaspora, Indigenous, and Minority Education* 18, no. 1, 2024, pp. 23-36.

11 International Organization for Migration, *Remittances in ACP Countries: Key Challenges and Ways Forward* (2017).

12 *Sending Money Home: Contributing to the SDGs, one family at a time.* IFAD. 2017.

Sovereign credit ratings and external debt in Africa

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After stabilizing their macro indicators by the turn of the century, many African countries sought external financing for critical investments in infrastructure and technology that were necessary for growth and vital to the attainment of their development aspirations. Unfortunately, their access to global financial markets was stymied: At that time, only one African country, South Africa, had a sovereign credit rating.[2,3] To address this, UNDP partnered with S&P in 2003 to support credit ratings for viable African countries. Since then, 34 African countries have been rated and 21 countries have raised $155 billion Eurobonds.[4]

The effects of access to global capital markets

In the early 2000s, some observers were concerned that providing African countries with credit ratings would signal "market readiness." They opined that access to global capital markets could result in excessive borrowing that would undo debt relief efforts under the IMF and World Bank's HIPC and MDRI frameworks.[5] Thus, in the present day one may ask: Has Africa's access to more non-concessional lending via ratings precipitated or worsened Africa's debt crises?

First, it is important to note, as documented in previous Brookings research,[6] that African countries need to borrow for a number of reasons. For instance, they do not earn enough from their exports and their capital investment needs exceed potential

1 Raymond Gilpin is Chief Economist and Head of Strategy at UNDP's Africa Bureau in New York. He also leads the UNDP Africa Credit Ratings Initiative.

2 Maggie Mutesi, "Gatekeepers of Growth: How Sovereign Credit Ratings Are Shaping Africa's Future," *Africatalyst*, August 11, 2025.

3 To understand the relationship between access to global financial markets and credit ratings, one must recognize that sovereign ratings assess a government's ability (and willingness) to meet its debt obligations fully and on time. As such, they serve as a market indicator for pricing risk.

4 Misheck Mutize, "Eurobonds Issued by African Countries Are Popular with Investors: Why This Isn't Good News," *The Conversation*, January 8, 2025.

5 The IMF and World Bank spearheaded the Heavily-Indebted Poor Countries (HIPC) debt treatment initiative in 1996 and the Multilateral Debt Relief Initiative (MDRI) in 2005 to reduce the stock of debt owed by developing countries.

6 Brahima Coulibaly et al., "Is sub-Saharan Africa facing another systemic sovereign debt crisis?," *Africa Growth Initiative at Brookings*, April 2019.

revenue streams (even when we assume zero corruption). Moreover, unlike in 2000 when 70% of the continent was categorized as low-income, thereby enabling them to access concessional development financing, in 2025, half of the continent is middle-income and must rely more heavily on commercial sources to finance its development.[7] Additionally, aid flows to African countries have dipped in recent years, declining by 15% between 2020-23.[8] Against this backdrop, credit ratings play a uniquely important role in determining Africa's access to affordable financing.

Africa must invest more if it is to grow. Investment delayed could be development denied.

Unlike other regions that have multiple data points to assess risk, the dearth of relevant and reliable data in Africa means that credit ratings play an outsized role in determining risk perceptions.[9] UNDP estimated that 16 African countries pay more in debt servicing costs than they should because credit ratings are lower than they could be. The total estimated resulting loss is over $74 billion,[10] exacerbating Africa's debt service stress. While credit ratings are not the only reason Africa's borrowing costs are so high, there is no doubt that they play a central role as a benchmark signaling indicator.

As of end October 2025, only three of the rated 34 African countries are rated as investment grade.[11] Thus, borrowing for most of the continent attracts a premium (for the non-investment grade countries) or punitive rates (for the 38% of the continent that is unrated).[12] Moreover, this elevated cost of borrowing is often misaligned with the region's actual financial potential. For example, at 2.6%, default rates on infrastructure investments in Africa are among the lowest in the world.[13] Costly financing is also causing a slowdown in Africa's gross capital formation, which is far below the average of 33% for middle-income countries.[14] Yet Africa must invest more if it is to grow. Investment delayed could be development denied.

Pathways to improve Africa's sovereign credit ratings

Targeted and consistent efforts to improve credit ratings for African countries could be transformative and help Africa finance its development without being burdened with unsustainable debt. Such efforts could free up much-needed fiscal space by reducing borrowing costs and increase the size and quality of investment flows. Furthermore, the credit ratings process could help establish conditions for improved economic governance. However, getting this right requires concerted and coordinated efforts by the credit ratings agencies and African countries.

Better credit ratings are an integral part of effective development financing in Africa. However, getting this right requires concerted and coordinated efforts by the credit ratings agencies and African countries.

7 Eric Metreau et al., "World Bank Country Classifications by Income Level for 2024-2025," *World Bank Blogs*, July 1, 2024.

8 International Monetary Fund, *G-20 Background Note on Macroeconomic Vulnerabilities in Africa: Key Issues and Policy Lessons* (2025).

9 Daniel Cash, *Reforming the International Financial Architecture: The Role of Credit Ratings Agencies in the "Debt Crisis"* (United Nations University, World Institute for Development Economics Research, 2025).

10 UNDP Regional Bureau for Africa, *Lowering the Cost of Borrowing in Africa the Role of Sovereign Credit Ratings* (United Nations Development Programme, 2023).

11 United Nations Development Programme, "Africa Credit Raatings Resource Platform," 2025.

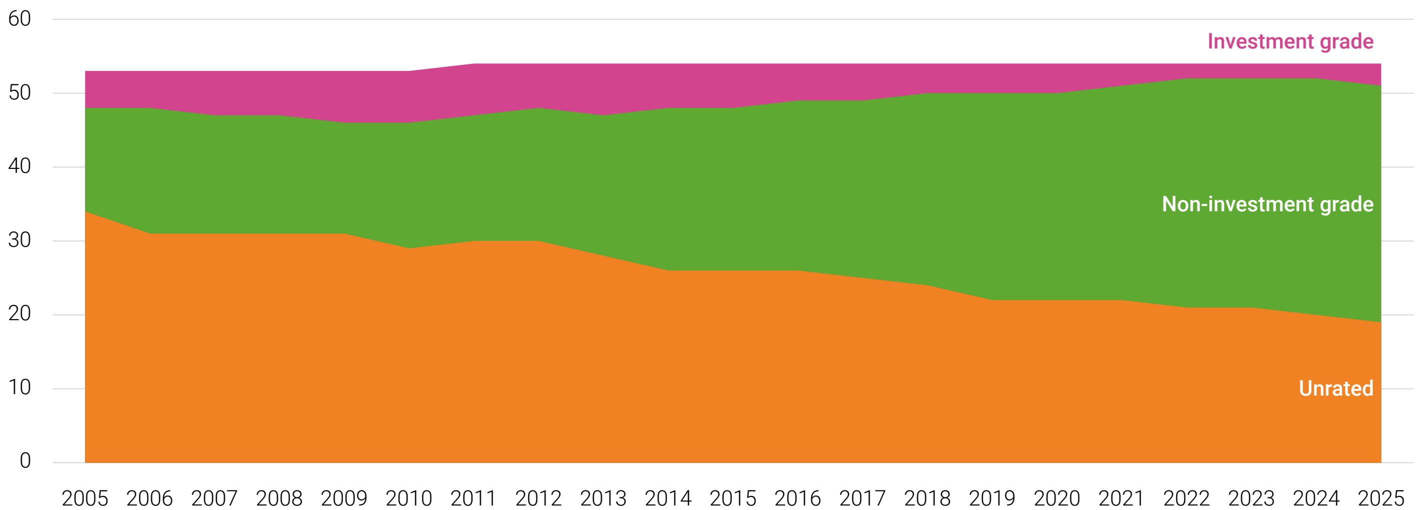
12 "UN General Assembly 2025: UNDP Convenes Dialogues on Credit Ratings Reform," *United Nations Development Programme*, September 23, 2025.

13 "How Risky Is African Infrastructure Anyway?," *Infrastructure Investor*, March 31, 2025.

14 The Pontifical Academy of Social Sciences, *The Jubilee Report: A Blueprint for Tackling the Debt and Development Crises and Creating the Financial Foundations for a Sustainable People-Centered Global Economy* (Initiative for Policy Dialogue, Columbia University, 2025).

FIGURE 6

Credit ratings for African countries



Note: While the number of African countries with a credit rating has increased, very few of these ratings are investment-grade.
Source: United Nations Development Programme

Credit ratings agencies must:

1. **Accept that credit ratings are more than "an opinion" in Africa, they are "an assessment,"** a distinction recognized by the International Organization of Securities Commissions in 2015.[15] As such, more attention should be given to the robustness of the scores in an African context. For example, the Sevilla Commitment[16] and the Vatican's Jubilee Report[17] call for innovations like the use of state contingent clauses and longer term analyses.
2. **Focus on determining African countries' ability to repay and not revisit backward leaning and lagged indicators.** While it is true that credit ratings often mirror GDP rankings and human development indices, a country's future potential is best measured by more accurate accounting of its wealth (e.g. going beyond GDP to include natural capital) and micro-level governance reforms.
3. **Invest in in-country intelligence.** Global ratings agencies have a weak presence across the continent. Some are making efforts to address this through partnerships and acquisitions, but much more should be done.
4. **Adapt methodologies to fit the African context.** This is not a call for African exceptionalism: Credit ratings methodologies must be globally consistent. However, in emerging markets it is possible to adapt the methodology to more accurately reflect regional conditions; S&P has a tailored approach for Mexico.[18]

15 UNCTAD, ed., *Credit Rating Agencies, Developing Countries and Bias: Policy Review,* United Nations Publication (United Nations, 2025), 24.

16 United Nations, *Sevilla Commitment: Outcome Document Adopted at the Fourth International Conference on Financing for Development,* A/RES/79/323 (2025).

17 The Pontifical Academy of Social Sciences, *The Jubilee Report: A Blueprint for Tackling the Debt and Development Crises and Creating the Financial Foundations for a Sustainable People-Centered Global Economy.*

18 "Ratings Firm S&P Launches Methodology Tailored to Mexican Market," *Mexico News Daily,* November 11, 2025.

African countries must:

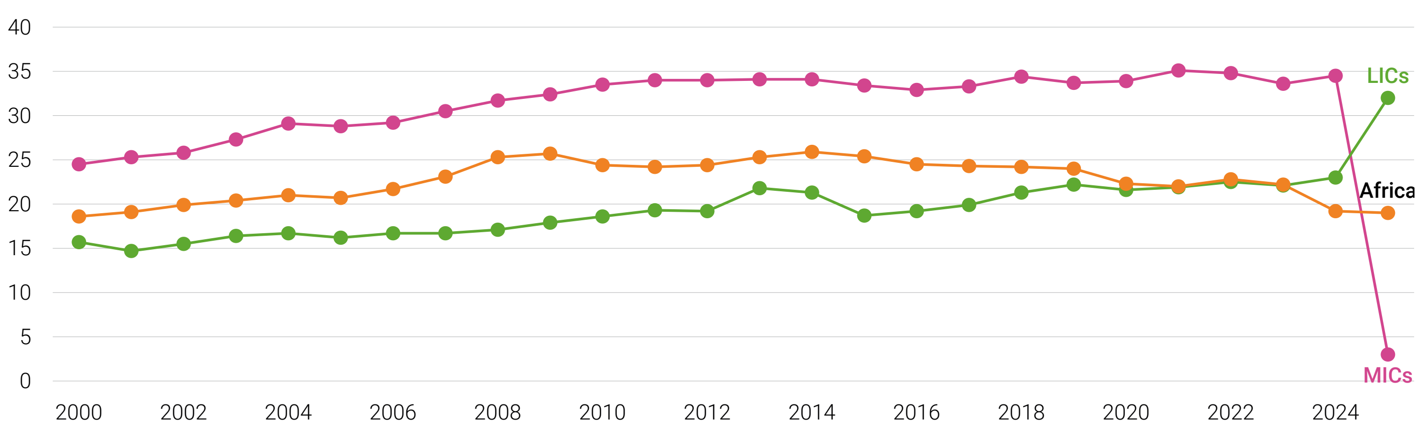
1. **Take credit ratings missions seriously.** Countries must have high-level, technical committees that are equipped and empowered to tell the country's story convincingly and able to negotiate with the ratings agencies effectively. This function must not be outsourced to external advisors.
2. **Invest in capacity and data.** This must include assuring the quality and timeliness of data during credit ratings missions. Working in partnership with knowledge institutions and development partners, countries should also invest in upskilling technical and strategic staff. As part of its efforts to strengthen countries' capacity, UNDP's Africa Credit Ratings Initiative trained over 250 senior African officials in 2025.[19]
3. **Align credit ratings activities with development strategies, not political aspirations.** For example, UNDP's initiative works with governments to embed credit ratings strategies within national development plans. This bodes well for stronger alignment and consistency.
4. **Support the Africa Credit Ratings Agency (AfCRA) established by the African Union.**[20] The AfCRA could help reduce the cost of borrowing by championing the region's efforts to reform methodologies, improve data, and strengthen public sector capacity. It is worth noting that knowledge products and policy analysis from Africa's educational institutions and think tanks must also play a vital role in supporting AfCRA.

Credit ratings are not a silver bullet. They constitute an important signal that can catalyze available and affordable financing, which Africa needs to accelerate its development aspirations and transform lives across the continent.

FIGURE 7

Gross capital formation trends

Gross capital formation for Africa (% of GDP) compared to low income countries and middle income countries



Source: United Nations Development Programme

19 "About the Africa Credit Ratings Initiative," *United Nations Development Programme*, 2025.

20 "African Leaders Convene on Establishment of Homegrown Solution, the Africa Credit Rating Agency," *African Union,* February 7, 2025.