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From the New Partnership for Africa's Development to Agenda 2063: progress in the implementation of sustainable development in Africa and international support

Unpacking the debt of Africa: towards a lasting and durable solution

Report of the Secretary-General**

Summary

The present report is submitted pursuant to General Assembly resolution 78/262. In the report, the Secretary-General provides an analysis of how the debt challenges facing Africa severely limit its ability to invest in the Sustainable Development Goals and Agenda 2063: The Africa We Want. He examines how the historically extractive nature of African economies has influenced the continent's borrowing and how debt-driven investment has thus far failed to contribute meaningfully to its economic transformation. The Secretary-General also explores the evolving role of domestic debt in African economies, as well as the rapid rise of external debt, the high cost of capital and the associated economic vulnerability. Unlocking domestic resource mobilization and properly investing in the economic transformation of Africa are identified as strategic actions that can help de-risk African economies, build resilience and deliver sustainable development. Debt can be an important source of financing for investment in the Goals if channelled toward areas that foster growth and structural transformation. Investing in the Goals, climate resilience, disaster risk reduction and adaptation can also reduce long-term economic risk. Predictable access to affordable finance is critical to finding a lasting solution to current debt challenges. The current international financial architecture fails to adequately cater for the urgency of investing in the Goals and Agenda 2063, and the Secretary-General recommends needed reforms from an African perspective to deliver a lasting solution with regard to debt and towards predictable and affordable sources of finance.

* A/79/150.

** The present report was submitted to the conference services for processing after the deadline for technical reasons beyond the control of the submitting office.

I. Introduction

1. The pathway for Africa to attain the Sustainable Development Goals and Agenda 2063: The Africa We Want is contingent on rapidly unlocking financing streams on a large scale and with urgency. The continent loses between $500 billion and $600 billion each year that is generated but not mobilized,[1] including in the form of illicit financial flows, public spending inefficiency, transfer pricing, tax loopholes and missed opportunities for fully harnessing carbon markets. Africa is also the region with the lowest domestic resource mobilization capacity. In 2024, the continent will face the highest debt service cost in its history.[2] Therefore, finding a lasting and durable solution to its existing debt challenges and delivering affordable and predictable access to debt financing is critical to accelerating implementation of the two agendas.

2. African countries have been spending on average twice as much on debt servicing as on health,[3] with resources being diverted away from investment in the Sustainable Development Goals to meet debt obligations. Recent global shocks have also underlined the vulnerability of the continent, which is compounded by the historically extractive nature of its economies.

3. Against the backdrop of the effects of the coronavirus disease (COVID-19) pandemic and the war in Ukraine, the 2022 flagship report of the Office of the Special Adviser on Africa[4] was aimed at positioning domestic resource mobilization as key to strengthening the resilience of Africa to external shocks, while the 2023 report[1] explored how addressing the triple paradox of sustainable development – financing, energy and food systems – will be crucial to unleashing the developmental potential of Africa. The present report unpacks the nature and magnitude of the debt of African nations and proposes avenues for sustainable solutions, in line with the Secretary-General's call to deploy a Sustainable Development Goal stimulus package for investment in the Goals.

4. Although African countries undertook measures to diversify and restructure their economies, including through import-substitution industrialization, in the immediate aftermath of independence, their debt-driven investment remained largely centred on resource extraction for export rather than for expanding productive capacity, diversification and economic transformation. Trading relationships and dependency on finance from former colonial powers reinforced these structures. Subsequently, structural adjustment programmes provided by the Bretton Woods institutions encouraged Africa to focus on the extractive and raw materials sectors, further entrenching the focus on those sectors.

5. Several African countries have sought to lessen dependency on external debt and on direct advances from central banks, which prove to be inflationary, opting instead for domestic debt financing. This approach offers several benefits: developing domestic debt markets, increasing fiscal space and policy autonomy, and lessening the effects of interest and exchange rate volatility. However, this has incurred the cost of higher interest rates and shorter-term maturity compared with that for external debt,

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[1] United Nations, *Solving Paradoxes of Africa's Development: Financing, Energy and Food Systems* (2023).

[2] International Monetary Fund (IMF), *Regional Economic Outlook: Sub-Saharan Africa – A Tepid and Pricey Recovery* (Washington, D.C., 2024).

[3] Office of the Special Adviser on Africa staff calculations based on World Bank, International Debt Statistics and World Development Indicators databases, and the United Nations Educational, Scientific and Cultural Organization (UNESCO) Institute for Statistics.

[4] United Nations, *Financing for Development in the Era of COVID-19: The Primacy of Domestic Resource Mobilization* (2022).

and has crowded out private sector borrowing, leading to refinancing pressures and domestic debt restructurings and defaults. African countries need to deepen their domestic capital markets to exploit the benefits of domestic debt financing further.

6. The external debt of Africa has grown substantially during the past decade, reaching a record level of $656 billion in 2022, representing 28 per cent of gross domestic product (GDP).[5] This was due, inter alia, to increased borrowing in the 2010s, rising borrowing costs, reduced export revenues, slow economic growth and unexpected outlays due in part to the COVID-19 pandemic. Debt risks have risen in many African countries, with 60 per cent of them either at high risk of or already in debt distress. Debt-servicing costs have grown faster than the rate at which African countries can generate export earnings.

7. The structure of the international financial architecture, characterized by asymmetric power, has important implications for African debt, notably the lengthy and complex restructuring mechanisms and limited instruments for managing risks and shocks. At the same time, the continent requires massive financial resources from domestic and external sources, on a large scale and with a broad scope, including through debt financing to bridge its huge financing gap, estimated at $1.6 trillion by 2030,[6] for investing in the Sustainable Development Goals and Agenda 2063.

8. Improving the prospects for achieving the Sustainable Development Goals in Africa and escaping the debt trap would require adopting a comprehensive approach, tackling the immediacy of the need for fiscal space, in some cases with write-offs and pauses for countries facing liquidity crises, and reforming the international financial and debt architecture to make it more fit for the purpose of financing African development priorities. These measures must be accompanied by complementary measures at the domestic and regional levels.

9. The remainder of the present report is structured as follows. Section II contains a historical overview of African debt from the colonial to the post-independence period. Section III is focused on the increasing importance of domestic debt and associated macroeconomic challenges. Section IV contains an analysis of the evolution of external debt and its implications for debt sustainability and growth. Section V provides an unpacking of the design and structure of the international financial architecture and includes a proposal for reform. Finally, section VI contains conclusions and recommendations.

II. Evolution of the debt of Africa: a historical overview

A. Pre-independence era and the legacy of colonialism

10. The current debt challenges of Africa cannot be separated from the structural nature of colonial economies. Colonial governments deployed an extraction-based model that focused on the extraction and exportation of valuable resources from the African continent. Debt was used as an instrument to facilitate resource extraction for the industrialization of the metropole, rather than for financing the development of domestic productive capacity, strengthening value chains of production or creating a diversified economic base. Most colonial rail networks built in Africa, for example, operated on a linear route to connect resource-rich hinterlands to final destinations on

[5] World Bank, International Debt Statistics database.

[6] African Union Commission and Organisation for Economic Co-operation and Development (OECD), *Africa's Development Dynamics 2023: Investing in Sustainable Development* (Addis Ababa and Paris, 2023).

the coast.[7] As a result, African countries became increasingly specialized in the production and exportation of primary commodities, making them susceptible to the boom-and-bust cycle of global commodity markets.

11. Debt incurred by the colonial regimes also had a long-lasting impact on African countries. "Odious debt" – sovereign debt incurred without the consent of the people and not benefiting the people – was passed on to independent African States.[8] Since this coincided with the cold war, geopolitical competition, mainly among the super-Powers, may have also influenced debt dynamics in Africa. This included borrowing by colonial governments and by autocratic leaders for their personal enrichment. African nations inherited substantial debts from their colonial rulers, which have posed significant challenges as the cost of servicing debts has diverted resources away from development priorities, perpetuating cycles of poverty and underdevelopment.

B. Post-independence borrowing patterns and heightened dependency

12. When the great majority of the African countries gained political independence in the 1960s, they lacked the necessary capital to develop their economies, and resorted to borrowing from external sources, with former colonizers often the first to lend. As a result, the amount of short-term debt gradually increased, even though medium- and long-term debt still accounted for the vast majority of external debt in 1970. By 1987, medium and long-term debt had grown by a factor of 20 while short-term debt had grown by a factor of 50 (see figure I). Total external debt as a share of GDP more than quadrupled from 15.9 per cent in 1970 to 70 per cent in 1987.

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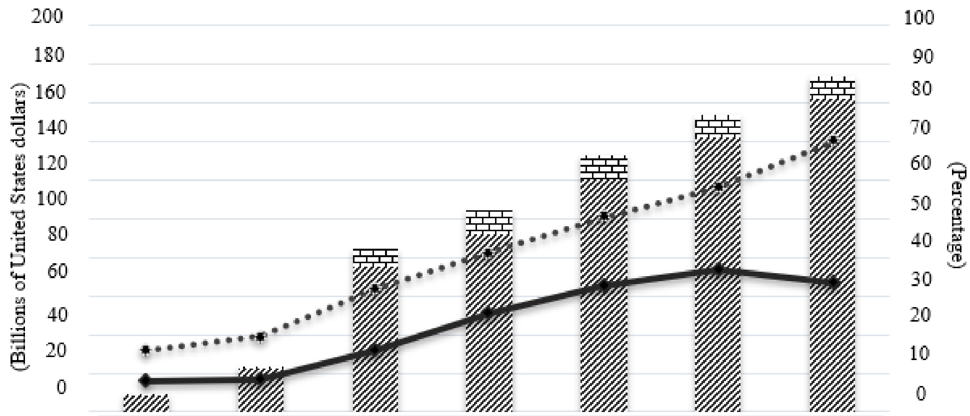
[7] Sam Sturgis, "How overlooked colonial railways could revolutionize transportation in Africa", Bloomberg, 2 February 2015.

[8] Seema Jayachandran and Michael Kremer, "Odious debt", in *Finance & Development*, vol. 39, No. 2 (June 2002).

Figure I
Growing external debt in post-independence Africa, 1970–1987

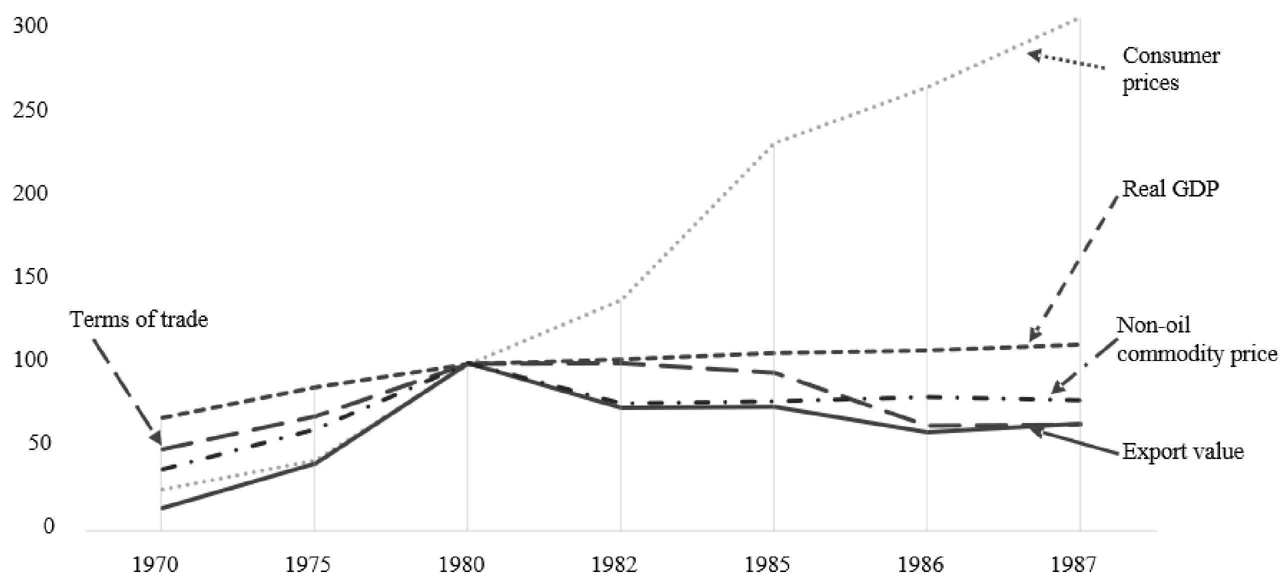


	1970	1975	1980	1982	1985	1986	1987
Short-term debt (billions of United States dollars)	0.2	1.0	9.1	13.2	12.5	11.5	11.8
Medium- and long-term debt (billions of United States dollars)	8.0	22.5	75.1	91.6	120.5	142.3	162.2
Ratio of external debt to GDP (percentage)	15.9	19.5	31.9	41.4	50.3	58.1	70.0
Ratio of debt service to exports of goods and services (percentage)	7.8	8.4	15.9	25.5	32.6	36.9	33.4

Source: Joshua E. Greene and Mohsin S. Khan, "The African debt crisis", African Economic Research Consortium Special Paper No. 3 (Nairobi, Initiatives Publishers, February 1990). Available at https://idl-bnc-idrc.dspacedirect.org/server/api/core/bitstreams/399c96bf-fa7f-4966-af59-c6194d65f731/content. The paper's authors used IMF data.

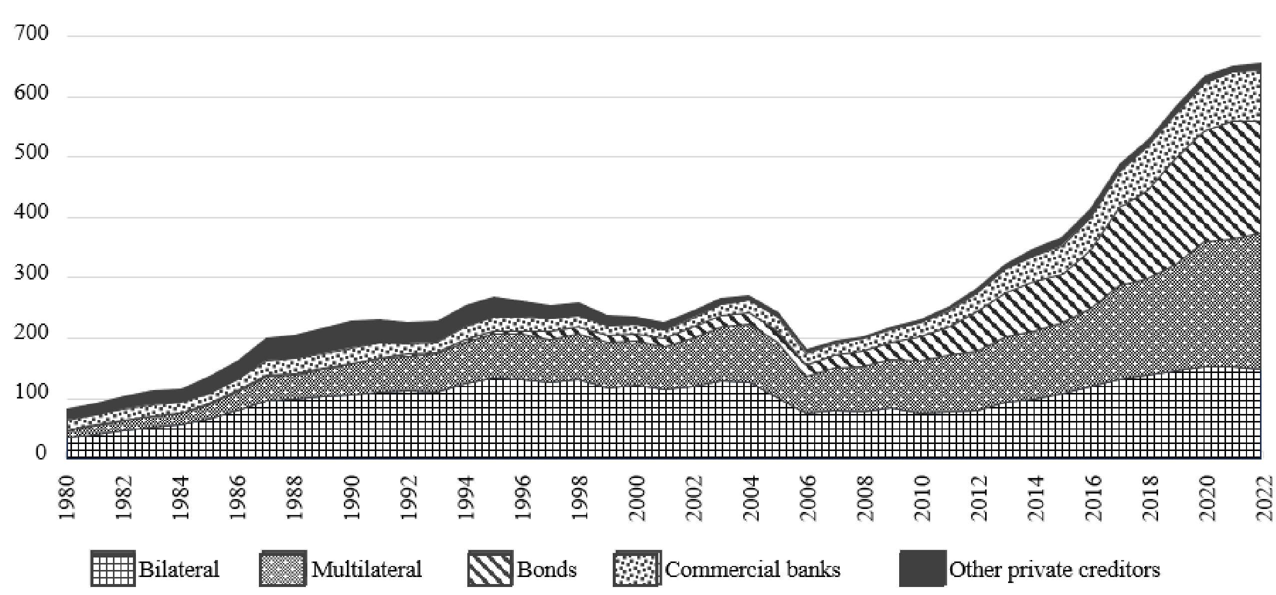
13. Following an initial surge in oil prices in 1973, the prices of various commodities experienced significant increases (see figure II). This led to substantial revenue gains for many African nations, prompting them to expand public spending considerably. While revenues from commodity taxes rose, they did not match the pace of expenditure growth. Consequently, Governments resorted to foreign borrowing to cover the shortfall for financing their ambitious projects. The 1980s saw a decline in commodity prices; consequently, the total value of African exports gradually decreased and real GDP growth slowed after an initial surge in the 1970s. By 1987, the ratio between export prices and import prices (the terms of trade) for Africa had plummeted by nearly 40 per cent compared with 1980 levels, reflecting relatively expensive imports when compared with export prices. This led to the African debt crisis of the 1980s and 1990s.

Figure II
Commodity prices and terms of trade in Africa, 1970–1987



Source: Joshua E. Greene and Mohsin S. Khan, "The African debt crisis" (1990).

Figure III
Changing composition of African external debt stocks (public and publicly guaranteed), 1980–2022
(Billions of current United States dollars)



Source: World Bank, International Debt Statistics. Available at www.worldbank.org/en/programs/debt-statistics/ids.

14. Total African external borrowing nearly tripled from $84.8 billion in 1980 to $228.3 billion in 1990.[9] This represented an increase from 24.7 per cent of total GDP to 42.1 per cent,[10] highlighting the rapid increase in indebtedness during this period. Loans from official creditors (bilateral and multilateral) still accounted for the majority of borrowing by African Governments in the 1980s and 1990s, with a shift from predominantly bilateral lending to increased multilateral lending from international financial institutions such as the World Bank and IMF (see figure III). In 1975, IMF had credits outstanding to 19 African countries ($727.8 million).[11] One decade later, total IMF lending to Africa had reached $9 billion, owed by 38 countries.[12]

15. While interventions by international financial institutions were aimed at promoting economic development and alleviating poverty in African countries, their lending practices often came with stringent conditionalities focused on stabilization policies, which were pursued through cuts to subsidies and public spending on infrastructure, education, health care and social services, along with market liberalization and structural adjustment programmes through currency devaluation and the privatization of State-owned enterprises. Debt financing by post-independence African countries was necessary to build their economies from scratch. However, the borrowing did not lead to effective investments in strategic sectors to fuel economic growth. Owing to conditionalities, lending by international financial institutions did not fundamentally alter the structure of African economies, but rather worsened dependency by locking African countries into a cycle of debt and reliance on external assistance and undermined public control over vital resources, which led to widespread economic hardship and exacerbated poverty and inequality. Total external debt continued to rise in the decades that followed, reaching $237.5 billion in 2000, and almost tripled again to $655.8 billion in 2022 (see figure III).[13]

C. Debt relief initiatives and their efficacy

16. The debt crisis of the 1980s and 1990s was a watershed moment for Africa, characterized by widespread default on loans and economic hardship across the continent. Initiatives spearheaded by multilateral institutions were introduced to alleviate the debt burdens of developing nations. These included the Heavily Indebted

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[9] World Bank, International Debt Statistics database. "Total external debt" is debt owed to non-residents repayable in currency, goods or services. It is the sum of public, publicly guaranteed and private non-guaranteed long-term debt, short-term debt and use of IMF credit. Data are in current United States dollars.

[10] Office of the Special Adviser on Africa staff calculations based on World Bank, World Development Indicators database indicators on total external debt and on GDP in current United States dollars.

[11] Michael Camdessus, "Looking to the future: the IMF in Africa", in James M. Boughton, *Tearing Down Walls: The International Monetary Fund 1990–1999* (IMF, 2012). Available at www.elibrary.imf.org/view/book/9781616350840/ch014.xml.

[12] IMF, International Financial Statistics database. In 1990, five countries (Algeria, Ghana, Morocco, Sudan and Zambia) alone accounted for half of African credits and loans from IMF.

[13] World Bank, International Debt Statistics database indicator on the present value of external debt and on public and publicly guaranteed debt (debt outstanding and disbursed). A further spike in borrowing occurred in the aftermath of the world financial crisis in 2008, reflecting a simultaneous increase in bond financing and borrowing from multilateral development banks.

Poor Countries Initiative, launched in 1996 by IMF and the World Bank,[14] the Multilateral Debt Relief Initiative since 2005[15] and the Paris Club.[16]

17. These debt relief and suspension initiatives and debt management programmes reduced the financial stress on participating African nations at a specific moment in time, but they did not address structural issues or inequity in predictable access to affordable financing. Today, 7 African countries are in debt distress; an additional 13 countries are at high risk of debt distress and another 17 countries are at moderate risk.[17]

18. The narrative surrounding debt in Africa is evolving. African countries require borrowing to finance their development needs, but structural issues need to be addressed to ensure greater returns on borrowing. Debt management and relief measures must be integrated into macroeconomic policymaking and development planning and accompanied by strong institutions and conducive domestic and international environments. African countries need to use debt financing strategically, with a greater emphasis on strengthening national and regional value chains, deepening capital markets, developing infrastructure and building diversified and resilient economies, including through investments in the Sustainable Development Goals.

III. Domestic debt

19. The composition of total African public debt is changing, with domestic debt rising from 35 per cent of total debt in 2019 to approximately 42 per cent in 2021.[18] Domestic bond issuance by African countries increased from less than 8 per cent of GDP in 2008 to more than 11 per cent in 2021, amounting to $307 billion (see figure IV). The expansion of domestic debt during the post-COVID-19 pandemic period corresponds to a similar trend observed after the 2008 global financial crisis. The increased reliance on domestic borrowing was due to an ultimately tightening global financing environment, reduced access by African countries to the international capital market and the need to finance widening fiscal deficits to mitigate the effects of these crises.

[14] See www.imf.org/en/About/Factsheets/Sheets/2023/Debt-relief-under-the-heavily-indebted-poor-countries-initiative-HIPC#:~:text=The%20IMF%20and%20World%20Bank,faces%20an%20unmanageable%20debt%20burden.

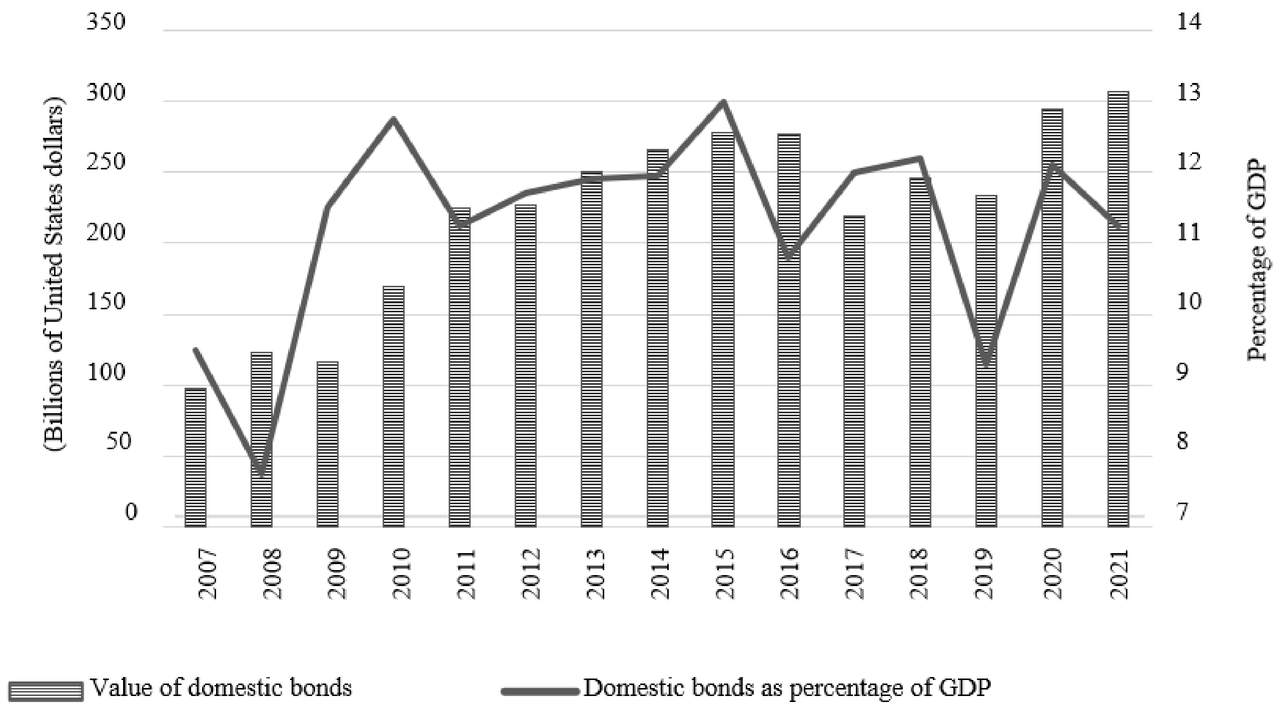
[15] See www.imf.org/external/np/exr/mdri/eng/index.htm.

[16] Lyla Latif, "The legal foundations of the African public debt" (2023).

[17] See www.imf.org/external/pubs/ft/dsa/dsalist.pdf.

[18] African Development Bank (AfDB), *African Economic Outlook 2023: Mobilizing Private Sector Financing for Climate and Green Growth* (2023).

Figure IV
Domestic bond issuances are more frequent and represent an important source of public financing



Source: AfDB, 2023.

20. Overall, however, most African countries have been using domestic debt in an ad hoc manner for short-term liquidity purposes, often with a lack of alignment between the deployment of domestic debt and long-term development priorities. This is due to the underdevelopment of domestic capital markets, which has often made short-term debt instruments the only viable option for financing, as medium- and longer-term debt remain largely undersubscribed. On average, African domestic debt maturity is around eight years,[19] much less than the 30 years for external debt.[20] This shorter-term debt is inadequate to finance the long-term development priorities of Africa, especially infrastructure projects. Consequently, Governments need to roll back their domestic debt more frequently, putting substantial pressure on their budgets. This financial dynamic stifles the ability of Africa to realize its vast economic potential, as the focus remains on liquidity rather than on investing in growth and development. The maturity of the domestic debt of African countries should be matched with their financing requirements and aligned with their development agendas.

21. Some African countries have been more successful than others in tapping into low-cost debt due to their relatively well-developed domestic capital markets, high savings (pension funds) and quality institutions. Between 2020 and 2022, Botswana,

[19] S&P Global Ratings, “African domestic debt: assessing the continent’s vulnerabilities”, 10 January 2022.

[20] “Evolution of debt landscape over the past 10 years in Africa”, keynote speech by the President of the African Development Bank Group, Akinwumi Adesina, delivered at the Paris Club on 20 June 2023. Available at www.africa.com/evolution-of-debt-landscape-over-the-past-10-years-in-africa.

Namibia and South Africa issued government bonds with long maturities (more than 20 years) at low coupon rates.

22. By contrast, the majority of domestic bond issuances by African countries have been expensive, with an average maturity of less than seven years, due to underdeveloped capital markets and low domestic savings.[21] Drawing on cost-effective domestic borrowing remains uncertain and limited for most African countries. This is due to overall low rates of domestic savings, estimated at around 17 per cent of GDP in 2022 (see figure VII). Volatile incomes, low life expectancy, lack of financial inclusion and high levels of informality in the economy are major factors contributing to relatively low domestic savings.[22] Moreover, the decline in domestic credit provided by the financial sector to African economies over time constitutes a significant challenge for mobilizing resources internally (see figure V). This suggests that the financial sector in Africa is not growing as fast as the economy, and that financial inclusion remains limited.

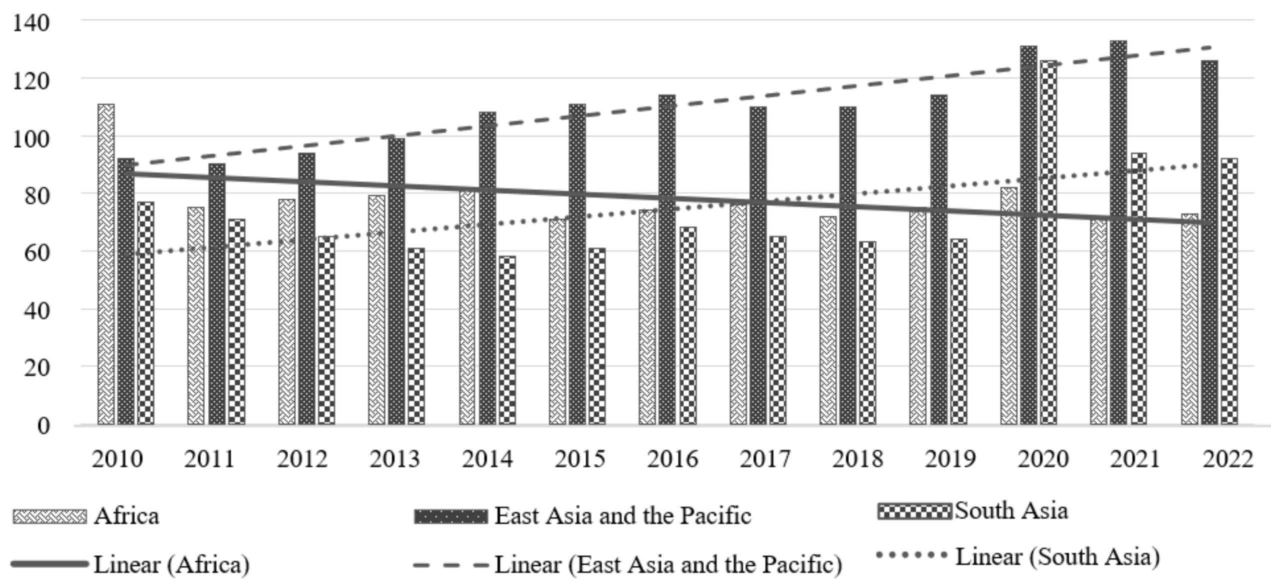
23. According to the *African Economic Outlook 2023*, African domestic capital markets are dominated by government securities. The high yield and shorter-term tenure of government bonds are very attractive to institutional investors, limiting incentives to develop the secondary market for corporate bonds.

24. High domestic debt levels can distort the banking system, especially when a large share of bank assets is comprised of government securities. This can limit the Government's ability to support banks in distress, increase sovereign risk and lead to a "debt overhang" that stifles economic activity. Moreover, a "diabolic loop" can emerge in which banks and the Government's fiscal health become interdependent, leading to a vicious cycle and potentially destabilizing the banking system.

25. The exposure of commercial banks to domestic sovereign debt has increased in Africa, from 10.4 per cent of total banking sector assets in 2010 to 17.4 per cent in 2020.[23] At the same time, there has been a decline in domestic credit by the financial sector in Africa, contrary to the trend in the rest of the world (see figure V).

[21] AfDB, *African Economic Outlook 2023*.
[22] United Nations, *Financing for Development in the Era of COVID-19*.
[23] European Investment Bank, *Is Crowding Out of Private Sector Credit Inhibiting Africa's Growth?* (2022)

Figure V
Domestic credit by the financial sector: declining in Africa but increasing in the rest of the world
(Percentage of gross domestic product)



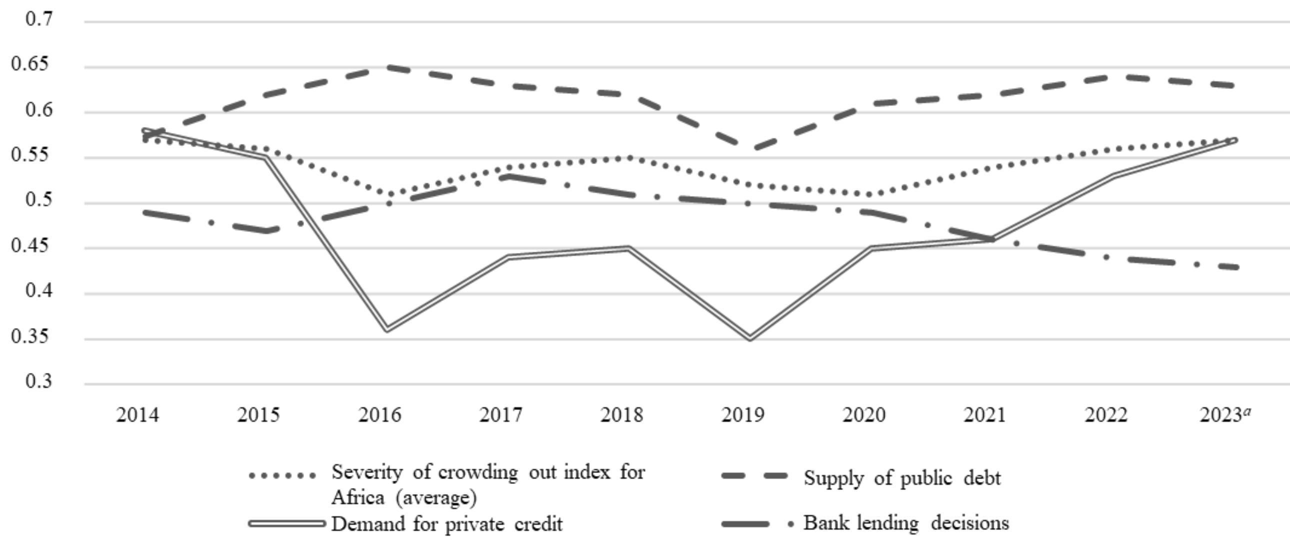
Source: World Bank development indicators.

26. Most countries still have domestic borrowing space that could be used to finance their fiscal deficits without crowding out the private sector (see figure VI).[24] Governments need to prioritize domestic resource mobilization as a resilience-building mechanism,[25] one that can help to de-risk the lending profile of African nations and allow access to longer-term capital in local currency. This would attract domestic long-term capital, notably from institutional investors currently invested outside the continent, and enable countries to mitigate refinancing risks, reduce reliance on external debt financing and potentially lower debt-servicing costs associated with exchange rate volatility. Promoting the regionalization of financial markets is also paramount for raising and pooling capital for investment in development and strengthening resilience against global economic shocks. In this respect, the implementation of the African Continental Free Trade Area opens up opportunities to widen and deepen the regional financial architecture. The operationalization of the African continental financial institutions will greatly contribute to this objective.

[24] Even though the decline of the banks' lending subindex, driven by the decline in their private sector lending as a percentage of their total asset indicators, points to a crowding out of the private sector, the ongoing expansion of bank balance sheets and the increase in credit to the private sector by banks, mitigates the severity of the crowding out. For instance, domestic credit to the private sector provided by banks increased from 20 per cent of GDP in 2010 to 25 per cent in 2022.

[25] United Nations, *Financing for Development in the Era of COVID-19*.

Figure VI
Higher and persistent fiscal deficits in recent years have led to a rising crowding-out effect on private sector investments, but countries still have borrowing space

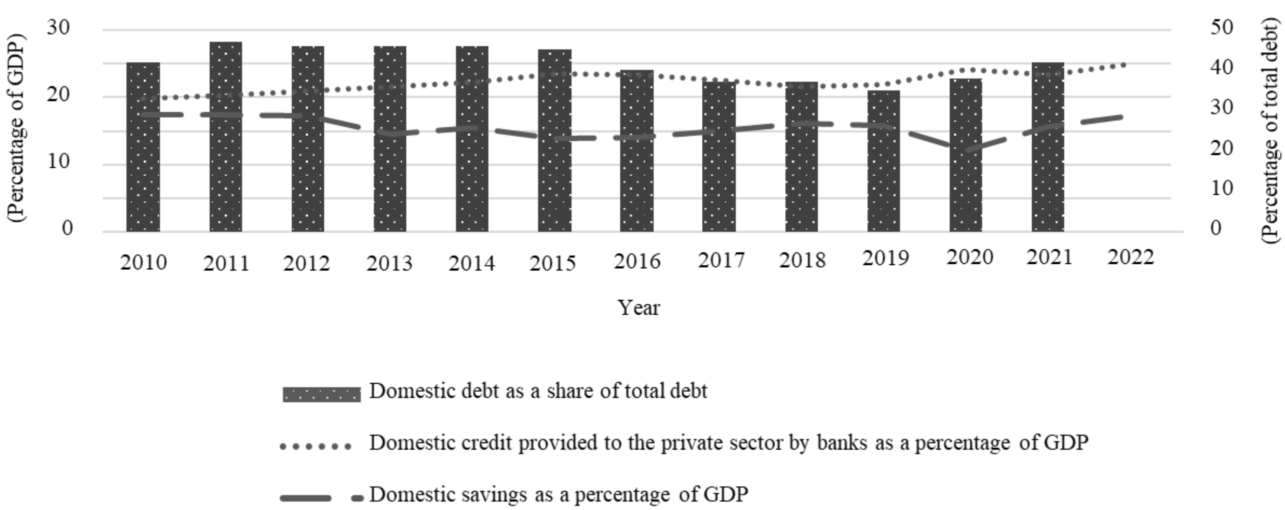


Source: European Investment Bank, *Is Crowding Out of Private Sector Credit Inhibiting Africa's Growth?* (2022).

Note: The severity of crowding out (SOCO) index assesses the severity of crowding out using 12 indicators, which are categorized into three subindices: the supply of public debt and the local-currency debt-to-GDP ratio; the demand for private credit; and banks' behaviour towards lending to the private sector. The sample included 46 African countries. Values of 0 and 1 indicate low and high severity, respectively.

[a] The values for 2023 are estimates.

Figure VII
Increased public domestic debt in shallow financial markets and low savings represent a danger of potentially crowding out domestic credit to the private sector



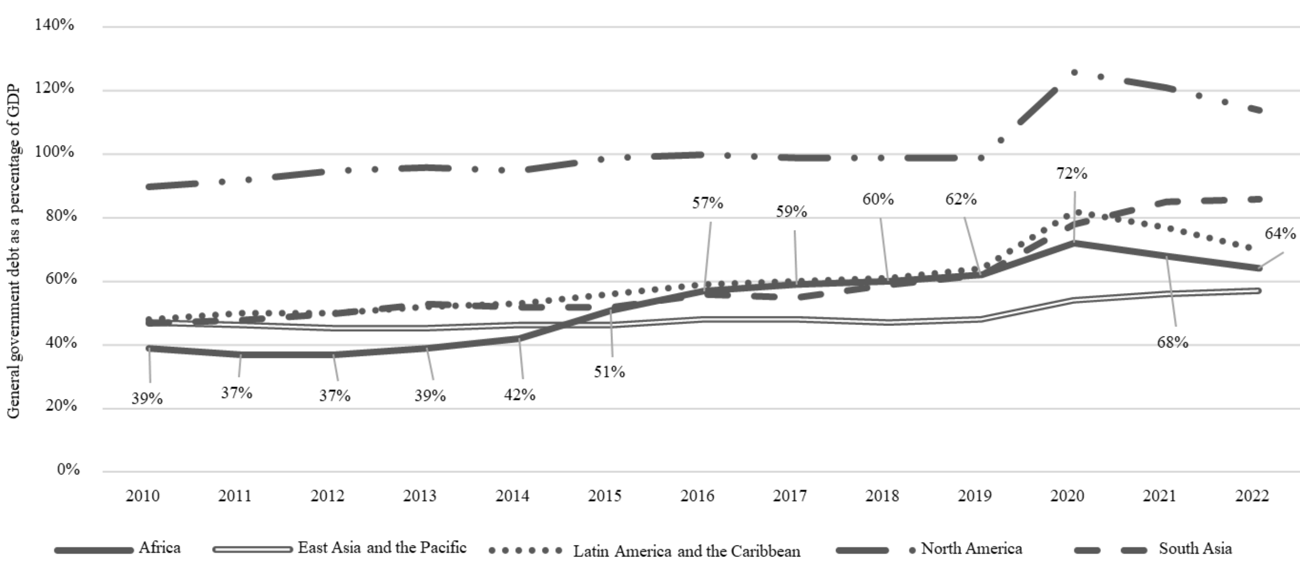
Source: World Bank development indicators.

IV. External debt and debt sustainability

27. Compounding and intersecting global crises, such as COVID-19, climate change, food insecurity, persistent conflicts and the war in Ukraine, have heavily affected African economies, exacerbating debt burdens and hindering sustainable development efforts across the continent. According to IMF,[26] the ratio of total public debt to GDP in Africa stood at 68 per cent in 2023. African external debt reached $656 billion in 2022, representing 28 per cent of GDP.

28. African debt levels relative to GDP remain low compared with those of other regions (see figure VIII). However, the cost of servicing that debt has continued to rise (see figure X). Rather than international development finance partners fixating solely on debt levels, focus should be on supporting efforts to accelerate economic growth fundamentals, domestic resource mobilization and overall development, especially the implementation of the Sustainable Development Goals in Africa. A growing economy has the potential to outpace the rate of debt accumulation; therefore, if debt finances investments in catalytic areas, it can serve as a pro-growth tool. To properly address concerns regarding debt in Africa, it is imperative to consider a flow management model rather than an overly strong focus on debt stock. In this regard, there is a pressing need to rethink the concept of debt sustainability and its assessment methodologies by filling the long-term analysis gap omitted by the IMF frameworks. By considering long-term outlooks, including the impact of investing in the Goals on long-term economic growth and productivity improvements, high sovereign risk premiums, magnified by credit-rating agency ratings, could be moderated and rendered less sensitive to debt levels. Investing in the Goals related to climate resilience, disaster risk reduction and adaptation can also reduce long-term economic risk. It is important that debt sustainability analysis mechanisms take this into account.

Figure VIII
African public debt-to-GDP ratio remains low compared with that of other regions



Source: IMF, *World Economic Outlook: Steady but Slow – Resilience amid Divergence* (Washington, D.C., April 2024).

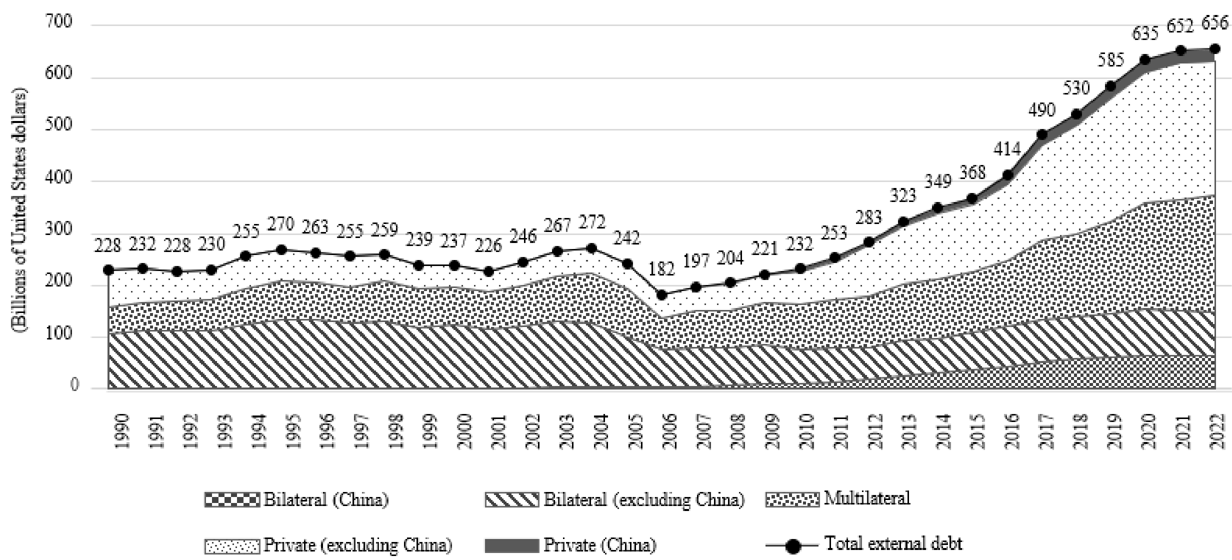
[26] IMF, World Economic Outlook database, April 2024.

A. Evolving debt landscape

29. During the past decade, the composition of African debt has changed considerably. The quest by African countries for additional financing has led to the acquisition of more private debt at the expense of bilateral debt. Commercial debt, including bonds and loans from private lenders, represents 43 per cent of total debt stock, up from only 17 per cent in 2000, reflecting a surge in the issuance of Eurobonds. At the same time, bilateral debt represents only a quarter of total external debt stock, down from 52 per cent in 2000 (see figure IX). The rise of creditors such as China, India and Türkiye has transformed the landscape of bilateral creditors. For instance, almost half of African bilateral debt is owned by China. Debt financing provided by multilateral financial institutions has remained relatively stable over the past two decades, accounting for about 34 per cent of total external debt.[27]

30. The diversity of African debt creditors complicates the situation regarding debt restructuring. The mismatch between the evolving debt landscape and the outdated debt management and coordination infrastructure in many African countries, as well as in global coordination mechanisms, hinders debt management.

Figure IX
Evolution of the African external debt landscape and its compounding challenges



Source: World Bank International Debt Statistics database.

B. Escalating debt service is constricting fiscal space

31. Recent global crises have led to reduced access for Africa to international capital markets, further escalating debt service, diminishing fiscal space and forcing Governments to curtail spending on critical sectors such as education and infrastructure. Consequently, 21 low-income African countries have been pushed into debt distress or are at high risk of debt distress.[28] External debt has compromised the ability of African countries to use fiscal space to invest in the Sustainable Development Goals, with the cost of debt servicing reaching a record $89.4 billion in 2024.[29]

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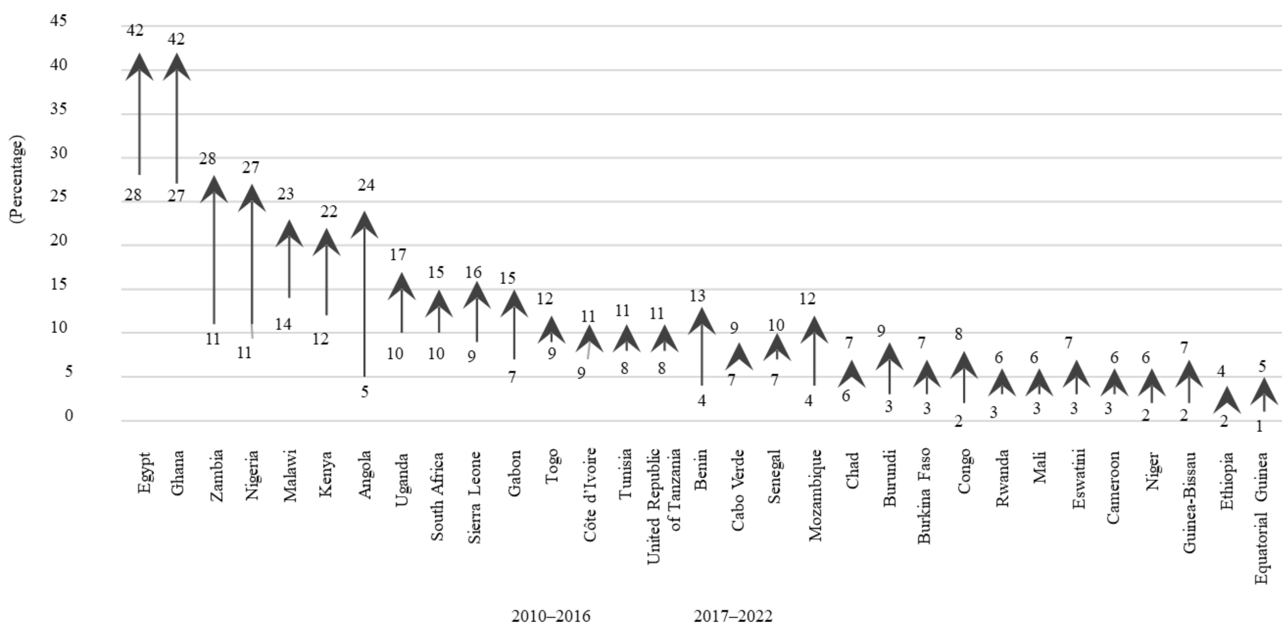
[27] World Bank, International Debt Statistics database.
[28] See www.imf.org/external/pubs/ft/dsa/dsalist.pdf.
[29] World Bank, International Debt Statistics database.

32. The increase in debt service costs has been driven mainly by high interest rates in international capital markets. Interest payments as a share of government revenues have skyrocketed during the past decade in most countries (see figure X).[30] For example, interest payments consumed, on average, around 42 per cent of government revenues in Egypt and Ghana between 2017 and 2022. Predominantly, countries with market access have contracted private debt and have experienced the highest increase in their interest payments, as they are exposed to market conditions.

33. Total external debt service for Africa consumed more than 12 per cent of the continent's exports and almost 15 per cent of government revenues in 2022.[31] High debt service costs are diverting vital resources away from investment in health, education and other priority sectors. According to the latest data, 22 African countries allocated more funds towards external debt servicing than spending on health in 2020, and 6 countries spent more on external debt servicing than on education in 2022. Figure XI shows how debt service costs for African countries have nearly doubled since 2020. Falling education spending and stagnant spending on health are indicative of the fiscal pressure of meeting debt servicing requirements while trying to invest in priority Sustainable Development Goal areas. In this respect, debt service repayments should not undermine efforts to realize fundamental economic, social and cultural rights, as provided for in the guiding principles on foreign debt and human rights,[32] as endorsed by the Human Rights Council in its resolution 20/10.

Figure X
Interest payments as a percentage of government revenues



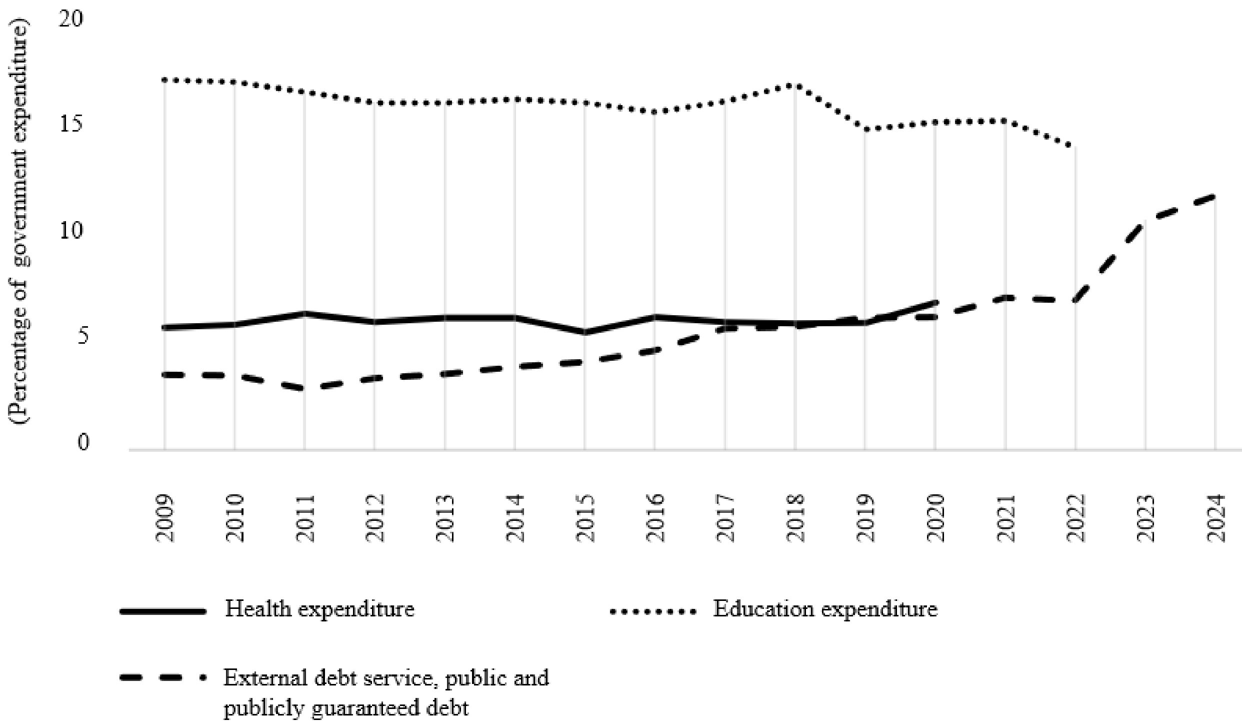
Source: Office of the Special Adviser on Africa staff calculations based on the World Bank International Debt Statistics database. Number at lower end of bar represents the 2010–2016 period.

[30] For example, interest payments consumed, on average, around 42 per cent of government revenues in Egypt and Ghana between 2017 and 2022, an increase of 15 percentage points compared with the average between 2010 and 2016.

[31] Office of the Special Adviser on Africa staff calculations based on World Bank, World Development Indicators and International Debt Statistics databases.

[32] A/HRC/20/23, annex.

Figure XI
Governments are diverting resources away from education towards debt servicing



Source: World Bank, International Debt Statistics and World Development Indicators databases; and UNESCO Institute for Statistics.

C. Usage of external debt and growth

34. In the short term, public debt can stimulate economic growth by boosting aggregate demand, funding public investments and improving creditworthiness.[33] Nevertheless, these benefits are contingent upon the effective and efficient investment of debt proceeds in development projects that foster growth and structural transformation, enhance human capital and increase productivity.[34] In many African countries, however, public debt has become a source of vulnerability and instability in the short term due to the inefficiency of Governments in spending and weak absorptive capacity. Over the long term, various empirical studies[35] consistently demonstrate a negative relationship between high external public debt levels and economic growth.

[33] Arcade Ndoricimpa, “Threshold effects of public debt on economic growth in Africa: a new evidence”, National Economics University of Viet Nam *Journal of Economics and Development*, vol. 22, No. 2, (2020).

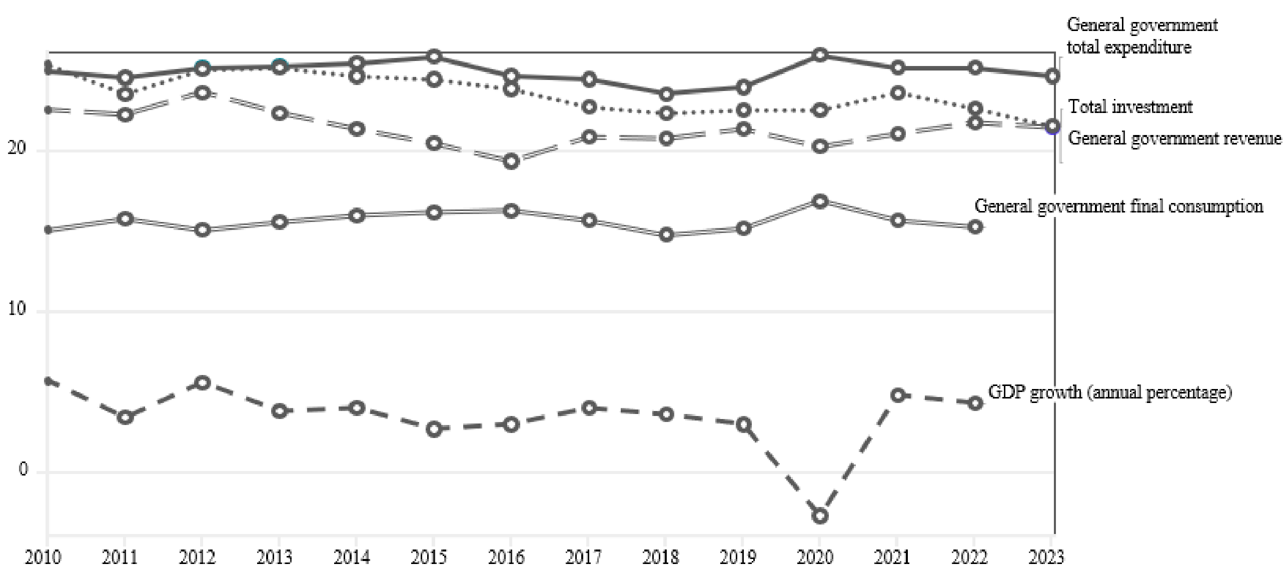
[34] Ebrima Ceesay, Joseph Tsenkwo and Momodou Musapha Faney, “Debt and growth: different evidence from the Western African countries”, *Central Asian Review of Economics and Policy*, vol. 1, No. 2 (2019).

[35] Benjamin Ighodalo Ehikioya and others, “Dynamic relations between public external debt and economic growth in African countries: a curse or blessing?”, in *Journal of Open Innovation: Technology, Market, and Complexity*, vol. 6, No. 3 (September 2020); and Isubalew Daba Ayana, Wondaferahu Mulgeta Demissie and Atnafu Gebremeskel Sore, “Effect of external debt on economic growth in sub-Saharan Africa: System GMM estimation”, *Cogent Economics & Finance*, vol. 11, No. 2 (2023).

35. Therefore, the impact of debt accumulation depends on how the money is invested. Ideally, it should be directed towards growth-catalytic sectors that create high returns in the future. Investing in six transitions – nature, sustainable energy access, sustainable food systems, inclusive social protection and job creation, the transformation of education, and digital connectivity – can provide the impetus for accelerated implementation of the 2030 Agenda for Sustainable Development.[36]

36. In 2020, during the beginning of the COVID-19 pandemic, macroeconomic dynamics indicated that debt was used more for consumption (26 per cent of GDP) than investment (22 per cent of GDP). However, when growth picked up in 2021, government consumption stalled, and public expenditure decreased (to 25 per cent of GDP) due to fiscal consolidation efforts. Investment levels also increased (to almost 24 per cent of GDP), indicating that debt was primarily being used to stimulate investment. After 2021, investments as a proportion of GDP saw a more pronounced decline in comparison with government spending, while debt service continued to substantially increase. This indicates that debt incurred during these years was not predominantly allocated towards investment, but rather utilized to service existing costly debt (see figure XII).

Figure XII
Dynamics of macroeconomic variables in Africa, as a percentage of gross domestic product



Source: Calculation by authors using data from the IMF World Economic Outlook database (April 2024) and the World Bank World Development Indicators database.

37. Low domestic revenues put additional pressure on government fiscal balances and threaten the achievement of debt sustainability. Tax revenue mobilization in Africa, accounting for only 16.6 per cent of GDP as of 2019, was lower than the rates of 21 per cent for Asia and the Pacific and 22.9 per cent for Latin America and the Caribbean.[37] Ultimately, the ability of a country to sustain its debt is closely tied to its capacity to enhance growth, mobilize additional domestic resources, improve the quality of institutions, effectively handle public expenditure, prioritize fiscal

[36] United Nations Sustainable Development Group, 2023. See https://unsdg.un.org/resources/six-transitions-investment-pathways-deliver-sdgs.

[37] United Nations, *Financing for Development in the Era of COVID-19.*

responsibility and facilitate structural transformations that drive growth.[38,39] African countries also have the responsibility to strengthen governance and enhance the transparency and management of external debt. Nevertheless, their efforts are hindered by the unfairness of the international financial architecture, including the limitations of credit-rating agency methodologies.

D. Debt transparency and African resource-backed borrowing

38. The issue of debt transparency is a pressing concern for debt sustainability globally. According to World Bank data in 2023, 40 per cent of African countries had not disclosed any sovereign debt data and had failed to either develop or publish debt management strategies. An equally concerning aspect is that 75 per cent of African countries had not disclosed their debt management strategies and annual borrowing plans.[40] As a result, countries become more vulnerable to uncoordinated and potentially unsustainable debt accumulation risks.

39. The fundamental principle of debt transparency is to ensure accountability to African citizens, ensuring that all debt instruments and government debt strategies are in the public domain. Debt transparency is especially relevant in the case of resource-backed loans, which are often not reflected in debt statistics and the collateralization details of which are generally not disclosed. Between 2004 and 2018, 14 African countries entered into agreements for 30 resource-backed loans, amounting to $66 billion. While this approach initially seemed promising, the period following the 2014 commodity price crash exposed the vulnerabilities inherent in this type of borrowing. The crash triggered severe debt problems for 10 out of the 14 countries.[41]

40. Unfortunately, heavy investments by African countries in commodity export sectors perpetuate their dependence on these sectors for revenue generation. In addition, resource-rich African countries tend to prioritize fiscal stabilization over diversification.[42] By reinforcing this approach through debt mechanisms and trade agreements, African economies find themselves trapped in a cycle of commodity dependence that hinders long-term economic development. Moreover, contingent liabilities, in particular those associated with weak-performing State-owned enterprises and public-private partnerships, represent a significant and often underappreciated risk to the fiscal stability of African countries, resulting in an exacerbation of their debt dynamics.

41. African countries could explore the adoption of State-contingent clauses that reduce the burden of debt repayment during periods of low fiscal revenues resulting from commodity price fluctuations. This would create a countercyclical effort and protect countries from eroding fiscal space for investments in productivity and growth as a result of heightened debt service obligations.

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[38] World Bank, *Africa's Pulse: An Analysis of Issues Shaping Africa's Economic Future*, vol. 18 (October 2018).

[39] Atish Ghosh and others, "Fiscal fatigue, fiscal space and debt sustainability in advanced economies", *Economic Journal*, vol. 123, No. 566 (2013).

[40] World Bank, Debt Reporting Heat Map: 2022, available at www.worldbank.org/en/topic/debt/brief/debt-transparency-report/2023.

[41] "Evolution of debt landscape over the past 10 years in Africa" (see footnote 20).

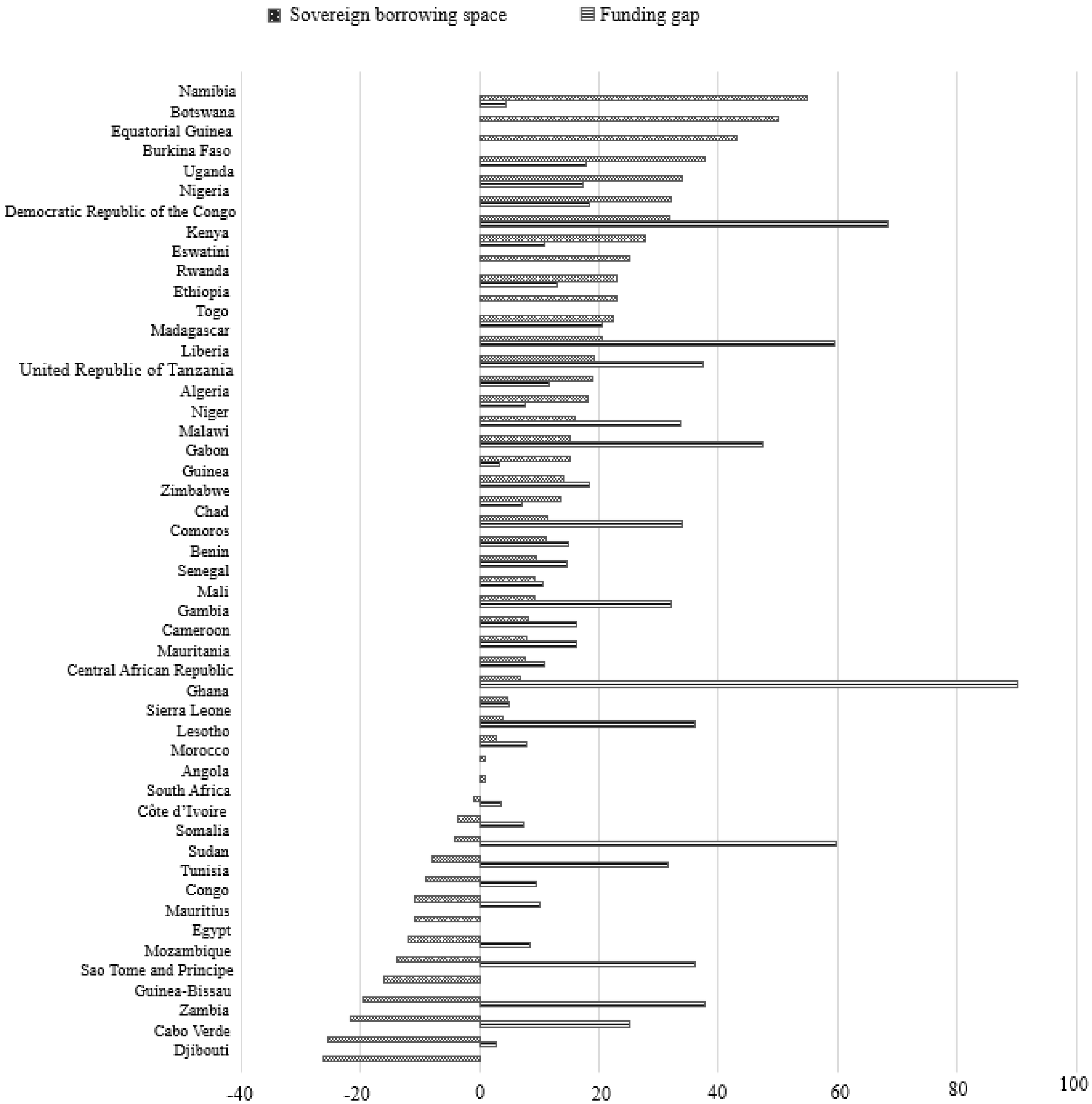
[42] Ha-Joon Chang and Amir Lebdioui, "From fiscal stabilization to economic diversification: a developmental approach to managing resource revenues", United Nations University World Institute for Development Economics Research working paper 2020/108 (August 2020).

E. Debt sustainability, financing gap and borrowing space

42. African countries have a considerable funding gap, estimated at around $350 billion annually, with regard to achieving the Sustainable Development Goals.[43] Most African countries still have sovereign borrowing space; however, in most cases, it falls short of bridging their funding gap for investing in the Goals. Fourteen African countries are in a more difficult situation, since they have a negative borrowing space (see figure XIII). In addition, more than 60 per cent of African countries do not have the necessary borrowing space to cover their funding needs, putting at risk the achievement of the Goals in these countries. The remaining countries still have the capacity to tap into domestic and external debt to finance their investment needs. Improving the prospects for achieving the Goals in Africa and escaping the debt trap would require large-scale and urgent mobilization of additional resources. This is the rationale for the call of the Secretary General for a Sustainable Development Goal stimulus.

[43] Office of the Special Adviser on Africa staff calculations as detailed in figure XIII.

Figure XIII
Most African countries still have some borrowing space; however, their funding gaps are wide in most cases
(Percentage of gross domestic product in 2022)



Source: Office of the Special Adviser on Africa staff calculations based on Homi Kharas and John McArthur, "Building the SDG economy: needs, spending, and financing for universal achievement of the Sustainable Development Goals", Global Economy & Development Working Paper 131 (Brookings Institution, October 2019); and Marcos Chamon and others, "Debt-for-climate swaps: analysis, design, and implementation", IMF Working Paper 2022/162 (Washington, D.C., IMF, 2022).

F. Elevated perception of African debt burden risks

43. African countries have been grappling with the dual challenge of meeting their development needs and keeping debt within manageable levels. Concessional sources of finance remain insufficient to attain the Sustainable Development Goals, while the cost of access to international markets has been highly elevated. Twenty African countries have been downgraded by international credit-rating agencies since the beginning of the COVID-19 pandemic, limiting access to and increasing the cost of access to new capital. As shown elsewhere in the present report, African countries pay much higher interest rates than countries in other regions in spite of relatively lower levels of debt. For instance, the United Nations Development Programme (UNDP) estimates that Africa has lost more than $74.5 billion from unfair credit ratings due to excess interest and foregone funding.[44]

44. The African Union has taken significant strides towards establishing an African credit rating agency, as endorsed during the session of the African Union Specialized Technical Committee on Finance, Monetary Affairs, Economic Planning and Integration held in Nairobi in July 2023.[45] The core objective of the agency will be to provide more accurate and equitable credit risk assessments for African countries, capture the continent's economic realities and potential, and address the limitations of existing credit-rating agencies, including the lack of ratings for 22 African countries.

45. African countries therefore need to continue engaging credit-rating agencies in a structured and formal dialogue to ensure greater transparency. Those agencies are called upon to address their ambiguous methodologies and encouraged to issue longer-term ratings and recognize the long-term value of productive investment in sustainable development and resilience.[46] This must be complemented by global efforts to increase guidance and regulation aimed at ensuring the credibility of credit-rating agencies within the international financial system.

G. Local currency lending: the shield against exchange rate volatility?

46. Currency risk is a critical factor contributing to the increased cost of debt. According to the *African Economic Outlook 2023*, African debt increased by more than 50 per cent between 2013 and 2020, due in part to currency depreciation. Over half of the continent's external debt is in United States dollars.[47] When the interest rates in the United States of America were increased in March 2022 to tame inflation, the dollar appreciated, and many currencies, including African currencies, depreciated relative to it (see figure XIV).

47. In this regard, direct local currency lending by multilateral development banks has the potential to revolutionize the continent's financial landscape, in particular in terms of debt sustainability.[48] While a loan is denominated in the local currency, the lender disburses funds to an intermediate, and the borrower receives them in hard

[44] UNDP, Regional Bureau for Africa, *Reducing the Cost of Finance for Africa: the Role of Sovereign Credit Ratings* (April 2023).

[45] African Peer Review Mechanism, "Retreat to finalise establishment of the Africa Credit Rating Agency" (25 March 2024.

[46] Secretary-General's Sustainable Development Goal Stimulus to deliver Agenda 2030.

[47] AfDb, *Africa's Macroeconomic Performance and Outlook: January 2024* (2024).

[48] Karen Rasmussen, "Mitigating currency convertibility risks in high-risk countries: a new IDA lending approach – viewpoint" (Washington, D.C., World Bank, April 1999). Available at http://hdl.handle.net/10986/11490.

currency. The borrower's repayment obligation is fixed in local currency at the prevailing exchange rate but still settled in hard currency.

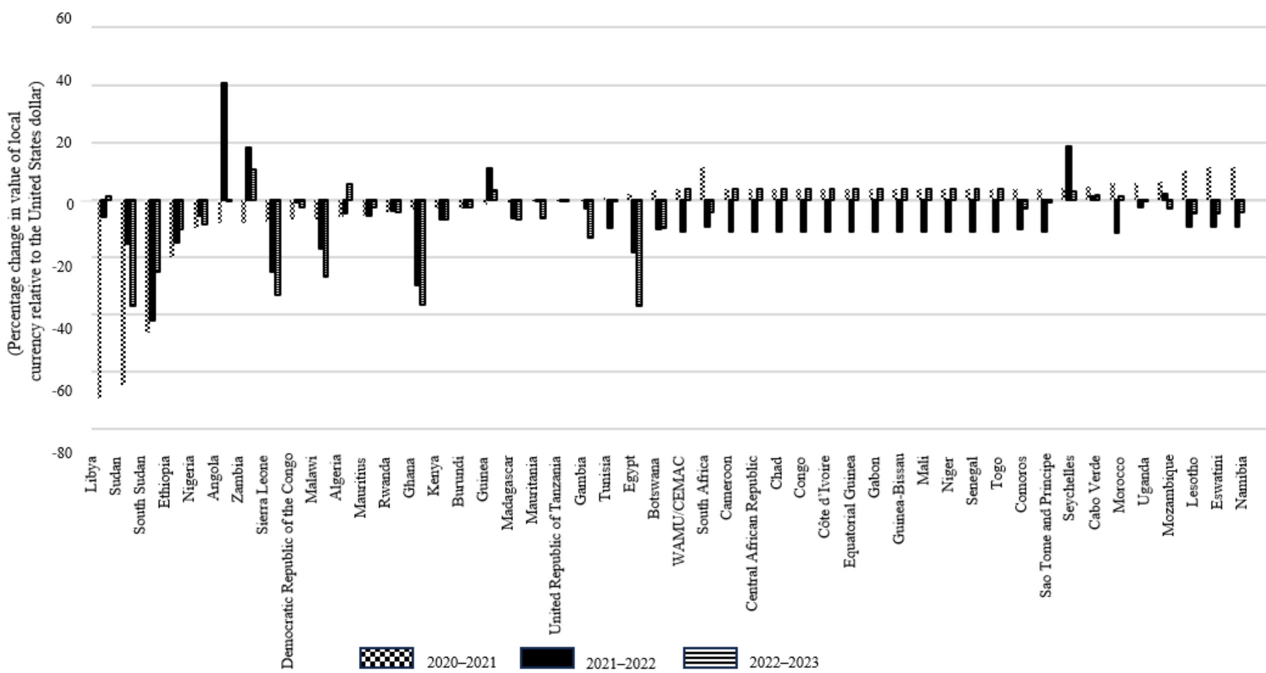
48. Exchange rate risk also affects the cost of concessional lending by multilateral development banks, increasing the cost of servicing in times of crisis. The challenge becomes more pronounced when debtor countries, especially low-income countries, are heavily dependent on exports, as fluctuations may directly influence their revenues through global commodity prices. Current lending practices transfer the responsibility for managing currency risk from well-equipped multilateral development bank treasuries to the debt management offices of low-income countries, which face severe capacity constraints.

49. In this regard, multilateral development banks should abide by responsible lending principles[49] and prioritize hedged sovereign currency lending as a default option over unhedged foreign currency lending, at least for low-income countries in Africa. Moreover, unless financed projects can generate foreign exchange, multilateral development banks could extend local currency lending to publicly guaranteed private sector entities. While local currency lending has higher initial costs than conventional currency lending practice, with implications for the lending operations of multilateral development banks, such a practice would constitute a recognition that those banks could manage the currency risks by leveraging their large balance sheets as part of a diversified portfolio and in alignment with the principles of the Addis Ababa Action Agenda.[50] By opting to play a de-risking role, multilateral development banks could assist African countries in reducing their vulnerability to external economic fluctuations. By helping manage this risk, they also would allow for more predictable allocation of domestic resources.

[49] United Nations Conference on Trade and Development (UNCTAD), Principles on Promoting Responsible Sovereign Lending and Borrowing (2012). Available at https://unctad.org/system/files/official-document/gdsddf2012misc1_en.pdf.

[50] Secretary-General's Sustainable Development Goal stimulus to deliver Agenda 2030, February 2023.

Figure XIV
Many African countries continue to face exchange rate volatility, which increases their debt burden



Source: African Development Bank statistics.
Abbreviations: CEMAC, Central African Economic and Monetary Community; WAEMU, West African Economic and Monetary Union.

V. Issues and challenges in the international financial system: towards building a development-oriented global architecture

A. Diagnosis of the current international financial architecture

50. Today's international financial architecture favours the interests of developed countries, which designed it after the Second World War. As such, the architecture is not only outdated and dysfunctional, but also unfair to African countries. Efforts to reform it have thus far been piecemeal and inadequate, reinforcing the inherent inequities of the system, especially the limited access of African countries to predictable and affordable finance.

51. Most urgently, the current international financial architecture does not allow the deployment of resources matched to the scale of the challenge of achieving Agenda 2063 and the 2030 Agenda. There are insufficient mechanisms for providing long-term predictable and affordable debt mechanisms aligned with these agendas, while resolution mechanisms prioritize the defence of private creditors. The present section covers four main areas of reform, building on the requirements of the Sustainable Development Goal stimulus: high borrowing costs; debt management and access to long-term concessional finance; debt sustainability analysis frameworks and debt crisis prevention and resolution mechanisms.

B. High cost of sovereign borrowing

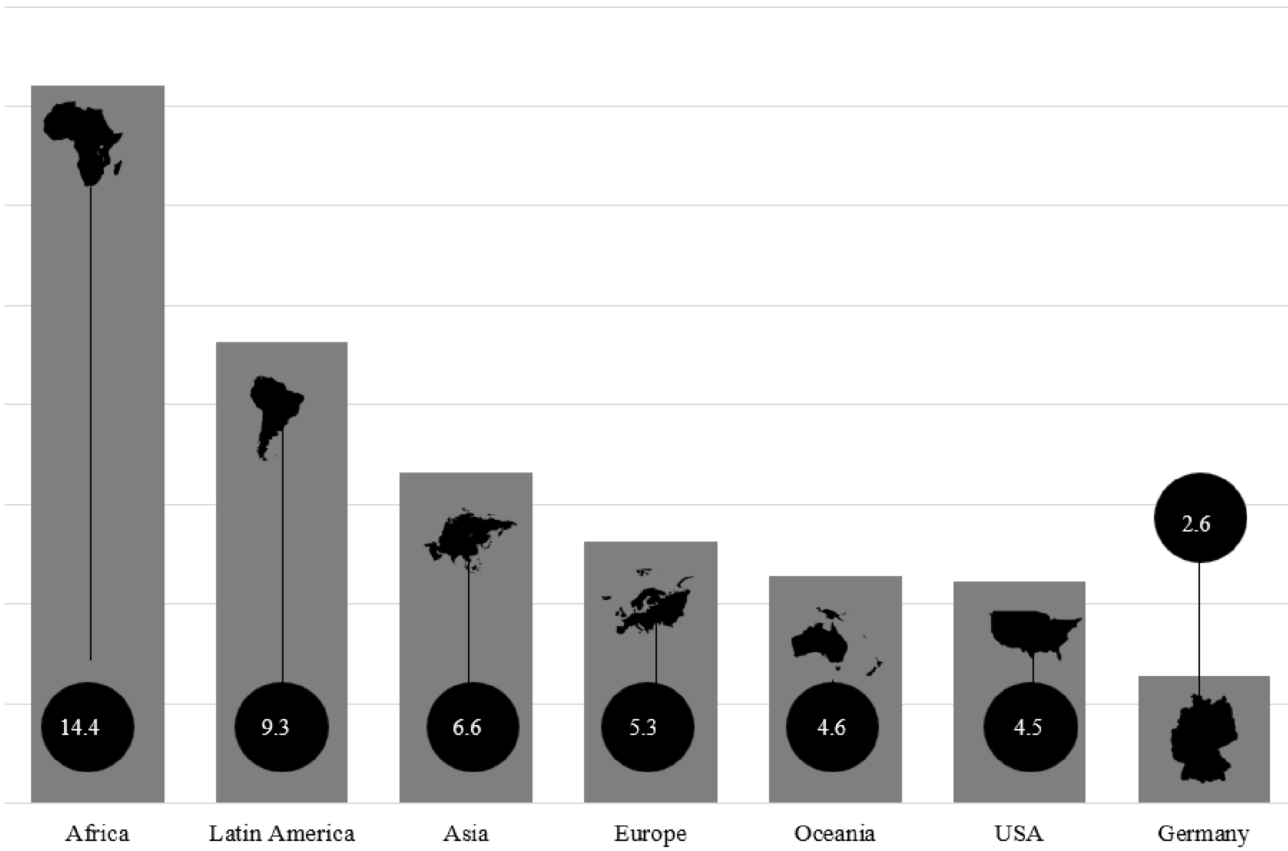
52. As shown in chapter III, debt-servicing costs for African countries have increased astronomically, faster than the rate at which the region is able to generate export earnings. The increase in debt-servicing costs reflects in part the asymmetric powers characterizing the international financial architecture that subordinate debtor countries to the power of creditors. This is evidenced in the high interest rates that African countries pay, with spreads between average African 10-year government bonds and their United States and German counterparts varying between approximately 1,000 and 1,200 basis points (see figure XV). In addition, sovereign downgrades by credit-rating agencies of more than 20 African countries amid challenging global economic conditions have further increased the cost of borrowing and limited their access to new funding.

53. The one-size-fits-all business models of global credit-rating agencies adversely affects access by African economies to finance due to information asymmetries, inaccurate risk perceptions not backed by socioeconomic fundamentals and, subsequently, overestimated risk premiums.[51] In an African context, the methodologies of credit-rating agencies often perpetuate a self-fulfilling prophecy whereby the expectation of high risk is not aligned with the realities of investment. For example, analysis provided by Moody's Analytics shows that, as an asset class, African infrastructure projects had a default rate of 5.5 per cent, compared with 5.9 per cent for Europe and 12.9 per cent for Latin America and the Caribbean.[52] Figure XV shows the cost differential related to the risk premium for Africa, which leads to excessive costs of capital compared with those for other countries and regions.

[51] For a more detailed analysis of the role of credit-rating agencies in debt sustainability in Africa, see Office of the Special Adviser on Africa, "Eurobonds, debt sustainability in Africa and credit rating agencies", policy paper (2022).

[52] Moody's Analytics, "Examining infrastructure as an asset class" (2021).

Figure XV
The "Africa premium", as demonstrated by 10-year bond yields
(Percentage)



Source: Office of the Special Adviser on Africa staff calculation based on data from www.worldgovernmentbonds.com (accessed on 28 May 2024).

C. Access to predictable, long-term concessional finance

54. The inequity in access to finance is rooted in the design of the Bretton Woods institutions. The current international financial architecture lacks an explicit developmental focus on prioritizing the interests of the poorest and most vulnerable. To the contrary, it can be argued that the current system redistributes wealth from the periphery of the global economy towards its core, ironically making Africa a de facto net lender to the rest of the world economy. A consequence of this inequity is that the current international financial architecture does not provide adequate predictable long-term financing to enable African countries to invest in their sustainable development, including in recovery and climate action. As highlighted in the previous section, the combined impact of rising debt costs and reduced access to international financing has curtailed domestic investment in critical Sustainable Development Goal areas. Offsetting these challenging and difficult conditions for Africa will require massively scaling up predictable long-term concessional financing.

55. Public development banks are well suited to providing these types of funding. Therefore, concerted efforts at the national and regional levels are needed to enhance the capacity of public development banks in Africa to provide financing, on a large

scale and with a broad scope, for investment in the Sustainable Development Goals and the green energy transition. African countries have been pushing for the reallocation of some special drawing rights (SDRs) to regional multilateral development financial institutions to strengthen their lending power. In addition, the reform of the international financial architecture must be aimed at (a) optimizing the balance sheets of multilateral development banks by leveraging callable capital and reducing the equity-to-loans ratio; (b) injecting new capital through recapitalization; and (c) expanding financial innovations, such as by mobilizing hybrid capital, including through recycled SDRs, and facilitating risk transfers to both private and public entities to release capital.[53]

56. To support the de-risking of African economies, multilateral development banks should aim to lend to countries in local currencies, reduce the debt risk profiles of African countries due to exchange rate volatility and promote the use of State-contingent clauses to suspend lending automatically to countries hit by external shocks.

57. Several countries have pioneered debt swaps to channel additional resources into priorities such as climate resilience. Such swaps have generally been undertaken through the willingness of a creditor to address certain development and climate policy aims via such transactions, or with the support of philanthropic partners for the same aims. Such mechanisms could be further deployed with increased institutional support, in alignment with the goals of the Sustainable Development Goal stimulus principles. Nevertheless, a concerted effort in close alignment with creditors is required to allow for “debt for development” swaps at scale. The recent establishment of a task force among multilateral development banks on credit enhancements, including for the purpose of debt swaps, could increase opportunities for the use of such swaps to reprofile expensive debts and invest savings in the Goals or climate resilience.

D. Debt sustainability analysis fails to properly address development needs and resilience-building

58. Furthermore, the tools and instruments used by multilateral organizations, in particular debt sustainability analysis, act as risk management tools for creditors, focusing on liquidity at the expense of solvency and prioritizing debt servicing over long-term developmental objectives and resilience-building measures, including adaptation to climate shocks. The risk reductions that are inherent in Sustainable Development Goal-focused and climate-resilient investment need to be properly reflected in debt sustainability analysis frameworks.

59. Further, debt sustainability analysis uses average expected interest rates based on market-determined interest rates for developing countries that have borrowed on commercial terms. Measuring debt sustainability on the basis of market interest rates tends to exaggerate the risk of default for African countries during a liquidity crisis due to increased borrowing costs, accompanied by unrealistic risk assessments, in the African context leading initially to premature default expectations and ultimately to the self-fulfilling prophecy of default. The Secretary-General has called for a “solvency-focused” analysis to complement traditional debt sustainability analysis, for the purpose of implementing the Sustainable Development Goal stimulus. Beyond this, as called for in the Addis Ababa Action Agenda, there is a need to create an

[53] See United Nations, “Our Common Agenda policy brief 6: reforms to the international financial architecture”, May 2023.

effective debt restructuring mechanism to address sovereign debt distress, including the problem of creditor coordination.

60. The most notable alternative to this restrictive interpretation of debt sustainability is the Sustainable Development Finance Assessment of UNCTAD, which explicitly incorporates the financing requirements for achieving the Sustainable Development Goals and takes into consideration all sources of foreign currency revenues and external finance comprehensively.[54]

E. Debt crisis prevention and resolution

61. Amid growing debt vulnerabilities of African countries and other developing countries, continued efforts are needed to improve debt crisis prevention and resolution. Efforts at the national and international levels will be necessary to address liquidity challenges, improve debt transparency, mitigate systemic risk, facilitate smooth debt restructuring, ensure macroeconomic stability and create fiscal space for investment in the Sustainable Development Goals.

62. The Common Framework for Debt Treatments beyond the Debt Service Suspension Initiative needs to be more effective and fit for purpose. Besides leaving out many low- and middle-income countries that are experiencing debt distress, restructuring under the framework has been slow. For countries that have sought restructuring and relief under the initiative, it has taken over three years to find resolution. The slower nature of the existing debt-workout mechanisms can result in debtor countries being locked in a vicious cycle of debt and losing access to finance and export markets.

63. Improvements to the Common Framework are sought in the following areas:

(a) Greater clarity on the steps and timelines of the Common Framework to enable the timely disbursement of funding and support;

(b) Introduction of debt service suspension during the negotiation process to avoid a build-up in arrears and remove liquidity constraints;

(c) Clarity on the enforcement of comparability of treatment;

(d) Extension of coordinated debt treatment to highly indebted non-Common Framework-eligible countries.[55]

64. In the context of the urgency of delivering a Sustainable Development Goal stimulus, a reformulation of the Common Framework could include an immediate suspension of debt repayments, with commitments to invest in Goal priorities.

65. Furthermore, a redesign is required of the debt sustainability analysis framework to account for the development needs of individual countries, factoring in a "resilience dividend" from appropriate investments that provide improved resilience to external shocks.

[54] The Assessment has thus far been applied in the case of a small number of developing countries but can be scaled up to cover many African economies. For more detailed analysis of this project, see https://mobilizingdevfinance.org/tool/unctad-sustainable-development-finance-assessment-sdfa.

[55] See *Financing for Sustainable Development Report 2024: Financing for Development at a Crossroads* (United Nations publication, 2024).

VI. Conclusions and recommendations

A. Conclusions

66. African debt has continued to be invested primarily in raw material extraction and commodity export rather than in the financing of productive capacity, the deepening of value chains, and structural transformation. There has been a slight shift towards domestic debt financing in recent years, leading to the development of domestic debt markets. However, domestic debt is of a short-term nature, and medium- and long-term debts are undersubscribed. This can lead to diminished fiscal space, potentially crowding out financing for investment in productive capacity and structural transformation, thereby preventing African countries from unleashing their significant development potential. It also puts at risk the potential demographic dividend of Africa, with its large youth population entering the workforce on a daily basis. African countries tend to use domestic debt financing in an ad hoc way, mainly for short-term liquidity purposes. It is critical to align lending with defined strategic development priorities centred on attaining the Sustainable Development Goals.

67. Many African countries continue to rely on external debt. With the tightening of global financing conditions following the COVID-19 pandemic, many African countries saw an increase in their external debt. However, external debt as a percentage of GDP averaged only 28 per cent, considerably below the level for other developing countries. As demonstrated, while recognizing that debt servicing represents a major pressure on African economies, many African countries still have borrowing space.

68. Debt can be a development tool, and African countries will need increased funding for greater investment in the Sustainable Development Goals. More disconcertingly, debt servicing costs have increased astronomically – faster than growth in export earnings. This is crowding out development spending: more than 40 per cent of African countries allocated more funds to debt service than health expenditure in 2020.

69. The unfair international financial and debt architecture has heightened the debt vulnerability of Africa through very elevated interest rates and the prioritization of repayment of creditors at the expense of investment in resilience. With fiscal space already eroded and very high debt service payments coming up amid tightening global financing conditions and liquidity pressures, and without increased financing and support, African countries are at risk of falling further behind in meeting the Sustainable Development Goals. All these challenges underscore the urgency of reforming the international financial architecture to align it with the imperative of accelerating investment in the Goals and Agenda 2063.

B. Recommendations

Domestic resource mobilization as a tool for risk management and to align debt and development planning

70. **Debt strategies for African countries need to be anchored to well-designed investment plans that are linked to Agenda 2063 and the 2030 Agenda and that are aimed at delivering the economic transformation required.**

71. **Domestic resource mobilization strategies are at the heart of successful debt planning and debt management, as they help to provide predictability of financing flows allocated to national development priorities. Focused efforts by Governments and international partners on sound domestic resource**

mobilization strategies can ensure sustained ownership of investment in sustainable development and increased resilience.

72. **The use of integrated national financing frameworks can help coordinate different sources of financing and build cohesion between national financing capacity, development partners and the private sector.**

73. **There is a need to scale up domestic resource mobilization efforts through broadening the tax base, reducing exemptions and loopholes, strengthening tax administration, tackling transfer pricing and reducing tax evasion and avoidance to strengthen the economic resilience of Africa and avert the risk of falling into a negative debt cycle. The framework for inclusive tax cooperation provided under General Assembly resolution 78/230 must address the need for capacity-building for countries to effectively address these issues.**

74. **It is essential for African countries to strike a balance between mobilizing short-term domestic debt for liquidity purposes and issuing long-term local debt for investment in productive sectors, and to develop coherent strategies for matching domestic debt with their national development priorities.**

75. **The growth of African pension and insurance funds provides a potential buffer against external pressures and shocks and represents a more stable and long-term source of domestic financing. Therefore, African countries should strengthen their regulatory and supervisory governance frameworks to allow institutional investors to diversify their portfolios and increase exposure to domestic and regional capital.**

Ensuring debt transparency

76. **Debt transparency can play an important role in ensuring debt sustainability and efficiency in resource use. Such transparency is the shared responsibility of both borrowers and creditors. African countries should strengthen their institutional, legislative and operational frameworks, including through transparent budgetary processes, to enable timely and comprehensive debt reporting. African countries also need to engage in responsible borrowing practices, in particular in the context of resource-backed loans, and improve debt management.**

Increasing predictable access to concessional finance

77. **Development partners are urged to deliver on their official development assistance (ODA) pledges and ensure aid effectiveness by targeting 10 per cent of ODA towards institution- and capacity-building, including towards digitalization to help build strong domestic resource mobilization systems in Africa.**

78. **Reform of the international financial architecture should include the adoption of measures that include positioning the multilateral development banks to focus on long-term lending (30 to 50 years) with longer grace periods, increasing the capital of multilateral development banks by implementing the Group of 20 (G20) capital adequacy frameworks, rechannelling SDRs, issuing hybrid capital and raising new capital, and facilitating risk transfers to both public and private entities. The balance sheets of multilateral development banks should be optimized by leveraging callable capital. Multilateral development banks should advance lending to countries in local currencies as a means of reducing the impact of currency-related increases on debt servicing. Governments should further develop domestic capital markets, supported by development partners, to provide a broader range of financing tools denominated in local currencies.**

Reform of the Common Framework for Debt Treatments beyond the Debt Service Suspension Initiative and support for countries in debt distress

79. **Many African countries are in debt distress. Solving their debt burden will require a comprehensive yet differentiated approach tailored to each country's situation. African countries in debt distress and with constrained access to international capital markets due to high borrowing costs and a sovereign credit rating below investment grade need debt relief, including restructuring, liquidity support, a reduction of borrowing costs and credit enhancement, as well as debt write-offs and debt standstills to create the space for investing in the Sustainable Development Goals. Deploying a debt service suspension linked to the attainment of the Goals is urgent and essential in view of the rising diversion of resources towards debt servicing.**

80. **Efforts are needed to improve the Common Framework to make it more effective and fit for purpose. Beyond expanding eligibility to middle-income countries in debt distress, further steps to improve the effectiveness of the Common Framework include providing greater clarity on the process and timelines to enable timely disbursement of funding; the introduction of debt service suspension during the negotiation process to avoid a build-up in arrears and remove liquidity constraints; and increased transparency in the enforcement of comparability of treatment, all of which will go a long way towards improving the Framework's effectiveness.**

Creating fiscal space through financing innovations

81. **The deployment of financing innovation tools should be linked to the reinforcement of capacities for domestic resource mobilization, and situated within coherent integrated national financing frameworks.**

82. **The systematic use of State-contingent clauses to suspend debt repayments automatically for countries hit by external shocks can help reduce the risk perception of vulnerable countries, and help provide fiscal space and liquidity to respond to these shocks.**

83. **Debt swaps can be used by countries facing fiscal constraints related to debt servicing that are associated with unfavourable external conditions or the high cost of debt service. They can be used to smooth repayment profiles, reduce currency exposure and free up fiscal space for investment in the Sustainable Development Goals, for example, in the form of swaps of debt for development, nature or climate. Swaps should be situated within a comprehensive domestic resource mobilization strategy to ensure long-term financing.**

Regional cooperation to improve access to affordable finance and deepen regional investment

84. **Additional measures at the regional level would be necessary to further strengthen the financing for development architecture, including eliminating barriers to the cross-border flow of capital and pooling resources for transboundary infrastructure projects to further unlock the benefits of the African Continental Free Trade Agreement. The ongoing efforts by the African Union Commission to create key pan-African financial institutions such as the African Investment Bank and the African Monetary Fund are notable endeavours in this direction.**