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A New Debt Deal for Africa: Breaking the Vicious Cycle

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01

Executive Summary

African leaders face a difficult challenge: fostering development by accumulating debt for future generations to carry, or raising taxes and facing widespread discontent, protests and even risks of democratic instability. Making tangible improvements to their citizens' lives requires significant investment in infrastructure, health care, education and economic competitiveness, but public resources are constrained by substantial debt-servicing burdens and limited capacity to tax. African citizens want change and African leaders struggle to deliver, overburdened by interest and debt (re)payments.

We propose a path out of the growing debt crisis through a five-pillar plan: a New Debt Deal for Africa. This plan substitutes high-interest debt with low-interest-rate debt, following tangible improvements in public-finance systems and outcomes. Combined with domestic reform and international collaboration, a New Debt Deal can help to dismantle the barriers imposed by the negative risk-perception cycle, reduce borrowing costs and unlock sustainable growth opportunities.

Africa has seen its debt-to-GDP ratios rise sharply, from 31 per cent in 2010 to 67 per cent in 2023.[1] Despite lower debt-to-GDP levels compared with G7 countries, the high cost of borrowing has a disproportionate effect on African economies. For example, interest payments absorb 26 per cent of Ghana's government revenue, compared with 3 per cent for France, despite Ghana's lower relative debt level.[2] The higher interest rates paid by African governments stem from lenders' perceptions of risk, legacy governance and fiscal challenges and an inequitable global financial architecture.

At the core of the issue is the cost of debt, even more so than the volume of debt. While high-income nations borrow at an interest rate of 2 to 3 per cent, African countries face rates sometimes exceeding 10 per cent, a discrepancy driven by investors' heightened perception of risk in African economies. Higher interest rates for certain African governments translate to higher interest rates for the private sector as well: companies that wish to invest also pay these rates, as the sovereign debt-interest rate is often the floor that applies to companies.[3] Lending in African countries is often much more expensive than in many high-income countries (18 per cent vs 4 per cent).[4] For an entrepreneur, paying double-digit interest rates is prohibitive for financing investment.

These perceptions create a self-reinforcing loop that we call the "negative risk-perception cycle": high borrowing costs stifle economic investment, weak economies struggle to meet debt obligations and risk perceptions deepen further. This cycle limits the fiscal space available for essential infrastructure and human-capital investments, leaving many countries in a precarious economic and thus political position. This is sometimes seen as one of the biases of the global financial system against low-income countries.

The New Debt Deal for Africa that we propose consists of five pillars.

1. **African leaders commit to attainable fiscal targets,** underpinned by strengthened public-financial-management (PFM) practices, and designing institutions that ensure good governance and effective national planning. These plans must be clearly communicated to partners, lenders, investors and credit-rating agencies. An essential element of breaking the negative risk-perception cycle is building consistency and delivering results.
2. **High-income countries and development partners commit to supporting African countries with the improvement and expansion of African domestic-tax-revenue mobilisation through the use of technology.** This would be facilitated by long-term twinning of tax administrations in high- and low-income countries.
3. **As demanded by their citizens, African leaders commit to improving the efficiency of their governments** by realigning spending and investment, cutting out waste, building capacity, and rooting out corruption through auditing, spending reviews, sound budget planning and improved budget execution. Beyond just addressing debt, this is crucial if leaders are to foster trust and deliver better outcomes for citizens.

4. **Global actors, high-income countries and lenders must avoid short-termism,** accepting that African leaders will need to invest in the pillars of economic growth and that this will require both time and potentially the accumulation of more debt to pay for such investments. African budgets must be aligned with each country's political realities, the needs of its citizens and the most efficient use of that budget.
5. **The international community must collaborate to develop new tools to provide African leaders with a lower cost of debt to refinance their high-interest-paying debt.** With this, global actors, lenders and high-income countries must find a new mechanism to provide lower-cost funding that will ensure investments in digitalisation, economic development, governance, health and education can bear fruit. This tool should allow diminishing interest rates alongside PFM reforms. With these lower-interest-paying loans, African countries can refinance their high-interest-paying debt or finance their investment programmes. This tool would also contribute to the reform of the global financial system. The top governmental borrowers and lenders – many of them united in the G20, whose chair South Africa made the high cost of capital a priority – should agree on such an instrument.

The last substantial debt-relief operation in the early 2000s supported 37 countries with more than $100 billion in debt relief.[5] It allowed a strong reduction in debt levels and interest payments, and the use of fiscal space both for public investment and for the social sectors, consistent with their poverty-reduction strategies, benefiting the citizens of low-income countries across the world. The kind of leadership exhibited in the early 2000s should be revived, adapted to 2025 – not just by striking out debt, but by anchoring governance reforms sustainably and allowing subsequent debt swaps to lower interest payments.

The importance of such support cannot be understated. A failure to develop new cost-of-debt tools will only perpetuate the current reality: African governments and businesses working hard to try and strengthen their economies and create jobs by investing in infrastructure, education and economic development, at prohibitive, multi-digit per cent interest rates.

Meanwhile, governments and businesses in high-income countries, with much greater debt relative to the size of their economies, borrow and invest hundreds of billions at much lower, single-digit per cent costs of borrowing.

Considering the growing risk of civil unrest and poverty-driven migration, breaking the negative-risk perception cycle is not only in the political interest of African leaders and their citizens, but also in the interest of the rest of the world. Many Western leaders wish to avoid the large, irregular migration flows experienced in the past, so political support for the five steps, including new refinancing tools, is ultimately mutually beneficial, especially as only loans or guarantees are needed. Coupled with committed reforms on fiscal sustainability, action on the cost of debt will enable Africa to invest in long-term growth: reducing irregular migration through job creation, strengthening continental stability and ultimately reinforcing democracy.

02

Introduction

Today, African leaders across the continent face an almost impossible task.

They must invest significantly to improve their countries' economic competitiveness and, in turn, improve the lives of their citizens. This includes investment in critical infrastructure, like energy supply, electricity distribution, digital connectivity, roads, data centres and housing, and in human capital, like education, health, digital and business skills, and – crucially – jobs. By improving agricultural productivity, attracting foreign investment, and developing tourism, technology innovation and manufacturing, increased economic competitiveness can stimulate job creation.

But most African leaders simultaneously face large trade or current-account deficits, weakening currencies, climate-change impacts, inflation in oil, energy and food prices driven by international wars, and the aftershocks of the Covid-19 pandemic, all of which are contributing to a rapid rise in the cost of living. In the face of such pressures, democracy demands that leaders must take action; people want to see changes being made that will improve their services – from education to health care – provide them with jobs, increase their incomes and help them support their families.

But investment in essential infrastructure, public services, skills and economic development costs money. Burdened by debt – and in particular the cost of that debt, imposed by international lenders – African leaders have limited options for raising the funds needed. To attract private-sector investment, tax concessions must be granted to companies; low-income citizens are often too poor to tax and operate largely within the informal economy,[6] meaning African governments can only increase the taxes paid by the middle class. Squeezing the middle class with higher taxes and increasing taxes on basic items such as food often incite greater public anger.

African leaders facing a lack of resources are forced into making a choice: pay for development by accumulating debt for future generations to shoulder; do nothing, or do little, but fall further behind in economic development; or raise taxes and risk widespread discontent, protests and likely political instability.

In its most recent International Debt Report,[7] the World Bank advocated for debt relief and reform of the global debt-restructuring architecture, stating that a “twenty-first century global system is needed to ensure fair play in lending to all developing economies”. Fundamentally, African leaders must be enabled to invest in the economic competitiveness – and, ultimately, the futures – of their countries, but the path to investment starts with tackling the critical challenge of debt.

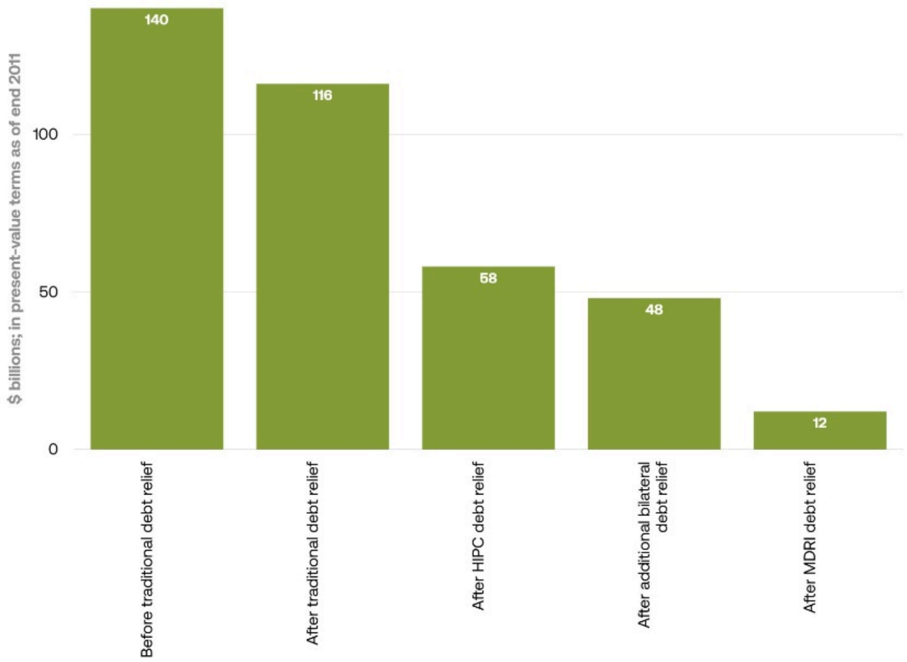
03 Africa's Debt Dilemma: Addressing the High Price of Borrowing

Much has been written recently about African sovereign debts, including by institutions such as the International Monetary Fund (IMF),[8] ONE[9] and the World Bank.[10] In the aftermath of Covid-19, financial headlines have pointed to repeated African debt challenges,[11] with recent International Monetary Fund (IMF) debt restructurings in Zambia, Malawi, Ethiopia and Ghana suggesting African countries have taken on too much debt. But have they, and how did we get here?

In the late 1990s and early 2000s, the world came together under the Heavily Indebted Poor Countries (HPIC) initiative, which, with the Multilateral Debt Relief Initiative (MDRI), supported 37 countries with more than $100 billion in debt relief.[12]

FIGURE 1

HIPC/MDRI enabled a significant decrease in debt levels for heavily indebted low-income countries

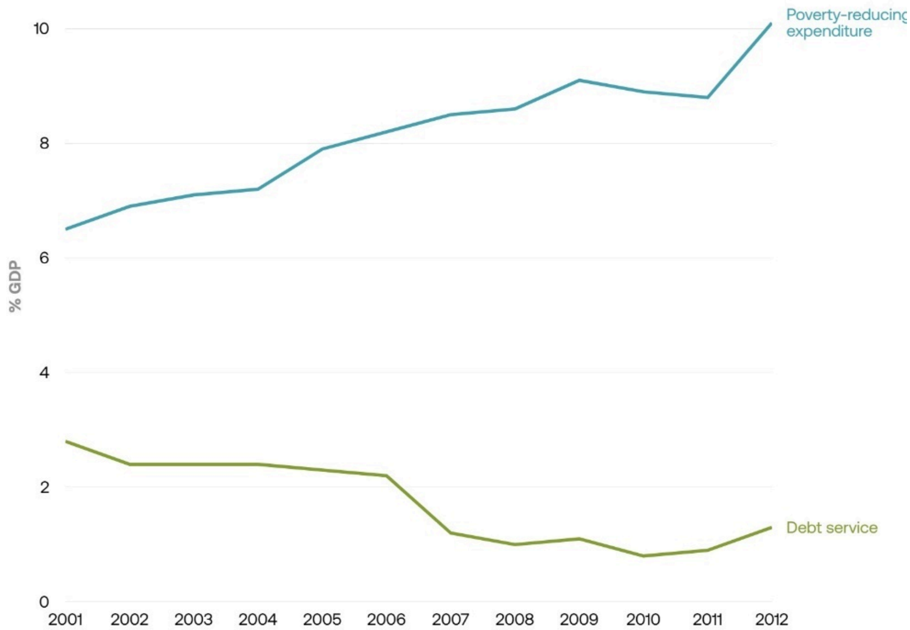


Source: IMF, 2014

These initiatives are broadly regarded as a qualified success.[13] There is substantial empirical evidence of reduced debt levels and interest payments, and fiscal space freed up for public investment and for the social sectors, consistent with their poverty-reduction strategies. In this way, HIPC/MDRI benefited citizens in low-income countries, not just in Africa but Latin America and Asia too. The IMF also showed some positive but mixed causal effects on economic growth in the five years following the completion point of HIPC/MDRI,[14] as the average growth after completion point was 0.7 per cent higher than before completion (although other factors such as world trade or international prices will have influenced growth as well).

FIGURE 2

The effects of HIPC/MDRI translated to lower debt-service expenditure and higher poverty-reduction expenditure



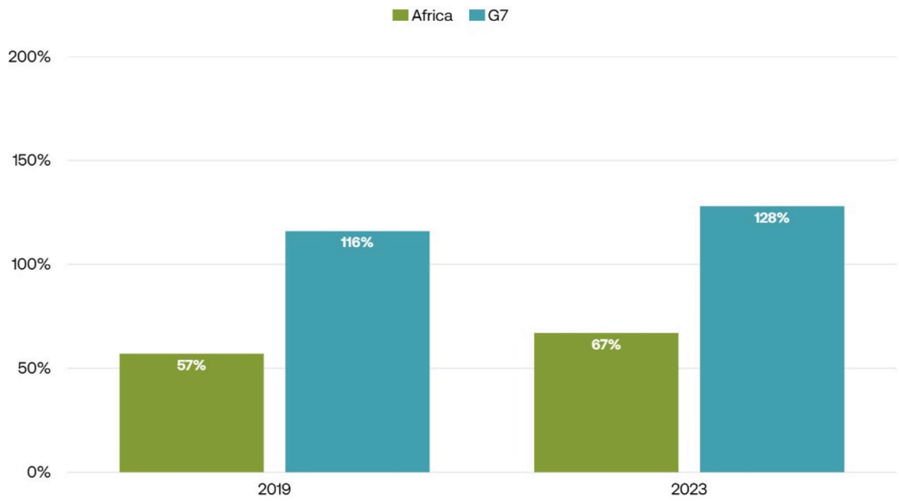
Source: IMF

In the years following, African debt rose as countries invested in their growth and development, attempting to bridge the skills and infrastructure gap between themselves and countries with developed economies. Between 2010 and 2019, Africa's debt-to-GDP ratio rose from 31 per cent to 57 per cent.[15] From 2019 to 2023, just as high-income countries used expansionary spending to tackle Covid-19, energy and food inflation, and geopolitical instability, so too did African countries, necessitating deficit spending and rising debt-to-GDP ratios. Although many African countries were hit hard by

Covid-19 and by the limited availability of vaccines, which led to drastic lockdown measures, their debt levels increased at similar rates to those of the G7 and remained below those of high-income countries.

FIGURE 3

Post-Covid change in average public debt-to-GDP ratios (G7 vs Africa)

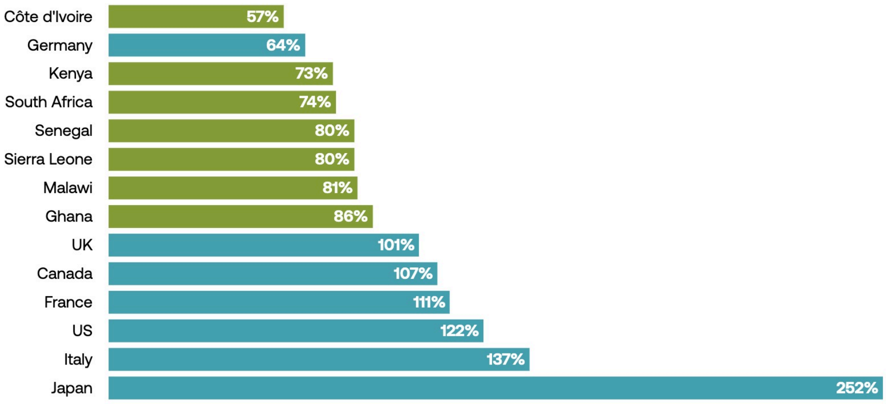


Source: TBI analysis based on UNCTAD data

The most recent debt challenges facing African nations such as Ghana, Kenya, Zambia and Ethiopia cannot be oversimplified as a quantity-of-debt issue. In 2023, while African debt-to-GDP ratios stood at 67 per cent, the average debt-to-GDP ratio of G7 nations stood at more than 111 per cent.

FIGURE 4

Nearly all G7 countries have higher debt-to-GDP ratios than African countries



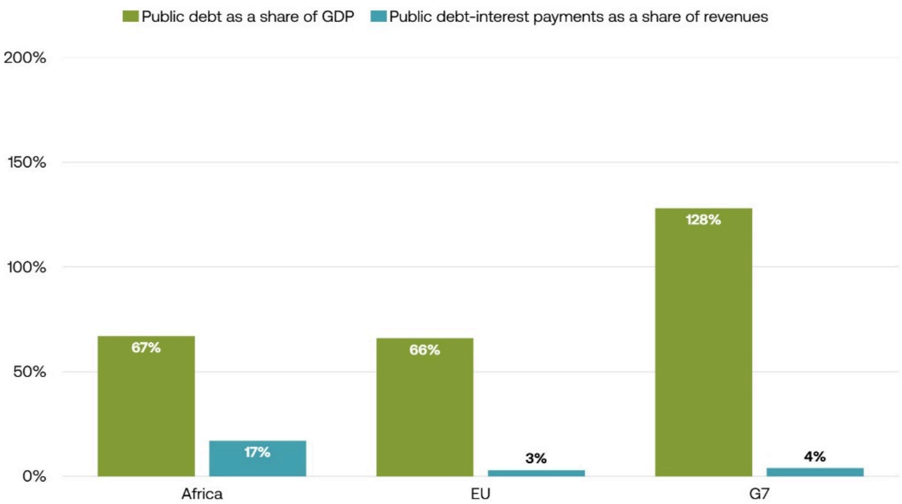
Source: TBI analysis based on UNCTAD data (2023)

While G7 countries like Japan, Italy, France and the UK possess debt-to-GDP ratios of close to or more than 100 per cent and continue to deficit spend at 4 to 7 per cent of GDP, far surpassing their economic-growth rates, the global financial system granted them investment-grade credit ratings. In contrast, many African countries with significantly lower debt levels have defaulted and been forced into debt restructurings.

According to the IMF, 18 African countries are currently either in or at high risk of debt distress,[16] thanks not only to their substantial debt levels but also to the challenges of servicing their debt. Between 2010 and 2023, Africa's interest payments as a percentage of its revenue rose from 6.5 per cent to 16.7 per cent. The World Bank notes the same trend using different indicators: "Interest payments now amount to nearly 6 per cent of the export earnings of IDA- [International Development Association-] eligible countries – a level that has not been seen since 1999. For some countries, the percentages range from 10 to as much as 38."[17]

FIGURE 5

African interest payments outstrip EU/G7 interest payments, while African debt is equal or lower



Source: TBI analysis based on UNCTAD data

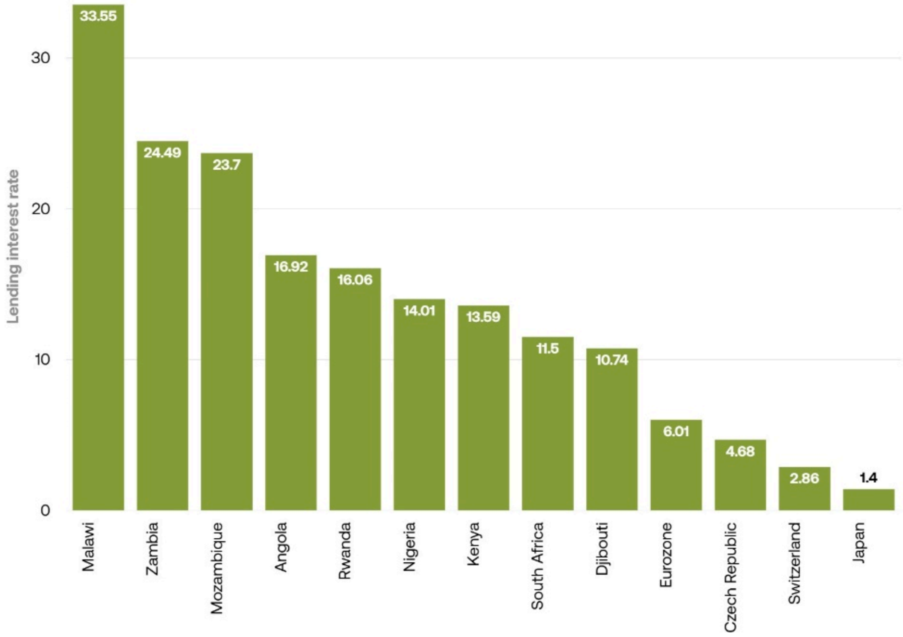
Portugal and France have debt-to-GDP ratios of 99 per cent and 111 per cent, and use 5 per cent and 3 per cent respectively of their total government revenues to pay the interest on this debt. By comparison, Malawi, Kenya and Ghana, each with total debt-to-GDP ratios lower than both Portugal and France, use approximately 26 per cent of their tax revenues for interest payments.[18]

Part of this divergence can be explained by the lower domestic revenues as a share of GDP in African countries compared with the high-income countries, but also substantially by the higher interest rates they pay. While high-income countries borrow at an interest rate of 2 to 3 per cent, African countries face rates sometimes exceeding 10 per cent, a discrepancy driven by investors' heightened perception of risk in African economies. For example, in 2024, Kenya, Benin and Senegal secured sovereign loans at 10.4 per cent, 8.4 per cent and 7.8 per cent respectively on their debt issuances.

But where African governments face borrowing costs that are two to three times higher than high-income countries, these numbers mask much of the true challenge. Their average government cost of debt includes lower-cost loans from other sovereigns and multilateral institutions including the IMF and the World Bank – loans provided at much lower rates – but private-sector interest rates or the private-sector cost of debt for African nations is significantly higher: upwards of 10 per cent and even as high as 30 per cent. If African governments want to access the global banking market for debt, as high-income countries do, the interest rates they face are prohibitive.

FIGURE 6

Higher interest rates for certain African governments translate to higher interest rates for the private sector as well



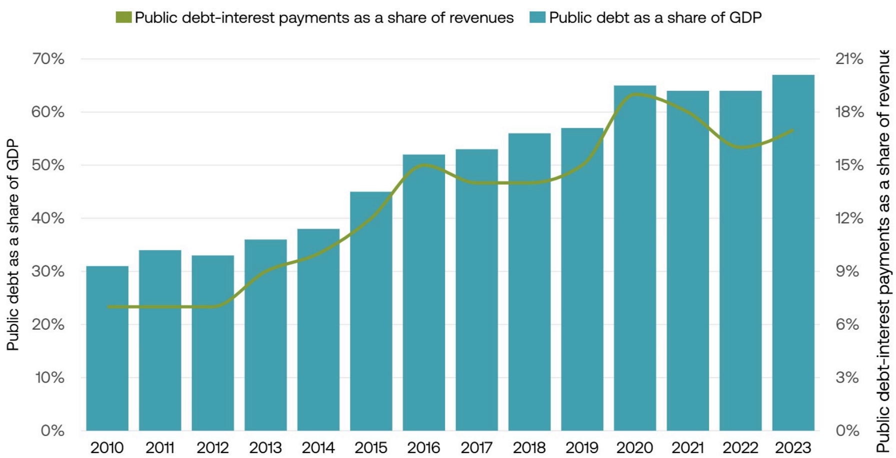
Source: Fitch Ratings and World Bank

This has a compounding negative effect on economic-development prospects as companies within African countries that wish to invest must pay these very high private or bank interest rates, as the private sovereign debt-interest rate is often the floor that companies pay.[19] For an entrepreneur, paying double-digit interest rates is prohibitive for investment.

By high-income world standards, many African countries have fiscal room to make important strategic investments in their futures but cannot because of the cost of their debt. Over the coming years, as debts come to the end of their terms, many of these governments will need to refinance their existing debt. At current high interest rates, debt-service costs will dominate increasing proportions of government budgets. The current chair of the G20 – South Africa – has acknowledged the important negative effect of the high cost of capital on low-income countries and wishes to "address high risk premiums for developing economies".[20]

FIGURE 7

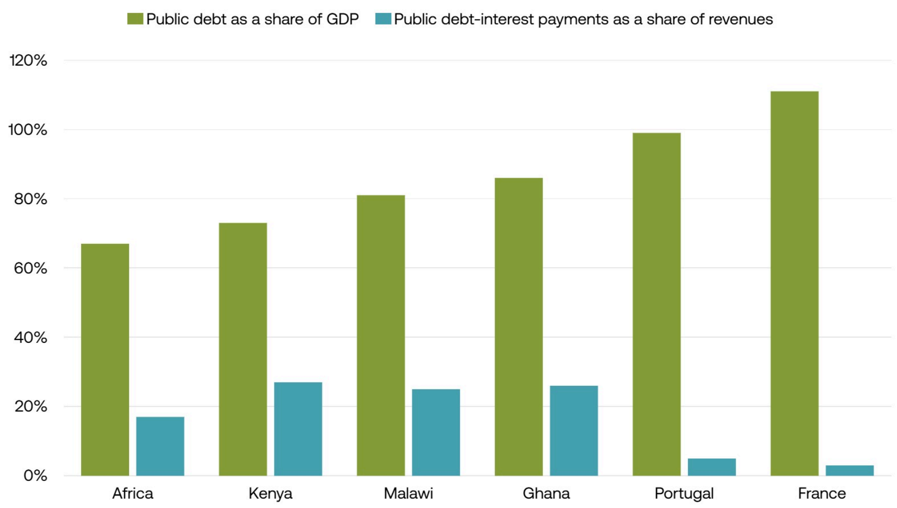
Africa's average interest payments rose to an astonishing $1 for every $6 in tax revenues



Source: TBI analysis based on UNCTAD data

FIGURE 8

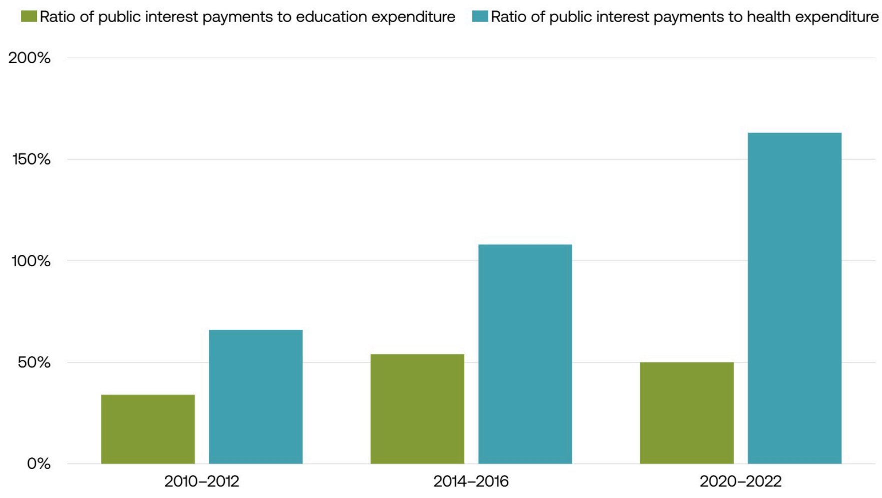
Debt-interest payments per country can be much higher than the continental average – as much as $1 for every $4 in tax revenues



Source: TBI analysis based on UNCTAD data

FIGURE 9

Interest payments outweigh health-care expenditure and represent roughly half of education expenditure



Source: TBI analysis based on UNCTAD data

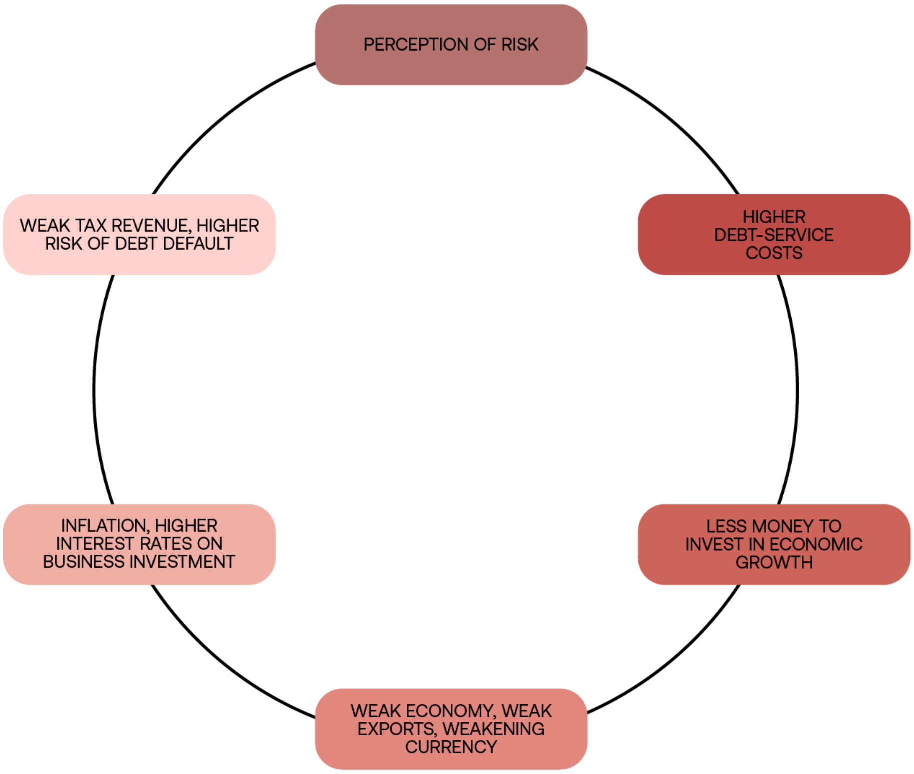
Per the IMF, the looming debt-cost challenge facing many African countries "could lead to solvency problems for many vulnerable countries. In other words, what is now a squeeze on public finances could morph into a debt crisis, with substantive implications for growth, job creation, and poverty."[21] Indeed, net inflows to low-income countries were negative in 2022–2023 due to private-sector lenders withdrawing their funding and reinvesting it in high-income countries, driven by higher interest rates and the increased risk of debt distress in low-income countries.[22]

These high debt-carrying costs impede African countries from investing in the very elements of growth that would support their future economic prosperity: education, skills, health care and more. Higher interest rates affect not only the government's cost of borrowing but that of the private sector, raising the private cost of borrowing for investments in business, the adoption of technology, and private-sector investment in critical infrastructure like renewable power generation, electricity distribution, airports, ports and telecommunications.

It is, of course, the perception of risk that drives the underlying cost of debt for African countries: the risk of a country defaulting on its debt-service obligations. Proxies for this risk are the quality of governance and institutions, expected economic growth, and fiscal and monetary outcomes. African economies are perceived as having weaker institutions, including less legal protection, and higher variability of growth and policy outcomes (being dependent on the international environment and climate shocks), while governments face challenges of inefficient spending and weaker tax revenues, contributing to a perception of a greater risk of default.

FIGURE 10

The negative risk-perception cycle



Source: TBI

But to some extent, this perception of risk creates a self-fulfilling prophecy. Countries are perceived as risky, almost no matter how well a new president, prime minister or government manages the country, with ratings and perceptions driven largely by the legacy of the region and previous governments. While international investors are happy to reap the higher interest rates, they will withdraw when the risks increase (which in part is caused by their higher interest rates), leaving African governments with a funding problem and multilateral institutions carrying larger risks on their books.

Sometimes the risk perception is the reality – the government truly does have weak institutions, and weak fiscal and monetary management – but sometimes, despite a government's best intentions, the perception of risk transforms that risk into reality. The self-fulfilling "negative risk-perception cycle" results in higher costs of debt, which makes investment difficult, resulting in a weak economy, making it harder for a country to repay the debt. This leads to a greater likelihood of default, which in turn leads to a further perception of risk. This is sometimes seen as one of the biases of the global financial system against low-income countries.

04

The Tough Choices Facing African Leaders

Despite the stranglehold of the negative risk-perception cycle, leaders have little choice but to act; doing nothing is not an option. With huge pressure to make visible progress within short election cycles, political leaders are pushed to act quickly and are often presented with limited short-term solutions, including raising taxes to fill budget holes, creating off-balance-sheet liabilities, expanding deficit spending financed by opaque loans or accepting foreign funding for investment projects.

CASE STUDY

Kenya: A case study in tax reform

When President William Ruto entered office in 2022, Kenya was already in a debt crisis. With an external debt burden of $62 billion, Kenya's creditors included the IMF, the World Bank, the United States, China and Saudi Arabia. More than half of government revenue was going towards debt repayments.

Under pressure to improve Kenya's fiscal position, President Ruto found his attempts to address the debt crisis by raising taxes met with widespread protests. A 2023 finance bill introduced a 2.5 per cent housing levy for employed people and raised the VAT on fuel from 8 to 16 per cent without addressing the high cost of living and cutting inefficient spending. The government suspended subsidies on fuel and fertiliser but reinstated fuel subsidies after protests broke out, leaving six people dead.

New IMF loans and a high-interest-rate bond issue helped Kenya avoid defaulting on a $2 billion Eurobond that matured in June 2024. However, the 2024 finance bill's increase of taxes on items such as bread and cooking oil, aiming to create some space for development spending, but again failing to address the high cost of living and the fundamental issue of inefficient spending, led to widespread riots and 39 deaths. This bill was later withdrawn.

With limited fiscal capacity to invest in infrastructure development using public money, African leaders have increasingly sought to attract foreign direct investment through the use of public-private partnerships or various incentives, from tax concessions to special economic zones and payment guarantees. Such deals have often included future liabilities, including purchase-price agreements, guarantees on payments or risk insurance. There is strong logic for public-private partnerships using private-sector management and skills, with the private sector sharing the risks. However, across its various country programmes supporting energy transitions, the Tony Blair Institute for Global Change has found that many African energy projects lacked adequate planning, were not competitively procured and fixed prices for businesses and end consumers artificially high. This has resulted in more expensive projects and higher energy costs for the population (with negative impacts on development) and has worked against efforts towards good governance (planning, competitive procurement and standardised contracts).

To lower the cost of their sovereign debt, African governments have also sought out new friends. In a changing geopolitical context, many countries have seen Africa as a new place to invest and to gain resources and influence and, over time, this has changed the direction and destination of the flow of money and debt. Since 2005, China has played an increasing role in African development, building major infrastructure such as the $4 billion Addis Ababa-Djibouti railway, which connects landlocked Ethiopia to a key port, and the $3.6 billion Mombasa-Nairobi standard-gauge railway in Kenya. In Nigeria, China funded and built the Abuja-Kaduna railway and contributed to multiple hydropower projects, including the $1 billion Zungeru dam. While some have decried the influence of China on African debt, including a lack of transparency over China's conditions, and alleged that China is aiming to further its political influence in Africa, there is no denying that China has supported and continues to support African countries to build critical infrastructure, from roads and housing to broadband. For many African leaders, China has been a true partner, being more responsive and providing more funds than the West.

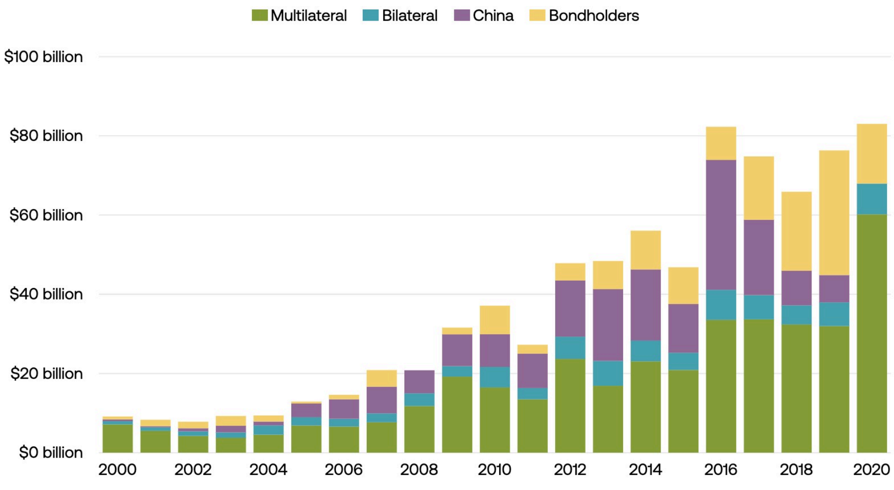
More recently, other actors have begun to cultivate relationships in Africa, including Middle Eastern countries looking to secure supply chains for their growing economies, and Russia, which is providing military assistance in countries such as Mali, Burkina Faso and Equatorial Guinea. Senegal has been discussing collaboration and investment with Saudi Arabia[23] and

China,[24] while President Ruto's government is negotiating a $1.5 billion loan from the United Arab Emirates.[25] Throughout the 2020s, Saudi Arabia, the United Arab Emirates and Kuwait have joined China in playing increasingly prominent roles in African bilateral or commercial lending.

Since the early 2000s, China has lent significant amounts to African countries. New lending from China peaked in 2016, according to the Africa Debt Database in 2022. Figure 12 demonstrates that China has become the largest bilateral and private international lender to Africa. Figure 11 shows the sharp increase in new bonds from 2016 onwards and the swift response to Covid-19 by multilateral institutions in 2020.

FIGURE 11

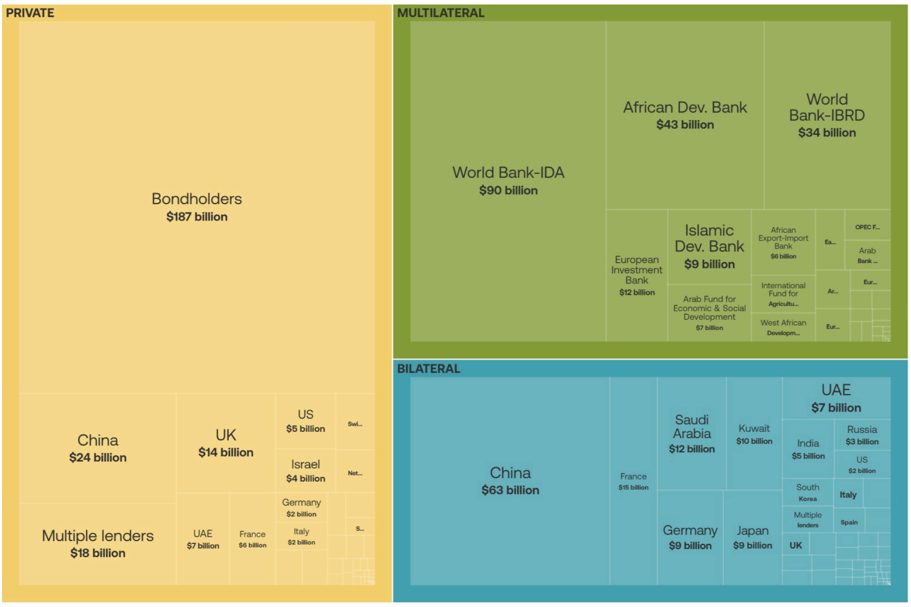
China and private bond markets have become crucial sources of funding for African countries



Source: Kiel Institute for the World Economy

FIGURE 12

China has become the largest bilateral and private international investor in African debt (2022)



Source: TBI recreation of ONE data visualisation using World Bank's International Debt Statistics

As the US and China pursue global geopolitical influence through financial, diplomatic and technological means, Africa has emerged as a significant stage for this competition. Consistent with the evolving debt landscape, to secure future financing, trade routes and participation in global supply chains, many African countries have forged close relationships with the expanded group of BRICS (Brazil, Russia, China, India and South Africa). As long as the international financial architecture leaves African leaders with few choices to achieve their development goals, many will remain open to the possibility of these countries supporting their development needs.

CASE STUDY

How multilaterals propose to deal with debt distress

The Common Framework for Debt Treatments beyond the Debt Service Suspension Initiative (DSSI) is a debt-restructuring mechanism developed by the G20 in collaboration with the IMF, World Bank and the Paris Club (an informal group of creditor nations that coordinates debt relief). The framework goes beyond the DSSI by enabling longer-term debt relief, including debt rescheduling, reduction or cancellation.

Developing countries struggling with debt can apply for treatment under the Common Framework, and then the IMF and World Bank assess the debt sustainability, default risk and level of assistance required. If eligible, the country then enters into negotiations with its creditors.

The fundamental offering of the framework is cooperation between creditors: negotiations under the framework require all creditors, including private lenders, to provide comparable debt treatment. This means that private and official creditors should offer similar terms for debt restructuring so that no one creditor is left bearing a disproportionate share of the burden.

One of the main challenges, however, is securing private-creditor participation in the debt-restructuring process. Private creditors are not legally bound by the Common Framework and have shown reluctance to participate on comparable terms, which delays and complicates the process.

Another fundamental issue is that China, the most significant lender to Africa, prefers bilateral negotiations. In practice, therefore, the coordination mechanism of the Common Framework has been quite limited in scope.

In April 2024, Indermit Gill, the World Bank Group's chief economist, said that after four years, "there hasn't been a single dollar of debt relief from the common framework".[26] He suggested the framework needs to be reworked, with private creditors involved from the start and accepting losses in return for assurances about the ability of debtor countries' capacity to repay.

The IMF and the World Bank have advocated for a three-pillar approach to African debt: domestic resource mobilisation; international support from bilateral and multilateral development partners, including by the provision of lower-cost financing and grants; and reducing debt-servicing burdens through new solutions, including credit enhancements to refinance existing debt.[27]

05

Breaking the Negative Risk-Perception Cycle: Reform at Home, Support from Abroad

Too often, the solutions proposed to address the financial challenges of African countries have focused on the symptoms, not the root of the problem. One-time debt relief or billions in future climate-finance grants alleviate the symptoms of the current debt challenge, but don't solve it for the future. As long as the cost of African countries' debt remains high, the cost of investing in the future, including through climate-resilient infrastructure, skills and economic development, will also remain high.

Fixing the underlying causes of the African debt challenge will require the implementation of real and decisive reforms, and the target – the fundamental objective – must be squarely focused on the perception of risk. To lower the cost of debt and investment in Africa's future, the focus must be placed on breaking the negative risk-perception cycle. While many individual actions can be taken to improve the perception of fiscal sustainability, such as tax collection, effective and efficient public expenditure, business climate and investment attraction, all must be in service of fixing the perception of risk.

In the late 1990s and early 2000s, the IMF, World Bank and UK launched HIPC and MDRI, which supported 37 countries with more than $100 billion in debt relief.[28] Leadership of this kind should be revived, adapted to 2025, for a New Deal for Africa. The HIPC and MDRI debt-relief initiatives demonstrated that it is possible to lower debt service and create more domestic fiscal space to spend on social sectors or public investment, but that it must be combined with substantial improvements in public financial management and economic competitiveness to break the negative risk-perception cycle and make the gains sustainable.

Breaking the negative risk-perception cycle and achieving sustainable future growth requires a five-pillar approach, with responsibilities shared by leaders in Africa and high-income countries, as well global actors and lenders.

1. **African leaders commit to attainable fiscal targets,** underpinned by strengthened PFM practices, and designing institutions that ensure good governance and effective national planning. These plans must be clearly communicated to partners, lenders, investors and credit-rating agencies. An essential element of breaking the negative risk-perception cycle is building consistency and delivering results.
2. **High-income countries and development partners commit to supporting African nations** with the improvement and expansion of African resource mobilisation through the use of technology such as digital IDs to facilitate tax compliance and supervision, reduce tax evasion and money laundering, and expand the formalisation of African economies. Every tax administration in a high-income country could become "twinned" with a tax administration in a low-income country to provide the latter with technology, technical assistance, temporary additional capacity and political support over a 25-year period. The path to more balanced fiscal budgets cannot be sustained solely by tightening the squeeze on Africa's formal economy.
3. **As demanded by their citizens, African leaders must commit to improving the efficiency of their governments** by realigning spending and investment, cutting out waste, building capacity, and rooting out corruption through auditing, spending reviews, sound budget planning and improved budget execution. Stringent efforts, sustained over a long period of time, to eliminate corruption are needed to convince companies and voters that every dollar of taxes paid is used efficiently. Clear, transparent and predictable financial systems are a must, to attract greater and cheaper debt financing and foreign direct investment. Beyond just addressing debt, this is crucial if leaders are to foster trust and deliver better outcomes for citizens.
4. **Global actors, high-income countries and lenders must avoid short-termism and be patient,** accepting that African leaders will need to invest in the pillars of economic growth, including infrastructure, education, health care, skills and economic competitiveness, and this will

take time, effort and potentially more debt to pay for such investments. Reduce waste, yes, but do not necessarily reduce spending. Economic orthodoxy on increased taxes and lower spending is well suited to stable economies but is politically unviable in Africa's current environment. Many African countries should actually increase spending on infrastructure, skills and development, while simultaneously improving the effectiveness of spending to reduce waste. African budgets must be aligned with each country's political realities, the needs of its citizens and the most efficient use of that budget, or citizens will rebel, further entrenching the negative risk-perception cycle.

5. **The international community must collaborate to develop an innovative mechanism to substitute high-interest debt with low-interest-rate debt**. Global actors, lenders and high-income countries must find new tools to provide lower-cost multilateral and bilateral funding that will ensure investments in digitalisation, economic development, governance, health and education can bear fruit. The mechanism should allow diminishing interest rates alongside PFM reforms. With these lower-interest-paying loans, African countries can refinance their high-interest-paying debt or finance their investment programmes. The top governmental borrowers and lenders – many of them united in the G20, whose chair South Africa made the high cost of capital a priority – should agree on such an instrument.

06

Conclusion: The Time Is Now

In many African countries today, farmers impacted by climate change cannot access financing to invest in irrigation. Children cannot access the internet in their rural schools. Entrepreneurs struggle to secure loans to build and expand their businesses, and actively seek to remain in the informal economy to avoid paying taxes. Young, educated men and women are frustrated that they cannot find well-paying jobs in their fields while the costs of living are rising and up to 25 cents out of every tax dollar they pay is used to pay just the interest on government debts – often foreign debt.

Non-African leaders and their advisors should not think that Africa's current indebtedness and its leaders' calls for more development aid represent "business as usual". The 2024 election results favouring opposition parties signal massive popular support for change. If African leaders and the international community are able to invest in stability now, stability will drive growth. Conversely, to delay action is to delay development and opportunities that will benefit citizens across the continent. Short-term fiscal space would provide political leaders with the opportunity to drive longer-term reforms. Commitment to reforms will bring stability, and from stability, economies will have a stable platform upon which to build economic growth.

The importance of such support cannot be understated. A failure to develop new cost-of-debt tools will only perpetuate the current reality – African governments and business working hard to try and strengthen their economies and create jobs by investing in roads, bridges, schools, hospitals, small businesses and electricity connectivity, in addition to climate adaption, technology, education and skills development, at prohibitive, multi-digit per cent interest rates. Meanwhile, governments and businesses in high-income countries, with much greater debt relative to the size of their economies, borrow and invest hundreds of billions in renewables, AI, data centres, digital skills, robotics and bioscience at much lower, single-digit per cent costs of borrowing.

Considering the growing risk of civil unrest, coups, bankruptcies and poverty-driven migration, breaking the negative-risk perception cycle is not only in the political interest of African leaders and their citizens, but also in the interest of the rest of the world's political leaders. Action on the cost of debt, coupled with committed reforms on fiscal sustainability, will enable Africa to invest in long-term growth, strengthening the stability of the continent and ultimately strengthening democracy.

Endnotes

1 https://unctad.org/publication/world-of-debt

2 TBI analysis based on UNCTAD data.

3 Based on World Bank and Fitch Ratings data (average 2023). Data are not available for all African, European or G7 countries. As banks will vary their lending rates according to the client, figures should be taken as an illustration.

4 Even if corrected for inflation, interest rates in Africa remain much higher than in the selected high-income countries (7 per cent vs 0 per cent).

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