AUGUST 2025
G20 FACTSHEET #3: AFRICAN DEBT CRISIS

Why do Countries Pay Financial Institutions Instead of Building Schools and Hospitals?

Introduction

The debate about the African debt crisis overlooks the real human costs. Hiding behind the billions owed are the lived experiences of many Africans: workers skipping meals just to afford bus fare, graduates sitting idle without jobs, and nurses treating patients without access to medicine. Meanwhile, governments are forced to pay high debt costs that divert fiscal resources from public health, education, and industrial policy, thereby hindering job creation and economic growth. This debt crisis extends beyond poor governance and is rooted in a rigged global system built on neocolonialism, which limits African governments' abilities to source funds for debt accumulation and forces poor nations to prioritise paying creditors over caring for their people. As the G20 convenes for the first time in Africa, are G20 governments finally willing to address the debt distress facing many countries on the continent? Will South Africa's proposed African Expert Panel bring about recommendations that will provide a glimmer of hope?

Governments borrow to bridge the gap

Governments exist to serve their people; they build roads and schools, fund hospitals and defence, and respond to crises. This requires a constant flow of money, with taxes, fees, and resource royalties being the primary sources of revenue. This forms the basis of the social contract. However, sometimes urgent needs arise more quickly than the government can collect revenue to address them. A critical bridge fails. A pandemic strikes. An ageing power grid threatens to collapse. A war breaks out, which increases the cost of food. Essential services can't wait until next year's taxes arrive. Halting them would not be an option.

This is where borrowing comes in. It's a standard tool used by governments worldwide when **current expenses** outpace **current income**; responsible borrowing acts as a bridge. It allows a government to provide vital services now and invest in crucial projects today, repaying the debt later from future revenue. Used wisely, it secures inclusive growth and sustainable development, enabling the nation to continue running and building through temporary shortfalls, ensuring stability and progress.

Africa's crushing burden

Africa has a long and painful history with debt, which began in the 1980s, primarily due to inherited colonial debts, oil shocks, rising poverty levels, and political instability. Over time, Africa and the developing world have incurred high levels of debt. Currently, Africa collectively owes around $746 billion,[1] which is significantly less than the other continents. For example, the United States alone owes around $36 trillion.[2] Despite this,

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Africa still pays higher interest (9.8%), often with shorter payment periods and stricter terms, compared to other regions, such as Asia (5.3%) and Latin America (6.8%).

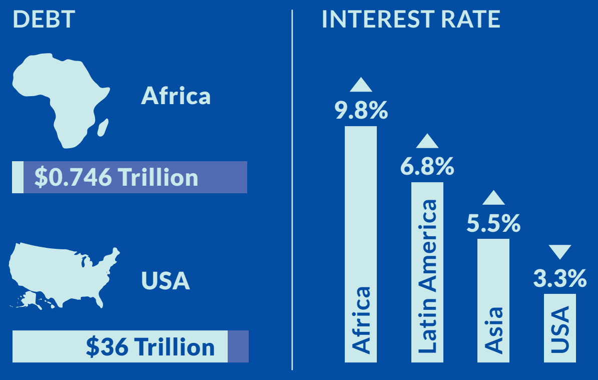
Paying higher interest rates means that African countries spend a higher share on repayments than other regions. This occurs due to lower and often flawed credit ratings[3], weaker economic conditions, and a perception of poor governance.[4] Moreover, most African countries borrow in foreign currencies, such as the US dollar, UK pound, or the Euro, all of which expose these countries to exchange rate risks that further increase borrowing costs. Even if one were to suggest that these risk factors are valid, African countries still face an unexplained premium of 1.7 percentage points, likely due to bias against African governments.[5]

Both of Africa's major debt crises (in the 1980s/90s and now) were significantly worsened by unexpected interest rate increases that had nothing to do with African countries themselves. Instead, monetary policy decisions, in particular the decision to raise interest rates, in the United States and other major economies, have significantly worsened the debt burden for African nations, making it more difficult and expensive to service their existing debts.[6]

Expensive debt forces African countries to choose between their development (such as paying for essential services like building schools and hospitals, protecting their citizens, and addressing climate change) and repaying their creditors. This limits the effectiveness of African governments in responding to the daily challenges faced by their people and investing in the technology and infrastructure needed for development. Currently, 57% of Africans live in countries that spend more on paying off debts than on education and healthcare.[7] This choice effectively puts African countries in a perpetual debt trap.

Global Debt and Interest Rate Inequality

Africa pays the highest interest on the lowest debt



Despite owing 48× less than the US, African nations pay nearly 3× the interest rate—with stricter terms.

57%
of Africans live in countries that spend more on debt repayment than education & healthcare

THE AFRICAN DEBT CRISIS refers to the ongoing challenge that African countries face in paying off their growing debt owed to wealthier countries, private capital lenders, the International Monetary Fund (IMF), and multinational development banks like the World Bank while sacrificing their spending on domestic development.

Why is African debt a recurring crisis?

Beyond the high costs of borrowing, Africa's debt crisis has been caused by several structural factors:

1. **Colonialism** - As African countries transitioned from colonialism to political independence, countries like the Democratic Republic of Congo were forced to inherit the debt incurred by those who had colonised it,[8] while some African countries had to pay colonial taxes,[9] putting massive pressure on their economies. African countries thus began their independence journeys at a disadvantage, with a system that also enabled Global North countries to utilise debt as a tool of control and allow for the export of cheap raw materials that keeps Africa trapped at the bottom of the global value chain (that as, as a raw materials exporter rather than as makers of things).
2. **Inability to mobilise domestic resources** - African countries lack access to sufficient funds, primarily due to several systemic issues. The current international taxation framework allows multinational corporations (MNCs) to shift profits to low-tax countries, thereby depriving African countries of the ability to tax MNCs operating within their borders. Simultaneously, other companies that could be taxed in developing countries often employ trade misinvoicing and other tax evasion strategies to avoid taxation, draining billions of dollars annually from the continent. This practice manifests as illicit financial flows (IFFs), resulting in Africa losing $89 billion every year.[10] This is more money lost through IFFs than it generates in Aid and Foreign Direct Investment combined each year.[11]
3. **Poor and undemocratic governance** - African countries often have poor institutional governance and limited oversight by

COLONIAL TAXES refer to money that former French colonies need to pay to France to compensate it for the cost of building infrastructure in those colonies during its colonial rule.

parliaments and auditing institutions, which allows lenders to take advantage and offer loans that do not benefit the country.

4. **Climate vulnerability** - Despite contributing much less to climate and environmental degradation, African countries are among the most vulnerable countries to climate change. Funds needed for climate action and transitioning to clean energy often come as loans. For example, 96% of South Africa's $13.8 billion Just Energy Transition Plan will be coming from European countries and the US to South Africa as loans.[12]
5. **Food sovereignty** - Africa now imports 85% of its food. This dependency is caused by trade rules favouring subsidised crops from the Global North.[13] Buying food from other countries also requires foreign currency, which is often attained by taking on loans from those countries in dollars or euros. This deepens the debt burden in the name of food security.
6. **Energy dependency** - African countries export raw materials like oil and minerals, and import expensive refined fuels and energy technology. For example, Angola and Nigeria are both oil-rich but import 80% of their fuel.[14] This creates a debt burden, as African countries require foreign currency to purchase the energy and technology produced abroad.

When food, energy, and vital technologies are imported, they also become victims of global shocks that can make them extremely expensive, such as wars, pandemics, and trade wars. The more expensive it is, the more debt African countries need to incur to meet the basic needs of their population.

South Africa's $13.8 billion Just Energy Transition Plan

Most climate funding "support" is debt that must be repaid

G20 solutions to the African debt crisis

The G20 has tried to address the debt crisis through initiatives like:

1. **Debt Service Suspension Initiative (DSSI) -** During the Covid-19 pandemic, the G20 countries initiated a pause on debt repayments from African and other developing countries from May 2020 to December 2021, aiming to help countries address the pandemic. However, delaying payments did not help alleviate the underlying, unsustainable debt burden.
2. **Common Framework for Debt Treatments** - The G20 introduced this mechanism to restructure debt for low-income countries. The initiative was used to frame debt restructurings in Ghana and Zambia, and has also been activated by Chad and Ethiopia. The Common Framework has, however, been criticised by many because private lenders and countries like China are not required to participate, negotiations are not transparent,[15] and the Framework's processes are slow and have proven to be ineffective. Others have pointed out that the Framework focuses on short-term fixes rather than addressing the root causes of debt.[16]

What is currently on the G20 agenda?

The debt crisis is a stated priority of South Africa's G20 Presidency. South Africa has committed to:

- Push for solutions to reduce debt and provide relief to poorer countries, ensure fairer and more transparent credit ratings, and work to lower the additional costs developing countries face when borrowing money.[17]
- Establish the G20 Africa Expert Panel, headed by Former South African Finance Minister, Trevor Manuel. This panel will produce a report with recommendations on how to address the overall debt crisis and reduce the high cost of debt.
- Discuss climate financing in the Sustainable Finance Working Group to ensure that funds required for climate change are not just loans that will further increase the debt burden for developing countries.
- Discuss how to strengthen debt solutions in the International Financial Architecture (IFA) by improving the Common Framework through transparency, technical guidance, and stakeholder engagement (including borrowers and private creditor involvement). The IFI working group will also compile G20 notes on liquidity options and climate-resilient debt clauses while supporting the development of local currency bond markets.

Despite these commitments, the South African government has taken little concrete action towards achieving these goals. The initial Cost of the Capital Commission has been translated into the G20 Africa Expert Panel, and it remains unclear to what extent the panel will discuss all the issues the Cost of Capital Commission sought to address. South Africa's National Treasury has shown little appetite for driving an ambitious debt relief agenda in the finance track at the G20.

DEBT RESTRUCTURING refers to changing the conditions of a loan to allow the country which owes to pay the loan more easily or cancelling a portion of the debt through a process known as 'debt haircuts'[22]. While the G20 Common Framework does not favour this approach, debt haircuts are a central part of the Jubilee 2000 debt cancellation campaigns.

African debt crisis beyond the G20

The African debt crisis requires bold, long-term solutions that go beyond temporary relief. African leaders have identified the urgent need for change and, for the first time in 2025, held the African Union Conference on Debt in Lome, Togo.[18] This conference took place as African governments have called for a UN Debt Workout Mechanism and declared 2025 as the Year of Reparations, which aims to address historical injustices.[19] In February 2025, seven former African leaders also signed the so-called "Cape Town Declaration", calling for debt relief and fairer borrowing terms for African nations on the sidelines of the G20 Finance Ministers. These are essential steps, but they are a long way from yielding tangible results.

Holding our leaders accountable

To resolve the crisis, citizens need to be engaged, and activists need to take the battle forward through the campaigns that made the last Jubilee and the HIPC possible.

We should ensure that domestically, African leaders invest efforts towards building strong institutions, are more transparent about borrowing terms and curb corruption. We can achieve this by forming alliances and submitting policy and legislative recommendations to parliaments.

Demand fair global cooperation

Internationally, we should demand that our leaders tackle illicit financial flows by negotiating for better international taxation policies and industrial policies that will ensure food, energy, and technology sovereignty.

Form Pan-African citizen alliances

Spending on repaying debts instead of investing in people's well-being affects a hospital patient in Kenya, as well as learners in Senegal and South Africa. Citizens must collaborate to shape how our governments act on the international stage. For instance, civil society organisations like the African Network on Debt and Development (AFRODAD) and Tax Justice Network Africa (TJNA), supported the call by a group of African countries to have a UN Tax Convention.[20] We must ensure stronger voices come from the Global South and consistently pressure African leaders to negotiate a fairer global economic system at the United Nations.

If we are successful in forming alliances, we will be able to pressure our governments to find innovative solutions to the debt crisis. In 2024, people in Kenya challenged their government's decision to increase taxes to accommodate the payment of existing loans. But this was not supported by citizens from other African countries, despite facing similar challenges.

Jubilee 2025 is an opportunity to address the debt crisis

The Jubilee 2025 campaign is a global movement which advocates for debt justice. It occurs every 25 years and is inspired by the ancient concept of Jubilee, which calls for debt cancellation, the return of land, and the liberation of enslaved people.[21] Although initially adopted by the Catholic Church, the campaign has evolved into an interfaith initiative and is now supported by civil society. This year, the campaign seeks to address the debt crisis in the Global South by demanding:

1. **Debt cancellation** - cancelling unjust and unsustainable debts without imposing economic policy conditions.
2. **Systemic reform** - reforming the global financial system *as a prerequisite* to prevent future debt crises.
3. **Permanent framework** - establishing a transparent, binding and comprehensive debt resolution framework at the United Nations.

Can we mobilise behind this campaign and ensure that calls for debt cancellation, a fair financial system, and good debt governance under the United Nations are implemented?

The debate does not end here

- **How do you plan to join the Jubilee campaign?**
- **Is the G20 a correct platform to discuss debt, or should we extend this conversation to the United Nations?**
- **Are you currently monitoring how your government is borrowing money on your behalf?**
- **Is South Africa doing enough in its G20 roles?**

Endnotes

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