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What Can South Africa do on Debt and Development in its Remaining Term as G20 Presidency?

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Development finance is a growing challenge for Africa

As Vladimir Lenin once said, 'There are decades where nothing happens; and there are weeks where decades happen.' The period since Donald Trump became the US president appears to be one of 'those' weeks.

Since his inauguration in late January, Trump has effectively ended US aid, leaving many African countries with serious budgetary shortfalls and their people facing heightened risks to their wellbeing, including threats to health and food security.[1] He has also imposed tariffs on the rest of the world[2] and effectively set aside the principles of non-discriminatory trade that underpin the World Trade Organization (WTO). In addition, he has placed US participation in key international organisations such as the International Monetary Fund (IMF) and the World Bank under review and has pulled the US out of international organisations like the World Health Organization and international processes like the climate negotiations.

Unfortunately, Trump's actions are not the only indication that the world is changing and Africa's access to development financing is becoming more precarious. In fact, the situation has been deteriorating for a while. The UK, Sweden, Germany, France and the Netherlands have also cut their official development assistance (ODA) budgets, if not as extremely as the US. According to UNCTAD, the total flow of ODA to African countries fell by 3.5% in 2022 and a further 7% in 2023. Moreover, the composition of the aid has changed, with grants decreasing by 8% and loans increasing by 11%. The result is that African countries are receiving less aid and on less generous terms.

While this decline in ODA can be partially offset by concessional financing from multilateral development banks (MDBs), it cannot be replaced completely. Informed by a report of the G20 Independent Expert Group, the G20 has been driving efforts to make MDBs bigger, better and more effective. As a result, MDBs collectively have expanded their lending to member states and have made their lending processes more flexible. However, according to the OECD, 'at best' these institutions can increase their lending capacity by 30% by 2030, far short of the tripling in lending capacity called for by the G20 independent expert group. Moreover, there is concern that the availability of funding from the concessional arms of these multilateral institutions, such as the International Development Association (IDA), may decline as donor countries cut their aid budgets. In fact, the most recent budget proposal of the US administration proposes cutting its IDA contribution from the $4 billion commitment made by President Joe Biden to $3.2 billion.

The net effect of these developments is that African countries will have to place greater reliance on two other sources to finance their efforts to meet their climate and Sustainable Development Goal (SDG) objectives. The first, which should be the most important source of development finance, is domestically mobilised resources, including taxes and local capital. These resources can be maximised by improving tax policy and administration, developing local capital markets and curbing illicit financial flows (IFFs). According to the AU's Agenda 2063, domestic resource mobilisation (DRM) should meet at least 75% of Africa's financing needs.

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[1] According to the Africa Report, cuts to programmes administered through the US Agency for International Development (USAID) are set to have an impact on sectors such as infrastructure, education, good governance and conflict mitigation. South Africa alone is estimated to be losing $268 million through these cuts.

[2] It is not clear that Trump will ultimately be able to implement all the tariffs he has threatened. A recent decision of the US Court of International Trade declared that Trump's order raising the tariffs was invalid. This ruling has been challenged, and the Trump administration has been granted a stay of judgment until the appeal is decided. A final decision is not expected before the end of August 2025. See, for example, Troutman Pepper Locke, "IEEPA Tariffs to Remain Temporarily Despite Adverse Ruling; Aluminum and Steel Tariff Rate Increased", Lexology, 2025, https://www.lexology.com/library/detail.aspx?g=cdc6b9db-5eb4-4afd-83e2-d5f2d77948e7.

The second source is international financial markets. Credit markets, which in 2023 had an estimated total market value of $687 trillion, are by far the largest source of funding for transactions that are denominated in a foreign currency and/or governed by a foreign law. Yet they are dominated by commercial actors who are mostly concerned with profit maximisation and the needs and concerns of their shareholders, clients and policy holders and the requirements of their regulators. Such concerns outweigh either financing African development or optimising the environmental and social outcomes of their investments.

While these developments complicate South Africa's plans to use its G20 presidency to help promote African concerns, they also create the opportunity to ask and address three fundamental questions about Africa's place in the global economic and financial order:

- What are the barriers to achieving affordable, predictable flows of finance to fund Africa's sustainable and inclusive development?
- Can African countries improve their access to commercial sources of development finance?
- Are there mutually acceptable principles that can guide responsible conduct by both borrowers and lenders in financing African development?

This policy note answers these questions and makes recommendations on how South Africa can promote African concerns during its remaining time as G20 chair.

Overcoming barriers to affordable and predictable development finance

Historically, most low-income African countries did not have access to international financial markets. Many of them were only able to issue international bonds between 2007 and 2020, when markets were awash with liquidity.[3] To date, a total of 20 African nations have issued Eurobonds. They are Angola, Benin, Cameroon, Côte d'Ivoire, Egypt, Ethiopia, Gabon, Ghana, Kenya, Morocco, Mozambique, Namibia, Nigeria, the Republic of Congo, Rwanda, Senegal, Tunisia and Zambia, as well as earlier entrants South Africa and Seychelles.[4] Before they could issue bonds, most African sovereign borrowers were only able to borrow commercially from international commercial banks. The ability to issue bonds gives African sovereign borrowers more funding choices and provides them with a bargaining chip in negotiations with their traditional creditors. On the downside, the bonds are more expensive than other sources of funds. In addition, interest rate volatility and fickle market perceptions about African sovereigns (which are reflected in low and frequently downgraded credit ratings) make the cost of this kind of debt unpredictable.

The risks associated with the bond markets materialised in the wake of the COVID-19 pandemic. African sovereigns effectively lost access to these markets when interest rates in rich countries began to rise. During 2022 and 2023, African countries, with the exception of Egypt and Morocco, were unable to issue debts on international markets.[5] In 2024, when some African sovereign borrowers regained access to financial markets, they were forced to pay average yields of over 8.5%. For example, Kenya issued a $1.5 billion note at 10.4%.[6] Some notable exceptions exist, such as Côte d'Ivoire which, in 2025, was charged 6.4% for a

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[3] Clemence Landers and Nico Martinez, "Is Sub-Saharan Africa's Credit Crunch Really Over?", Centre for Global Development (blog), March 27, 2024. Between 2007 and 2020, 21 African countries took the opportunity to access international debt markets, many for the first time. See Gregory Smith, "Africa's Hard Won Market Access", *IMF Finance and Development Magazine*, December 2021; Pamela Icyeza, "Summer in the Field: Bond, Eurobond: Tracking African Eurobonds Issued Between 2006-2021", Boston University Global Development Policy Center, October 22, 2021.

[4] Judith Tyson, "Capital Market Development in Sub-Saharan Africa" (Policy Brief 2, ODI Global, May 2021).

[5] European Investment Bank, "Finance in Africa: Unlocking Investment in an Era of Digital Transformation and Climate Transition", 2024.

[6] Lennox Yieke, "Africa's Eurobonds Market Roars Back to Life", *African Business*, February 16, 2024.

Euro-denominated bond.[7] Côte d'Ivoire also made history by being the first African country to issue a CFA-franc denominated bond on the London Stock Exchange, a pioneering move that significantly reduced currency risk and broadened the investor base.[8] The West African country's success in financial markets, in part, is because it has generally been able to maintain steady economic growth rates over the past decade.[9]

Africa's financial challenges have been exacerbated by an apparent market bias against its sovereigns. Countries in other regions with either comparable ratings or worse default rates have received more favourable terms. For instance, despite a history of nine sovereign defaults, Argentina successfully issued a 100-year Eurobond in 2017 with a 7% yield. Conversely, Angola, having avoided default since 2002, was charged rates exceeding 9% on its shorter-maturity bonds issued in 2018 and a 9.5% yield on a 2015 10-year Eurobond.[10]

The cause of this 'Africa premium' is unclear – some attribute it to bias on the part of credit rating agencies, while others blame the lack of quality data that creditors can use to accurately assess risk for African sovereigns. A lack of sound fiscal and public finance management on the part of African governments has also been raised. Yet others maintain that it is caused by the fact that some African states are new participants in these markets and so do not have a long history as bond issuers. Another potentially relevant factor is regulatory concerns in investors' home countries that may make investing in African bonds inconsistent with their fiduciary and other responsibilities to their clients and shareholders.

Owing to these factors, many investors are concerned about the capacity of African sovereigns to either refinance or repay their debts when they fall due. This is particularly relevant in cases where the issuers use the proceeds to finance infrastructure projects and other activities that do not generate revenue streams matched to the terms of the bonds.

The challenge for African countries is to identity and overcome these various barriers to accessing predictable and affordable flows of capital. South Africa, in its capacity as the 2024/2025 G20 presidency, can lead such efforts by proposing actions that the G20 can take to help overcome these barriers.

These actions would supplement other African initiatives to address this issue. For instance, the African Credit Rating Agency being set up by the AU is set to officially launch in June 2025.[11] However, it will take time for this agency to gain the credibility needed to be an effective factor in financial markets. Former UNECA executive secretary Vera Songwe has established the Liquidity and Sustainability Facility, which is designed to create a repo market for African debt. It is anticipated that this facility will help make the market for African bonds more liquid, thereby lowering the cost of African debt. The AU, through the African Development Bank, has also decided to create an African Financing Stability Mechanism (AFSM) to

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[7] Côte d'Ivoire, Ministry of Economy, Planning and Development, "Ivory Coast: A Double Financial Performance that Enhances Its International Attractiveness", 2025; Moses Mozart Dzawu and Michael Gambale, "Ivory Coast $1.75 Billion Eurobond Draws More Than Double Demand", *Bloomberg*, March 26, 2025,

[8] InCôte d'Ivoire, "Eurobond: Côte d'Ivoire Successfully Raises $1.75 Billion on International Markets", accessed June 9, 2025, https://www.incotedivoire.net/economic/new/Eurobond:%20C%C3%B4te%20d%27Ivoire%20Successfully%20Raises%20%241.75%20Billion%20on%20International%20Markets#:~:text=This%20initiative%20aims%20to%20gradually,develop%20its%20domestic%20capital%20markets.

[9] African Development Bank Group, "Côte d'Ivoire Economic Outlook", 2024.

[10] William Gbohoui, Rasmane Ouedraogo and Yirbehogre Modeste Some, "Sub-Saharan Africa's Risk Perception Premium: In the Search of missing factors" (Working Paper WP/23/130, International Monetary Fund, 2023).

[11] African Peer Review Mechanism, "Africa Takes a Bold Step Towards Financial Sovereignty with the Establishment of the Africa Credit Rating Agency (AfCRA)", Press Release, February 21, 2025.

provide short-term liquidity support to African countries at risk of debt distress.[12] The establishment of the AFSM is still, however, a work in progress, having been authorised and its technical and operational report endorsed by the AU only in February 2025.

In addition, the AU recently held its first conference on debt with the goal of adopting a common African position on the issue. The outcomes of the conference included calls to reform the G20 common framework and for a 'new debt doctrine'.[13]

African countries also recognise that there are actions that they can take to reduce the cost of capital they face. These include improving the quality and quantity of data that they make available to potential creditors, investors and citizens on a regular basis. They can also ensure greater transparency in financial transactions so possible investors and creditors can be confident they have a good understanding of the debtor's situation. Lastly, African states need to promote greater information sharing to demonstrate their standing, relative to other states, as debtors and host states for foreign investors.[14] The work of existing G20 partners such as the Global Emerging Markets Risk Database Consortium, which has recently published data on default and recovery rates in emerging markets, could be useful in this regard.

Sources of finance for African development

While DRM remains the best means for increasing the availability of finance for African development, it is unlikely to raise sufficient funds to meet all the development financing needs of the continent. It is estimated that Africa will require between $900 billion and $1.3 trillion per year to meet the objectives of Agenda 2063 and the SDGs. Eliminating IFFs would help, but doing this will contribute only about $90 billion per year,[15] meaning that African countries will still need to raise substantial amounts of revenue from taxes and domestic capital markets.

African borrowers will also need to identify creative ways to tap into international financial markets. For example, they will need to explore mechanisms such as debt swaps,[16] as well as issuing local currency bonds on international markets[17] and retail diaspora[18] and solidarity bonds that can attract new investors and possibly lower costs. Other potential avenues include issuing Islamic bonds and leveraging the mineral wealth of the continent through carbon crediting and natural capital.[19] They could also consider using

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[12] African Development Bank, "Ringfencing Africa's Inclusive Growth: African Development Bank to Present Its African Financing Stability Mechanism at AU Summit", February 14, 2025; Dawit Endeshaw and Duncan Miriri, "African Leaders Approve Creation of $20 bln Financial Stability Fund", *CNBC Africa,* February 18, 2025.

[13] Farai Shawn Matiashe, "Africa Resolves to Reform G20 Debt Framework at Major Gathering", *African Business*, May 15, 2025.

[14] It has been highlighted, for instance, that debt default rates in Africa have been lower than in other regions. According to Moody's data, Africa is one of the regions that have the lowest default rates in global infrastructure debt. See Global Infrastructure Hub, "Infrastructure Debt Default Rates by Region", accessed June 1, 2025, https://www.gihub.org/infrastructure-monitor/insights/infrastructure-debt-default-rates-by-region/.

[15] Mo Ibrahim Foundation, *Financing in Africa: Where is the Money?*, Forum Report (Mo Ibrahim Foundation, 2024).

[16] Adil Ababou, "Debt for What Swaps? Guiding Principles for the Allocation of Debt Swaps Resources" (Policy Note 22, Finance for Development Lab, 2025).

[17] Paul Horrocks et al., "Unlocking Local Currency Financing in Emerging Markets and Developing Economies: What Role Can Donors, Development Finance Institutions and Multilateral Development Banks Play?" (Working Paper 117, OECD, 2025).

[18] Witney Schneidman, Admassu Tadesse and Abyssinia Lissanu, "Diaspora Bonds: An Innovative Source of Financing?", *Brookings*, May 27, 2022.

[19] AfDB, *Financing and Investment in Africa: Trends and Opportunities for Securing Africa's Ecological Futures*, Research Report (AfDB, 2024); Mo Ibrahim Foundation, *Financing in Africa: Where is the Money?*.

mechanisms such as the World Bank Debt Reduction Facility to help debtors in distress to improve their financial situation.[20]

Need for a new conceptual framework that requires responsible conduct from both borrowers and lenders

The current silent debt crisis in Africa is only the most recent indicator that the lack of a coherent, effective and widely accepted debt restructuring process increases the cost of default for both borrowers and creditors. It also imposes high social costs on the citizens of the debtor country. This suggests the need for a new conceptual framework for structuring development financing transactions – one that accounts for the financial, economic, environmental and social impacts of the transaction and is designed to achieve an optimal outcome rather than pure profit maximisation. This requires both debtors and creditors to agree to comply with principles designed to help them reach an outcome that they all recognise as optimal. The following principles would help achieve this:[21]

- **Guiding norms**: Sovereign debt transactions should be guided by the norms of credibility, responsibility, good faith, optimality, inclusiveness and effectiveness.
- **Transparency**: Negotiating parties and all affected parties should have access to the information they need in order to make informed decisions regarding the debt transaction.
- **Due diligence**: The sovereign debtor and its creditors should each undertake appropriate due diligence before concluding a sovereign debt transaction.
- **Optimal outcome assessment**: At the earliest feasible moment, the negotiating parties should publicly disclose why they expect their restructuring agreement to result in an optimal outcome. This is an outcome that, considering the circumstances in which the parties are negotiating and their respective rights, obligations and responsibilities, offers each of them the best possible mix of economic, financial, environmental, social, human rights and governance benefits and costs.
- **Monitoring**: Debt transactions should incorporate credible mechanisms for monitoring the implementation of the restructuring agreement.
- **Maintaining market access**: Each sovereign debt transaction, to the greatest extent possible, should be designed to facilitate future market access for the borrower.

What SA can do, in or out of the G20, to promote these changes

South Africa, through its G20 presidency, has the opportunity to launch additional initiatives to address Africa's concerns about the current debt architecture. These initiatives need to be results-oriented in order to maximise the benefits for the continent. The following are four initiatives that South Africa should consider launching in 2025, even though they may only produce results after its G20 presidency ends.

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[20] See Daniel Bradlow, Marina Zucker-Marques and Kevin P. Gallagher, "Bringing Buybacks Back: A Known Debt Restructuring Tool with a Principled Twist", Boston University Global Development Center, September 14, 2024.

[21] Daniel Bradlow, "A New Conceptual Framework for African Sovereign Debt: Finding an Optimal Outcome that Addresses Five Challenges", *Journal of African Economies* 33, no. 2 (2024). It should be noted that the international community has attempted to address this challenge. It recently released a sovereign debt restructuring playbook that is aimed at providing guidance on the process of sovereign debt restructurings under the G20 Common Framework. While the playbook offers a valuable reference for lessons learned, it does not seek to implement a new approach to debt restructuring.

First, South Africa's G20 presidency should advocate that the G20 appoint a committee of technical experts to prepare a report identifying the impediments to African and other developing countries' access to affordable, predictable and appropriately structured financing. It should also recommend actions that can be taken by the G20 and other actors at an international level to dismantle these barriers. This report should be presented to the G20's International Financial Architecture Working Group in 2026.

It should be noted that, at the beginning of its G20 presidency, South Africa proposed establishing a cost of capital commission to investigate the various causes of the 'African premium'. However, to date there has been no announcement regarding the establishment of such a commission. Instead, President Cyril Ramaphosa appointed an African expert panel, chaired by former finance minister Trevor Manuel, to advise the South African government on various economic issues, including the cost of capital. It is important to note that this expert panel is only tasked with advising the South African president. While useful, it is not a replacement for a dedicated G20 committee dealing with the challenge of ensuring that developing countries have access to affordable and predictable flows of finance.

Second, South Africa should use its position as co-chair of the Global Sovereign Debt Roundtable (GSDR) to host a meeting of the GSDR that seeks to identify feasible measures for making the current arrangements for sovereign debt restructuring more efficient, more effective and designed to achieve an optimal outcome. Such an outcome should be responsive to the concerns and interests of all stakeholders in the restructuring process. The GSDR is a particularly suitable forum for such a discussion because it can include representatives of all stakeholders in the sovereign debt restructuring process. Although it is relatively informal and has no decision-making authority, when its participants identify areas of sufficient agreement they can feed the information into the G20 process for further consideration and action. Some topics that this meeting could consider are how to build on the insights from the G20 Note on Lessons Learned produced during the Brazilian presidency and how to improve the role of the IMF in debt restructuring, including with regard to its debt sustainability analysis.[22]

Third, South Africa should facilitate a meeting between the G20's International Financial Architecture working group and the recently established Alliance of African Multilateral Financial Institutions (AAMFI). This group was established in part to advocate for a global financial architecture that considers Africa's developmental needs.[23] It would therefore be appropriate for South Africa, as G20 president, to promote a dialogue between the AAMFI and the G20. Such a dialogue should look at ways in which African sub-regional multilateral institutions, legacy international financial institutions like the World Bank and IMF, and interested G20 members can cooperate to promote reform of the global financial architecture so it becomes more responsive to Africa's development financing concerns and needs.

Fourth, the South African G20 presidency should seek to take advantage of the other international processes taking place in 2025 that are also seeking, in various ways, to promote more predictable and affordable flows of development finance. These include the Fourth International Conference on Financing for Development that will take place in July in Spain and the 30th Conference of the Parties to the UN Climate Change Convention, which will take place in Brazil in November. South Africa should coordinate with the AU to ensure that they promote a consistent message in all these forums regarding the actions needed at the international level to promote a financing system that facilitates Africa's access to affordable finance.

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[22] See European Central Bank, "The IMF's Role in Sovereign Debt Restructurings" (Occasional Paper 262, European Central Bank, September 2021); Javier Díaz-Cassou, Aitor Erce-Domínguez and Juan J. Vázquez-Zamora, "The Role of the IMF in Recent Sovereign Debt Restructurings: Implications for the Policy of Lending into Arrears" (Occasional Paper 0805, Banco de Espana, 2008).

[23] Apofeed, "The Alliance of African Multilateral Financial Institutions (AAMFI) Welcomes African Union (AU) Ministers' Decisions on African Multilateral Financial Institutions' Preferred Creditor Status", *African Business*, August 1, 2024.

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