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Policyweekly

Impact of Debt Servicing on SDG Implementation in Africa

Policy Recommendations

1. African governments should take the lead in negotiating debt-for-development swaps, where portions of debt are forgiven in exchange for investments in specific SDG-related projects.
2. The International Monetary Fund (IMF), World Bank, and African Development Bank (AfDB) should support efforts at addressing debt crisis by providing technical assistance, offering favourable terms for such swaps, and facilitating access to global financial markets to issue green and SDG bonds.
3. In cases where debt restructuring is necessary, the terms should be designed to protect investments in key sectors such as education, healthcare, and infrastructure.
4. International financial institutions and creditor countries should expand debt relief initiatives, particularly for the most vulnerable countries.
5. Private investors and financial institutions should engage in blended finance initiatives, where public funds are used to de-risk investments in key sectors like infrastructure, healthcare, and education.
6. There is a need to tackle corruption to ensure that borrowed funds are used efficiently and effectively.
7. CSOs should play a watchdog role, holding governments accountable for the transparent use of funds and ensuring that resources are directed toward achieving SDG-related goals.
8. Civil Society Organisations should actively engage in a watchdog role by holding governments accountable for the transparent and efficient use of funds.
9. Regional Organisations such as the African Union and ECOWAS should lead the development of regional debt management strategies, including collective bargaining with creditors and coordinating responses to debt challenges.
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Introduction

Over the past few decades, African countries have faced a persistent and escalating debt crisis. External debt service payments have surged dramatically, reaching an estimated $163 billion in 2024, a significant increase from $61 billion in 2010. The debt burden has led to defaults in several countries, including Zambia, Ghana, and Ethiopia, while others like Kenya, Angola, and Mozambique remain under significant debt stress. The consequences of this debt crisis extend beyond economic instability, profoundly impacting socio-economic development and progress towards the Sustainable Development Goals (SDGs).

In 2015, the United Nations adopted the Sustainable Development Goals (SDGs), a global agenda to address pressing global challenges and promote inclusive, sustainable development. For African countries, the SDGs represent a critical framework for achieving economic growth, reducing poverty, enhancing education and healthcare, and addressing environmental sustainability. The 17 SDGs and their 169 targets provide a comprehensive blueprint for development that aligns with Africa's aspirations for economic and social advancement. However, the continent faces a significant obstacle: the burden of external debt. Many African countries allocate more resources

to debt repayment than to SDG implementation. This diversion of funds hampers progress towards key development goals. With just six years remaining until the 2030 deadline, Africa will unlikely meet most of these ambitious targets. Of the 144 measurable SDG targets, the continent is on track to achieve only ten by 2030.

This edition of the Nextier Policy Weekly explores the intricate relationship between the ongoing debt crisis in Africa and progress towards the SDGs. It seeks to understand how the debt burden impacts the ability of African countries to achieve key development goals and to identify the potential pathways through which debt management strategies can be aligned with sustainable development objectives.

Evolving Creditor Landscape

Africa's debt crisis is multifaceted, with deep historical roots that have evolved over decades. In the early years of independence, many African countries embarked on extensive borrowing to finance development projects, infrastructure, and economic reforms. Initially, these loans were often provided under favourable terms to support economic growth. However, as global economic conditions changed, these loans began to strain national economies. During the 1980s and 1990s, many countries faced debt distress as the cost of servicing debt became unsustainable. The structural adjustment programmes imposed by international financial institutions like the International Monetary Fund (IMF) and the World Bank were intended to stabilise economies but often led to austerity measures that exacerbated social and economic hardships. The subsequent restructuring and relief initiatives, such as the Heavily Indebted Poor Countries (HIPC) strategy, aimed to alleviate the burden of unsustainable debt, but the relief provided was often insufficient to address the underlying structural issues.

In recent years, the debt crisis has re-emerged with renewed intensity. Several factors contribute to this resurgence, including increased borrowing by African governments to finance ambitious development projects and infrastructure investments, declining commodity prices, currency depreciation, the economic shocks from the COVID-19 pandemic and the Russia and Ukraine war. These factors have significantly increased the debt burdens of African nations, leading to a situation where debt servicing consumes a large portion of government revenues. According to the International Monetary Fund (IMF), many African countries face a severe debt crisis. The IMF's Africa: Special Issue estimates that one-third of African nations are either in debt distress or at high risk of falling into debt. This vulnerability is compounded by double-digit inflation (or higher) and overall debt levels that remain elevated at around 65% of GDP in 2023.

One of the key challenges in managing Africa's debt crisis is the diversity of creditors. Unlike in previous debt crises, where multilateral institutions like the IMF and World Bank were the primary lenders, African countries now owe significant amounts to private creditors and non-traditional lenders, including China. China's role as a major creditor has complicated debt restructuring efforts, as Chinese loans are often tied to specific projects and have different terms than those of multilateral lenders. This fragmentation of debt complicates coordinated restructuring efforts, making it more difficult for countries to negotiate favourable terms that could alleviate their debt burdens.

Furthermore, the African Development Bank (AfDB) underscores the impact of global economic conditions on Africa's debt situation, highlighting several key challenges, including high debt servicing costs, slow debt resolution processes, short repayment timeframes, and premium default rates. The situation is further exacerbated by illicit financial flows and poor governance, which siphon off resources that could otherwise be used for debt repayment and development. Corruption and the mismanagement of public funds in some African countries have contributed to the accumulation of unsustainable debt, undermining efforts to use borrowed funds effectively for poverty reduction and sustainable development.

Impact of Debt on SDGs

The relationship between Africa's debt crisis and its progress towards the Sustainable Development Goals (SDGs) is deeply intertwined. High debt levels impede African countries' ability to achieve SDGs, particularly poverty reduction, education, healthcare, and infrastructure development. Every dollar allocated to debt repayment is money diverted from initiatives to advance the SDGs. Debt service obligations significantly drain financial resources away from poverty alleviation programs. Countries burdened by high debt often face limited fiscal space, restricting their ability to fund social safety nets, employment initiatives, and other poverty reduction measures. The situation exacerbates poverty levels, undermining efforts to achieve SDG 1. In 2024, approximately 429 million people in Africa were living in extreme poverty, with Nigeria, the Democratic Republic of Congo, and Tanzania topping the chart.

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Education is another sector heavily impacted by high debt levels. SDG 4 aims to ensure inclusive and quality education for all, but in many African countries, debt repayments take precedence over investments in education infrastructure, teacher training, and learning resources. Countries like Nigeria, Ghana and Kenya, which have borrowed extensively to finance development projects, have found themselves constrained in allocating sufficient funds to the education sector. As a result, progress toward achieving universal education and improving educational outcomes remains slow.
SDG 3 focuses on ensuring healthy lives and promoting well-being for all ages, but the debt burden limits the availability of funds for public health services, leading to inadequate healthcare infrastructure, shortages of medical supplies, and underfunded health programs. Countries with high external debt, such as Nigeria and Sudan, struggle to improve their healthcare systems, resulting in poor health outcomes and slower progress toward SDG 3. Moreover, servicing debt often means that investments in critical infrastructure projects are delayed or scaled back.

Challenges in Balancing Debt Management and Achieving SDGs

The challenge of managing debt while simultaneously striving to achieve the Sustainable Development Goals (SDGs) is compounded by several policy and implementation barriers. Many African countries have implemented debt management policies to stabilise their economies and reduce debt burdens. However, these policies often prioritise short-term fiscal stability over long-term development goals. Austerity measures, such as reducing public expenditure and increasing taxes, while intended to address debt sustainability, can inadvertently hinder progress towards the SDGs. By limiting government spending on essential services and development projects, these measures can exacerbate existing inequalities and undermine efforts to achieve key development goals.

For example, the removal of fuel subsidies is part of Nigeria's broader strategy to manage its debt and improve fiscal discipline. By cutting government spending on fuel subsidies, the government can redirect resources toward debt servicing, reduce the budget deficit, and attract foreign investment, contributing to greater macroeconomic stability and enhancing the country's creditworthiness. However, these fiscal adjustments have created unintended consequences, such as increasing the cost of living for ordinary citizens, which in turn can deepen poverty and slow progress toward achieving SDG 1 (No Poverty) and other interconnected goals.
International financial institutions, such as the IMF and World Bank, significantly shape debt management strategies in African countries. However, there is often a misalignment between these institutions' goals and the development priorities of African nations. For instance, structural adjustment programmes imposed by the IMF have historically led to cuts in social spending, directly contradicting the goals of the SDGs. Furthermore, the lack of a unified approach among international donors and creditors creates additional challenges in coordinating efforts to reduce debt while advancing the SDGs.

Weak governance structures and limited institutional capacity in many African countries hinder effective debt management and SDG implementation. Corruption, inefficiency, and a lack of transparency in public financial management can exacerbate debt problems, leading to misallocation of resources and undermining the credibility of debt management efforts. Therefore, strengthening governance and building institutional capacity is critical for ensuring that debt management strategies are aligned with the SDGs and that resources are used effectively to achieve development goals.

The debt crisis has far-reaching economic and social implications for African countries, influencing not only their ability to achieve the SDGs but also their overall development trajectories. High debt levels stifle economic growth by crowding out investment in productive sectors. When a significant portion of government revenue is allocated to debt service, there is less available for infrastructure development, education, and healthcare—all of which are essential for sustained economic growth. Additionally, the uncertainty associated with high debt can deter foreign investment, further limiting economic opportunities. The social implications of the debt crisis are profound, particularly regarding social welfare and inequality. As governments are forced to cut spending on social services to meet debt obligations, vulnerable populations are often the hardest hit. This can lead to increased inequality, as the wealthy are better able to absorb the impact of reduced public services. The widening gap between rich and poor exacerbates social tensions and undermines the social cohesion necessary for sustainable development.

The long-term development prospects of African countries are closely tied to their ability to manage debt sustainably. If current debt trends continue,

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many African nations risk falling into a cycle of debt dependence, where servicing existing debt limits their ability to invest in future development. This scenario poses a significant threat to the achievement of the SDGs, as countries may find themselves unable to fund the necessary investments in infrastructure, education, and healthcare that are essential for sustainable development. Addressing the debt crisis is, therefore, critical for ensuring that Africa can achieve its development goals and improve the well-being of its people.

Recommendations

Coordinated efforts are required from various stakeholders, including national governments, international financial institutions, private sector actors, and civil society, to effectively address the debt crisis in Africa while advancing the Sustainable Development Goals (SDGs).

- African governments should take the lead in negotiating debt-for-development swaps, where portions of debt are forgiven in exchange for investments in specific SDG-related projects. For example, a country's debt might be reduced if it invests in renewable energy or education, thus directly linking debt relief to progress on SDGs. Also, issuing green or SDG bonds can fund projects that contribute to environmental sustainability or directly support SDG initiatives. These bonds can attract global investors interested in impact investing, helping to finance the transition to a more sustainable economy.

- The International Monetary Fund (IMF), World Bank, and African Development Bank (AfDB) should support these efforts by providing technical assistance, offering favourable terms for such swaps, and facilitating access to global financial markets to issue green and SDG bonds. The IMF and World Bank should also incorporate SDG considerations into their debt sustainability frameworks and offer tailored advice to ensure that debt restructuring supports sustainable development.

- In cases where debt restructuring is necessary, the terms should be designed to protect investments in key sectors such as education, healthcare, and infrastructure. This might include extending repayment periods or linking repayments to economic performance indicators, easing the burden on countries during periods of economic downturn.

- International financial institutions and creditor countries should expand debt relief initiatives, particularly for the most vulnerable countries. This could involve extending the G20 Debt Service Suspension Initiative (DSSI) or creating new mechanisms tailored to the needs of African countries.

- Private investors and financial institutions should engage in blended finance initiatives, where public funds are used to de-risk investments in key sectors like infrastructure, healthcare, and education. This will attract private capital while ensuring alignment with SDG objectives.

- Tackling corruption is critical for ensuring that borrowed funds are used efficiently and effectively. Anti-corruption measures, such as strengthening oversight institutions and promoting accountability, can help ensure that resources contribute to sustainable development. Developed countries and international organisations should assist African nations in combating illicit financial flows, tax evasion, and corruption that contribute to capital flight through international cooperation and by providing the necessary tools and frameworks for tracking and repatriating illicit funds.

- CSOs should play a watchdog role, holding governments accountable for the transparent use of funds and ensuring that resources are directed toward achieving SDG-related goals.

- Civil Society Organisations should actively engage in a watchdog role by holding governments accountable for the transparent and efficient use of funds. This involves closely monitoring public expenditures and budget allocations to ensure that financial resources are being utilised to align with SDGs. CSOs can achieve this by conducting independent audits, publishing reports, and raising public awareness about managing funds. They should also advocate for greater transparency in governmental financial processes, pushing for open data initiatives and accessible reporting systems that allow citizens to track progress on SDG-related projects.

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creditors and coordinating responses to debt challenges. They should also promote and facilitate cross-border infrastructure projects contributing to regional integration and development. Governments should engage in and support such regional initiatives that enhance economic integration and reduce individual countries' debt burdens.

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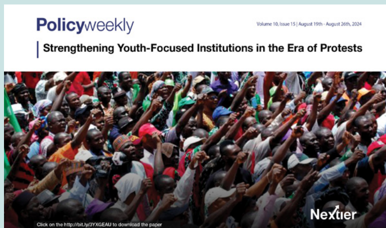
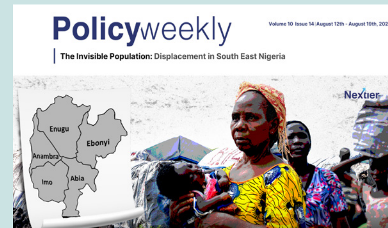
Nextier Sample Publications



Strengthening Youth-Focused Institutions in the Era of Protests

When one thinks of internally displaced persons (IDPs) in Nigeria, the mind often conjures images of makeshift camps in the northern region, teeming with victims of relentless violent conflicts. Yet, this image, while stark, is incomplete.



The Invisible Population: Displacement in South East Nigeria

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Red Flags from the #EndBadGovernance Protest in Nigeria

Several federal government economic policies since May 2023 have rubbed off adversely on the citizens. These policies include the removal of the oil subsidy, increase in fees paid in public tertiary

Nigerians in Distress: Before, Now and Later

On August 1, 2024, dozens of Nigerians trooped out to protest against the government. Armed with social media and youthful resilience, the protesters are against bad governance and economic hardship

The Clashes of Authorities: The Political versus Traditional Authorities in Nigeria

Recently, there has been a resurgence and intensification of conflicts between political and traditional authorities in different parts of the country. These power clashes, occurring at different times,

Nigeria's Northeast Belt of Insurgency and the Challenge of Refugees

Despite efforts of the Nigerian security agencies to decimate the insurgents, there remain some locations in the BAY States which together form the Northeast Belt of Insurgency, where the