AFRODAD

AFRICAN FORUM AND NETWORK
ON DEBT AND DEVELOPMENT

Reforming the Global Financial Architecture as a Pre-Requisite for Debt Sustainability in Africa

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ABSTRACT

This paper critically examines the Global Financial Architecture (GFA), arguing that its colonial origins and entrenched inequities have perpetuated Africa's economic marginalisation, debt dependency, and systemic underdevelopment. Despite Africa's minimal share of global debt, the continent suffers disproportionately high borrowing costs due to biased credit ratings, foreign currency-denominated debt, and exploitative financial mechanisms such as Eurobonds. Existing reform efforts—centred on debt relief and governance tweaks—are insufficient, as they fail to address structural imbalances that undermine Africa's fiscal autonomy.

The paper advocates for radical alternatives that prioritise Africa's self-reliance and economic sovereignty. Central to this approach is the establishment of *African Financial Assets* (AfA)—regional financial instruments underpinned by Africa's vast natural resource wealth, offering a sustainable and equitable alternative to external borrowing. By mobilising natural resource rents and monetising the value of Africa's mineral, energy, and agricultural assets, African nations can secure development financing without relying on predatory international markets. Additionally, a *Land Value Tax* (LVT) is proposed as a progressive revenue-generation tool, targeting unproductive land speculation and ensuring that the economic value derived from land benefits the public rather than private interests.

The paper further emphasizes the potential for innovative financing mechanisms, including regional sovereign wealth funds and the strategic use of natural resource-backed bonds, to replace exploitative debt structures. Such tools can leverage Africa's resources to build robust domestic capital markets, support infrastructure investments, and break the cycle of dependency. Combined with decentralised finance (DeFi), these radical reforms can democratise access to capital, enhance transparency, and localise financial control.

This study concludes that incremental reforms to the GFA are inadequate. Africa's economic future depends on reimagining financial systems through land taxation, natural resource rents, and asset-backed instruments—ensuring equitable, sustainable development rooted in African ownership and innovation.

Keywords: Global Financial Architecture; Debt Crisis; Global South; Africa; Sustainable development

LIST OF ACRONYMS

AFRODAD	African Forum and Network on Debt and Development
GFA	Global Financial Architecture
AfA	African Financial Asset
LVT	Land Value Tax
DeFi	Decentralised Finance
IMF	International Monetary Fund
IBRD	International Bank for Reconstruction and Development
ODA	Official Development Assistance
SDR	Special Drawing Rights
AU	African Union
AfDB	African Development Bank
HIPC	Heavily Indebted Poor Countries
MDRI	Multilateral Debt Relief Initiative
OECD	Organisation for Economic Co-operation and Development
PAPSS	Pan-African Payment and Settlement System
IFF	Illicit Financial Flows
G20	Group of Twenty
USD	United States Dollar

1.0 INTRODUCTION

The Global Financial Architecture (GFA)—encompassing institutions like the International Monetary Fund (IMF), the World Bank, and global capital markets—plays a central role in governing international finance and influencing economic trajectories. However, the GFA's historical foundations are deeply rooted in the inequities of colonialism, and resource exploitation that defined Africa's early integration into the global economy. Its philosophy prioritises market liberalism, creditor dominance, and resource extraction, perpetuating systemic inequalities that trap African nations in cycles of debt dependency and underdevelopment.

This study addresses the core question: *How do the institutional structures and historical foundations of the GFA entrench Africa's economic marginalisation, and what reforms are necessary to create a fairer and more inclusive financial system?*

Previous research has explored these issues in isolation. For example, Ndikumana and Boyce (2011) highlight the role of capital flight in undermining Africa's economic development, while UNCTAD (2020) focuses on the devastating effects of IFFs, and Gallagher and Kozul-Wright (2022) examine inequities within the GFA. Yet, these studies fail to provide an integrated analysis of sovereign debt, IFFs, and climate finance, all of which are interconnected within the GFA's structural framework. This study addresses this gap, presenting a comprehensive examination of these factors and their cumulative impact on Africa's economic trajectory. Furthermore, this study moves beyond diagnosing the problem to proposing actionable solutions by analysing alternative financial frameworks, such as regional financial ecosystems, resource-backed currencies.

Methodologically, the research combines historical analysis with both qualitative and quantitative data. The historical analysis traces the evolution of the GFA from its colonial origins to its current form, exploring how its principles continue to disadvantage Africa. Qualitative insights are drawn from reports by institutions such as the African Development Bank, UNCTAD, and the World Bank, while quantitative data highlights the scale of Africa's sovereign debt crisis, the magnitude of IFFs, and the inadequacy of climate financing. This mixed-methods approach ensures a robust and multidimensional understanding of the systemic barriers facing Africa.

The study critiques the ineffectiveness of incremental reforms, such as recalibrating credit rating systems or improving debt restructuring mechanisms, which have failed to address the GFA's underlying philosophy of creditor supremacy and marginalisation of the Global South. Superficial adjustments have proven insufficient in reversing Africa's dependency on exploitative financial structures. For example, Africa pays borrowing costs 2–3 times higher than developed nations (Energy Review, 2024), while an estimated $88.6 billion is lost annually through IFFs (UNCTAD, 2020). These systemic issues limit fiscal sustainability and prevent transformative growth.

To break free from the debt-growth trap, the study proposes bold reforms. First, climate finance must be reallocated equitably, addressing Africa's disproportionate vulnerability to climate change while recognising its minimal contribution to global emissions. Second, the study advocates for the creation of an African Financial Asset (AfA), a commodity-backed regional currency leveraging the continent's abundant natural resources. The AfA would reduce reliance on foreign currencies, stabilise regional economies, and support initiatives like the Pan-African Payment and Settlement System (PAPSS), fostering financial integration and self-reliance.

Furthermore, decentralised finance (DeFi) tools enabled by blockchain technology present innovative opportunities to bypass traditional intermediaries, democratise access to finance, and fund development projects transparently. These tools can create localised financial ecosystems that reduce reliance on exploitative global markets.

The study concludes that incremental tweaks and structural reforms alone will not suffice. Dismantling the entrenched inequities of the GFA requires reimagining its philosophical foundations, prioritising equity, inclusivity, and development. Only through radical reforms—anchored in homegrown financial systems and alternative frameworks tailored to Africa's unique needs—can the continent escape the debt-growth trap and realise its potential for transformative growth.

The paper is structured into eight sections. Section two explores the GFA's historical evolution, while section three examines its philosophical underpinnings. Section four analyses the GFA's role in perpetuating Africa's sovereign debt challenges, providing a basis for the discussion on reforms in section five. Section six critiques the inadequacies of both structural and incremental reforms, and section seven offers a bold vision for alternative financial systems to foster equitable and sustainable development.

2.0 BIRTH OF THE GLOBAL FINANCIAL SYSTEM

2.1 Early financial systems

The antecedents of the modern global financial institutions can be traced to the early forms of organising commerce and trade in ancient civilisations such as Mesopotamia, Egypt, and Greece. Around 2000 BC, ancient Egypt and Sumer developed grain banks, which enabled merchants to loan grains to farmers in exchange for portions of their harvest. This form of rudimentary financial intermediation was among the earliest mechanisms of credit and trade.

During the Medieval period in Europe, the establishment of early banking systems in Italian city-states like Venice and Florence paved the way for more sophisticated financial operations. These banks facilitated international trade and laid the groundwork for modern finance. The rise of international commerce was further accelerated by the advent of joint-stock companies, such as the Dutch East India Company (1602), which created a global financial network that enabled long-distance trade and resource extraction. These developments were foundational to the financial innovations of the Industrial Revolution, which brought about the growth of capital markets and structured global trade networks.

2.2 Post-World War II and the Bretton Woods System

The destruction caused by World War II and the economic stagnation of the Great Depression necessitated a new framework for global economic cooperation. In 1944, representatives from 44 allied nations convened at the Bretton Woods Conference in New Hampshire to design a stable and predictable international monetary system.

Key objectives of the Bretton Woods system included stabilising exchange rates, facilitating post-war reconstruction, and preventing competitive devaluations that had contributed to the global economic collapse of the 1930s (Dominguez, 1993). The resulting agreements established the International Monetary Fund (IMF) and the International Bank for Reconstruction and Development (IBRD, later known as the World Bank).

The IMF was tasked with overseeing exchange rate stability and providing financial assistance to countries with short-term balance-of-payments issues. The World Bank focused initially on post-war reconstruction but soon shifted to financing development projects in the Global South. Currencies were pegged to the US dollar, which was convertible to gold at a fixed rate of $35 per ounce. This system facilitated stable trade relationships but was inherently limited by its reliance on US monetary policy and gold reserves (Eichengreen, 2008).

2.3 Bilateral and multilateral cooperation: The Paris Club, G20, and OECD

In addition to the Bretton Woods institutions, post-war financial governance expanded to include platforms for bilateral and multilateral cooperation. The Paris Club, established informally in 1956, emerged as a forum for discussing international lending and restructuring sovereign debt, particularly for developing nations. Its processes often reinforced asymmetric power dynamics, with creditor nations dictating terms that prioritised debt repayment over domestic development needs (UNCTAD, 2020).

The Organisation for Economic Co-operation and Development (OECD) was founded in 1961 to promote global economic growth and trade among industrialised nations. Though primarily focused on developed economies, the OECD's guidelines on financial flows and investment indirectly shaped Africa's economic policies. The creation of the G20 in 1999 was intended to bring together major developed and emerging economies to address global financial challenges. However, Africa's limited representation within the G20 undermines its ability to influence decisions that significantly impact the continent.

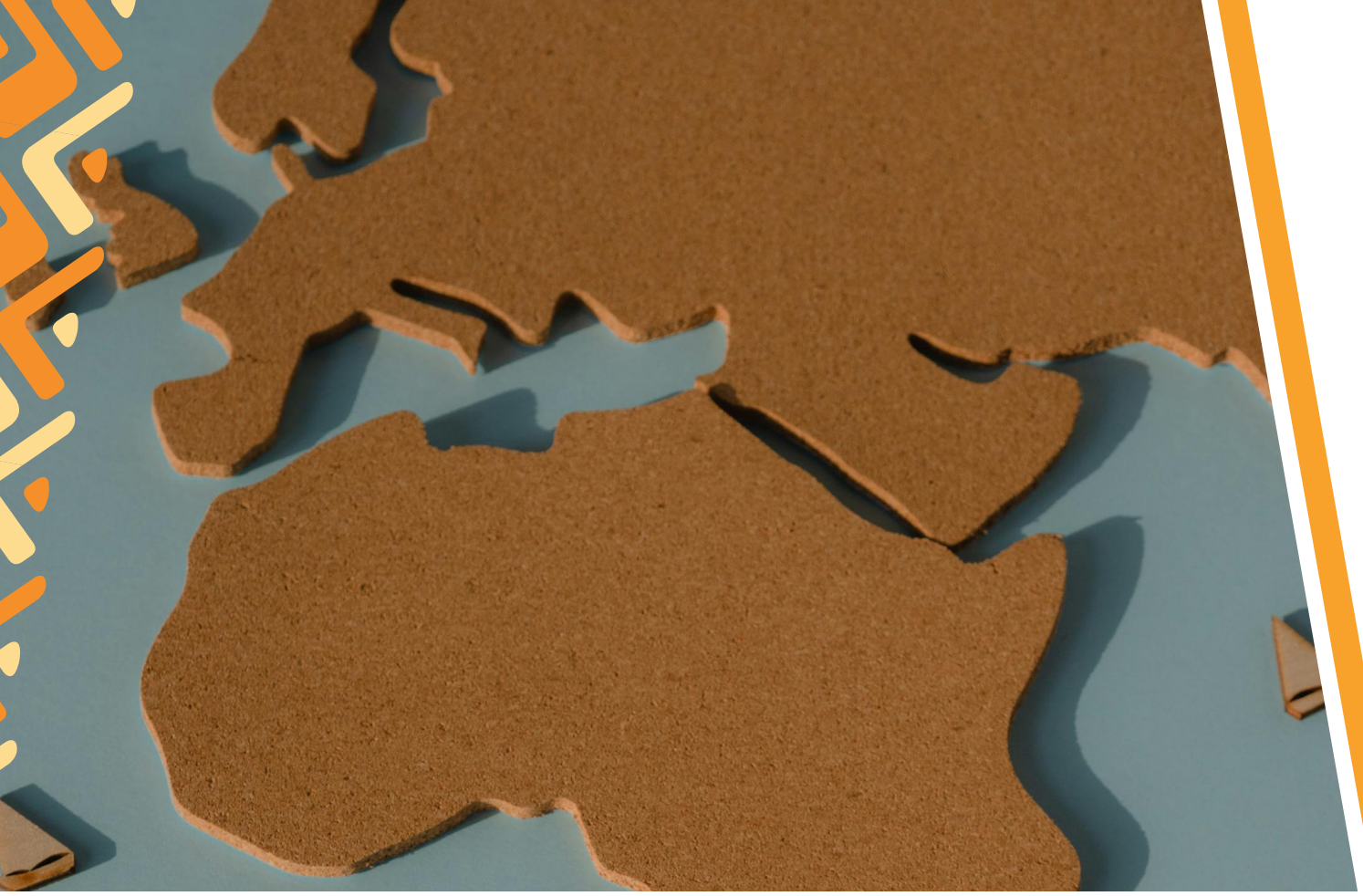
2.4 Entry of African independent states into the global financial system

When African countries gained independence in the mid-20th century, they joined global financial institutions such as the IMF and World Bank under pre-established rules and governance structures. Ethiopia and Egypt were among the first African nations to join the IMF in 1945. By the early 1960s, newly independent nations like Ghana (1957) and Morocco (1958) began joining, with 18 African countries becoming IMF members by 1963 (IMF, 2023).

Upon entry, African states faced significant structural disadvantages. They were integrated into a global financial system designed to serve the industrialised Global North. Debt financing became the primary mode of development assistance, often under conditions that perpetuated dependency and restricted policy autonomy. Furthermore, African economies were locked into resource extraction and exploitation—a legacy of colonial economic arrangements—while being excluded from higher-value segments of the global value chain (UNCTAD, 2020).

The rise of Eurobond markets in the early 2000s provided African countries with new funding opportunities but introduced additional risks. Eurobond financing, while bypassing stringent multilateral conditionalities, exposed nations to high-interest rates and foreign exchange risks, compounding debt vulnerabilities (Tatonga and Alagidede, 2021).

The historical evolution of the global financial system highlights its origins in unequal trade practices, colonialism, and resource extraction. While institutions like the IMF and World Bank have facilitated economic integration, they have also entrenched structural inequities that disadvantage African economies. The entry of African states into this system marked the continuation of these dynamics, with debt dependency, unequal trade terms, and limited policy autonomy serving as persistent challenges. These antecedents underscore the need for systemic reforms to create a more equitable global financial architecture that supports sustainable development in Africa.



3.0 AFRICA AND THE GLOBAL SOUTH IN THE GLOBAL FINANCIAL ARCHITECTURE

3.1 Philosophical foundations and principles of the GFA

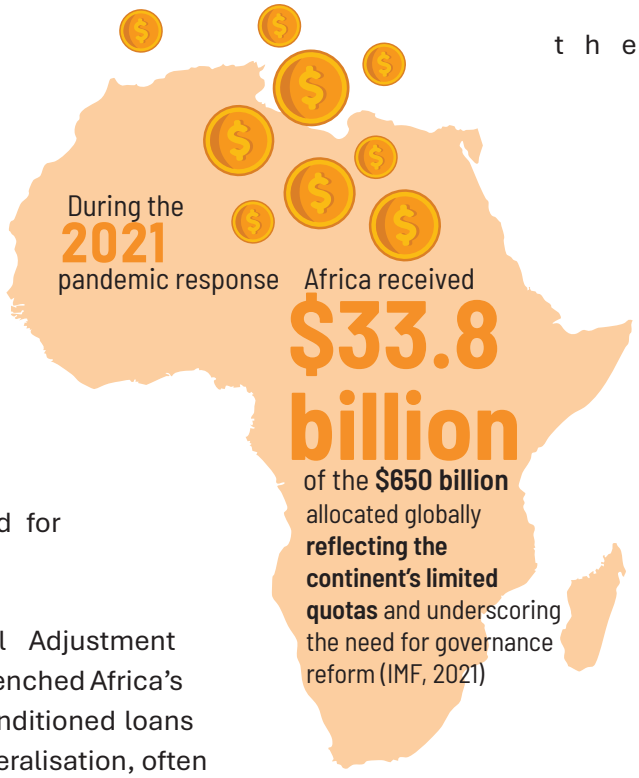
The Global Financial Architecture (GFA) is rooted in historical processes of economic control and resource allocation that date back to the colonial era. Philosophically, the GFA has been shaped by the principles of market liberalism, monetary stability, and economic cooperation. However, these principles often mask systemic inequities that perpetuate the economic dominance of the Global North. Among the principles of the GFA are fostering international trade, maintaining financial stability, and enabling cross-border investments. These ideals were codified through institutions like the IMF and World Bank, designed to stabilise exchange rates and promote economic reconstruction after World War II. Yet, their operations have often reinforced economic hierarchies, leaving the Global South, particularly Africa, at a systemic disadvantage (Babb, 2012; Stiglitz, 2002).

3.2 Governance arrangements of major international financial institutions

The governance structures of the IMF and World Bank remain dominated by wealthier nations, with voting power determined by financial contributions rather than equity or developmental needs. For instance, the United States retains a de facto veto over IMF decisions due to its significant share. This imbalance marginalises the voices of African and other Global South nations,

whose needs are often overshadowed by the priorities of the Global North (Mosley et al., 1995; Cheru, 2006).

The Special Drawing Rights (SDRs) mechanism highlights these disparities. While SDR allocations provide liquidity to member states, the distribution is skewed. During the 2021 pandemic response, Africa received $33.8 billion of the $650 billion allocated globally, reflecting the continent's limited quotas and underscoring the need for governance reform (IMF, 2021).



Moreover, the introduction of Structural Adjustment Programmes (SAPs) in the 1980s further entrenched Africa's economic struggles. These programmes conditioned loans on austerity measures, privatisation, and liberalisation, often leading to reduced public spending, social instability, and deepened inequalities (Stiglitz, 2002; Babb, 2009). The IMF and World Bank have perpetuated debt in Africa by tying financial assistance to stringent conditionalities that prioritise debt repayment over long-term development goals. This approach often forces African nations to rely on external borrowing, creating a cycle of dependency and vulnerability.

3.3 Resolving the current contradictions in the international financial system

The contradictions in the GFA—where institutions designed to promote development often exacerbate poverty and inequality—stem from its philosophical and structural foundations. Attempts to resolve these contradictions have revolved around debt relief initiatives, governance reform, and alternative financing mechanisms, but significant hurdles remain.

Debt relief initiatives, such as the Heavily Indebted Poor Countries (HIPC) programme and the Multilateral Debt Relief Initiative (MDRI), were introduced to reduce the unsustainable debt burdens of developing countries, particularly in Africa. These programmes provided some relief by cancelling debts owed to multilateral institutions, but they came with conditions that often reinforced the structural weaknesses of recipient economies. For example, countries had to adopt specific economic policies, including privatisation and trade liberalisation, which undermined local industries and deepened dependency on external markets (Babb and Carruthers, 2008).

The World Bank and IMF have also shifted their missions over the years to maintain relevance. Originally established to address post-war reconstruction and macroeconomic stability, these institutions have rebranded themselves as champions of poverty reduction and sustainable development. Programmes like the Comprehensive Development Framework (CDF) and Poverty Reduction Strategy Papers (PRSPs) aimed to increase country ownership of development strategies. However, critics argue that these initiatives merely repackaged earlier structural

adjustment policies under a more palatable guise, failing to address the systemic drivers of poverty and inequality (Cheru, 2006; Stiglitz, 2002).

Moreover, the reliance on external debt has not abated. African nations continue to face high borrowing costs in international markets, often paying 2-3 times more than developed countries due to biased credit ratings and perceived risks (Energy Review, 2024; UNCTAD, 2020). These challenges are compounded by illicit financial flows (IFFs), which drain approximately $88.6 billion annually from the continent, undermining its capacity to invest in critical sectors (UNCTAD, 2020).

The demand for reform has been met with significant resistance from powerful stakeholders within the global financial system. This resistance stems from the need for self-preservation by the dominant financial powers, who benefit from maintaining Africa at the base of the global value chain. The perpetuation of extractive relationships ensures the continuous flow of cheap raw materials to the Global North while denying Africa access to higher-value economic activities. The 'rules-based system', which favours creditor nations and multinational corporations, has historical roots in colonial economic arrangements and continues to marginalise African nations in critical decision-making processes.

Efforts to address these issues have included calls for greater accountability and transparency in financial governance, the implementation of debt-for-climate swaps, and the reallocation of SDRs to low-income countries. However, entrenched power dynamics within the IMF and World Bank, coupled with the reluctance of major creditor nations to cede control, have hindered meaningful reform. The pushback from these institutions often involves placatory measures, such as debt relief packages, that fail to address the underlying systemic flaws and instead perpetuate cycles of dependency.

3.4 Africa's role in reforming the GFA

Africa's engagement with the GFA highlights both the challenges and opportunities of reform. While African nations have historically been marginalised, their growing economic importance and collective advocacy present avenues for change. Organizations such as the African Union (AU) and African Development Bank (AfDB) can serve as platforms for articulating a unified vision for reform.

African nations have already begun leveraging regional financial institutions, such as the African Export-Import Bank (Afreximbank), to reduce dependency on global institutions. Additionally, Africa's rich natural resources and strategic geopolitical position provide leverage in negotiations for a more equitable GFA (Santiso, 2001).

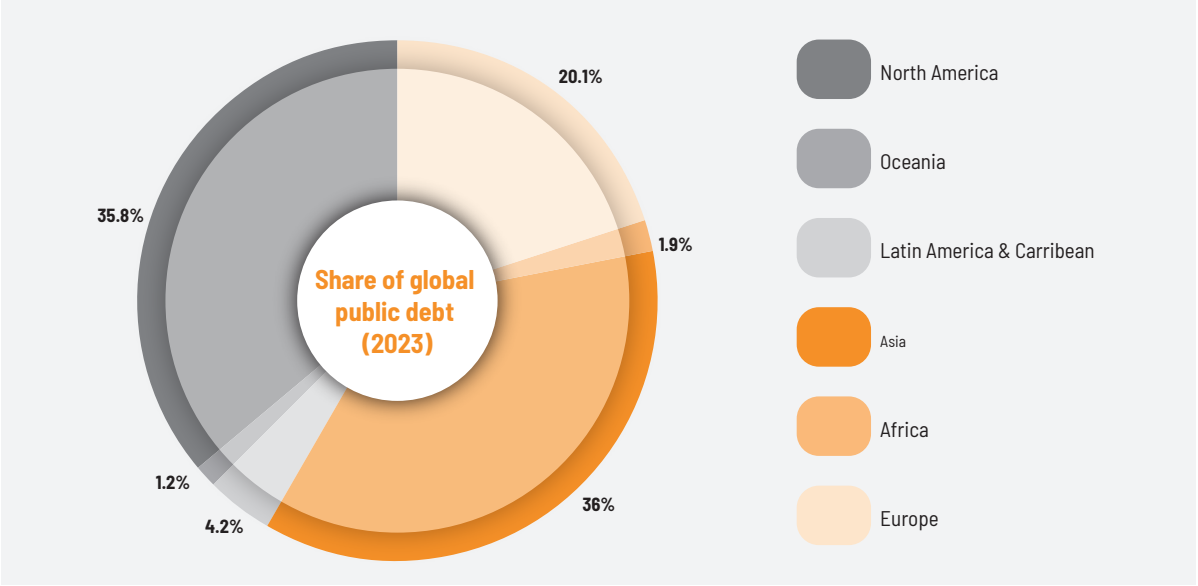
Reforming the GFA requires a clear acknowledgement of its historical roots in colonialism and resource extraction while envisioning a system that prioritises equitable development and sustainability. By addressing governance inequities, promoting regional cooperation, and tackling systemic issues like IFFs, Africa can play a pivotal role in reshaping the global financial landscape for the better. Civil society movements like AFRODAD are essential in this process, providing a voice for marginalised communities and advocating for a debt architecture that supports rather than hinders development.

4.0 ANALYSIS OF THE GLOBAL FINANCIAL ARCHITECTURE AND AFRICA'S SOVEREIGN DEBT CONUNDRUMS

4.1 The global sovereign debt paradox

Although Africa's share of sovereign debt is relatively small by global standards, the cost of borrowing is disproportionately higher compared to both developed and emerging economies. As of 2023, United Nations and IMF estimates shows the global public debt surpassed $97 trillion, with developing countries accounting for approximately $29 trillion—less than one-third of the total. Figure 1, which presents the global public debt distribution by region, highlights that Asia, North America, and Europe collectively hold over 80% of global public debt. In contrast, African governments collectively owe $1.8 trillion, $0.5 trillion below the continent's nominal GDP of $2.3 trillion. In absolute terms, Germany, the largest European economy (valued at $4.91 trillion in 2023) alone has a greater debt stock at $2.9 trillion compared to the entire African continent. Even adjusted for GDP, African debt does not stand out as being uniquely high with 49 African countries having lower public debt-to-GDP ratios in comparison to the United States of America (122.2% in 2023) (see AEO,2024).

Figure 1: Africa's share of global debt is low



Source: Authors calculation based on IMF World Debt Tables (2023).

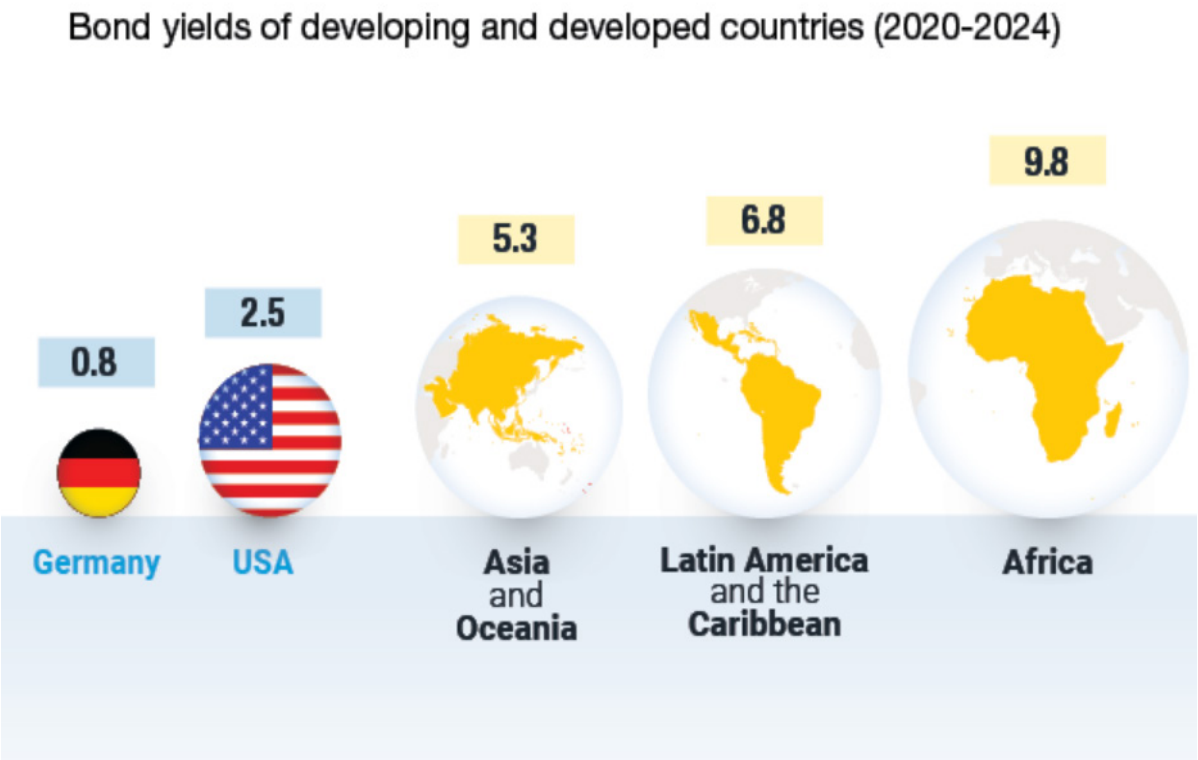
Despite this relatively low debt burden, eight out of the nine countries listed as being in debt distress by the IMF in 2023 are African. This paradox stems from a global financial architecture that structurally disadvantages Africa through high borrowing costs.

4.2 The cost of borrowing and exploitative financial mechanisms

Although the African continent accounts for 1.9% of global public debt (Figure 1), the continent pays far more than any region of the world for some of its commercial paper (Figure 2). The high cost of debt in international capital markets affect investment and consumption demand through interest elasticities, wealth effects, and changing perceptions of uncertainty thereby inducing poverty and underdevelopment through space and time. The interest paid on the external debt is the conduit through which a predatory international monetary and financial system robs Peter to pay Paul.

As shown in Figure 2 the Eurobond market is a rigged regime of exploitation. This exploitative system is reinforced by African political elite who help maintain the system of unbalanced finance through misdirected choices. In 2021, the average interest rates in sub-Saharan Africa on sovereign bonds (6%) were higher than on loans from the World Bank, the AfDB, China or the Paris Club countries which offer less than 5% in most cases.

Figure 2. Africa pays more in international capital markets



Source: UNCRG (2024).

We posit that when expensive credit is channeled into investments that yield good returns and expands the capital output ratio, the outlook will always bode well for economic growth and bolstered by fair distribution, poverty can be cancelled, and hunger eliminated. However, a substantial amount of borrowed funds is directed toward recurrent expenditure that fuels a perpetual debt-growth cycle. In 2021 for instance, Egypt raised $3 billion in the Eurobond market for various maturities and paid around 5.8% mainly to close its budget's financing gap and its growing public debt. Fitch and Standard and Poor's rates Egypt as B with a negative outlook while Moody's maintains Egypt's credit rating at B3 with stable outlook. Compared to other emerging markets with similar credit ratings such as Mexico, Vietnam, which borrow at less than 5%, Egypt's Eurobond is comparatively more expensive (EIU, 2018). Recently, Benin, Cote d'Ivoire and Kenya were shut from the Eurobond market for most of 2022 and 2023 owing to shaky macroeconomic climates. UNCTAD (2024) highlighted the risk of African sovereigns taking on more Eurobond loans at prohibitive rates of return.

The cost of international capital for African sovereigns is directly tied to the ratings they receive from the credit rating agencies. Well functioning credit rating agencies reduce barriers to information between borrowers and lenders and help screen out risky borrowers. In a perfectly competitive world, regions that have low per capita income should attract more capital at a cheaper cost. For low-income countries with substantial raw material base of production, a recalibrated financial system that rewards the produce of nature will release the energies of the economies to contribute more to global growth and development. With diminishing marginal returns to capital, a well-functioning global and local financial system that provides cheap and readily available funds will ignite the flames for inducing economic catch up and bridge the gaps

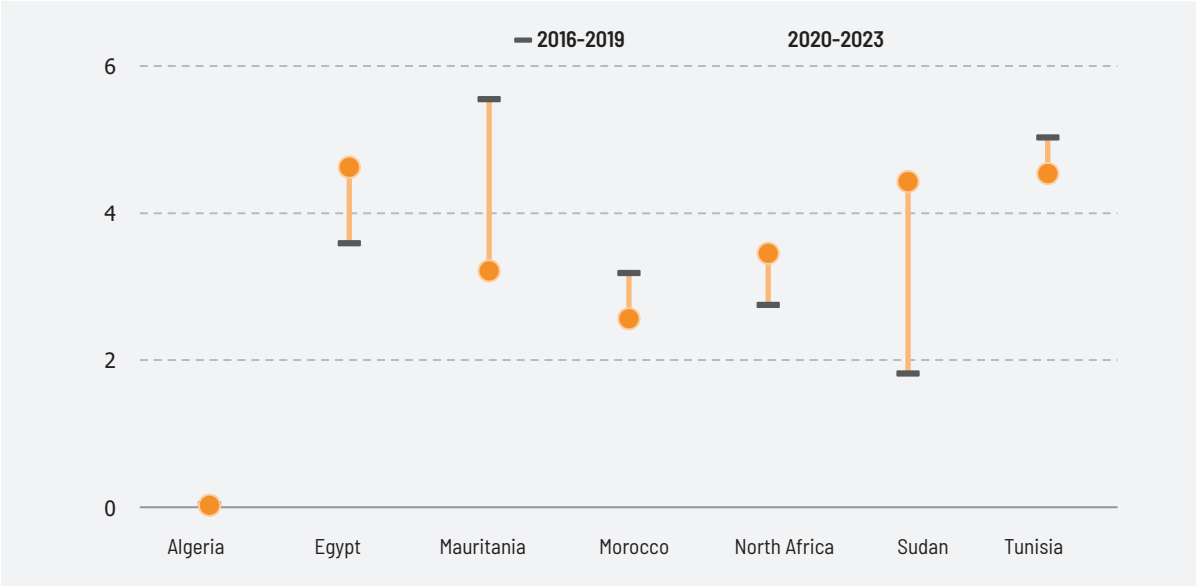
between the 'haves' and 'have nots'. This is *sine qua non* for the global sustainable development goals of no poverty and zero hunger. However, in a global financial architecture dominated by oligopolies such as Fitch, Moody's and Standard and Poor's, while inaccurate positive rating of mortgage-backed securities may in the short term increase their profits, society at large bears a large cost through subprime mortgage meltdowns and a subsequent global financial crisis as seen in 2007/08. In the case of African countries, subjective credit ratings become the conduit through which vulture funds are dumped at ridiculously high-risk premiums. A recent study by the UNDP in 2021 estimates that subjective credit rating cost African countries $46 billion in potential investment opportunities and about $28 billion in interest payments, compared to the $30 billion of overseas development assistance (ODA) received in 2021. Africa is a net creditor to the developed world.

This unbalanced structure of the global financial system unreasonably chokes African countries through high cost of capital relative to their emerging and developed market counterparts as shown in Figure 2 where Africa pays about 2 to 4 times higher than the United States of America and 6 to 12 times higher than Germany. The high borrowing cost leaks out the resources needed to fund domestic enterprises and finance investment in physical capital to pay creditors. This further limits already fiscally constrained economies and perpetuates a cycle of loss of market access and higher premiums which often further inflict collateral damage to the economy in the form of reduced investment, and private lending.

As Tatonga and Alagidede (2021) argue in their reinterpretation of the evidence, credit ratings should not be taken too seriously since they do not carry new information in line with the efficient market hypothesis. As investors carry out their own analysis using similar datasets as credit rating agencies (CRAs), by the time rating actions are announced, these would already have been factored into the bond yields. These insights should provide African policy makers with alternative tools for interpreting credit rating news and valuing the cost of capital. However, the consequences of living so dangerously on this chattel system of international finance has not been fully assimilated by African countries following recent defaults in Mali, Ethiopia, Ghana and Zambia.

The high cost of international debt feeds into a heavy external debt-service burden which siphons vital resources away from domestic investment. Figures 3 and 4 shows that for our selected North African and Sub-Saharan African countries under consideration, about 15% of foreign-exchange income—measured as a combination of export revenue, inflows of primary income and workers' remittances— is spent on servicing foreign debt in 2021. Collectively, North Africa spent more than 10% of government revenues in servicing external debts in the period 2016-2019, and about 20% in the 2020-2023 period. Sudan and Tunisia spend more than 30% in the 2020-2023 period. Currently, around one-fifth of the region dedicates 20% or more of foreign-exchange income to external debt servicing and this burden is much bigger for highly leveraged countries such as Egypt, Tunisia and Sudan.

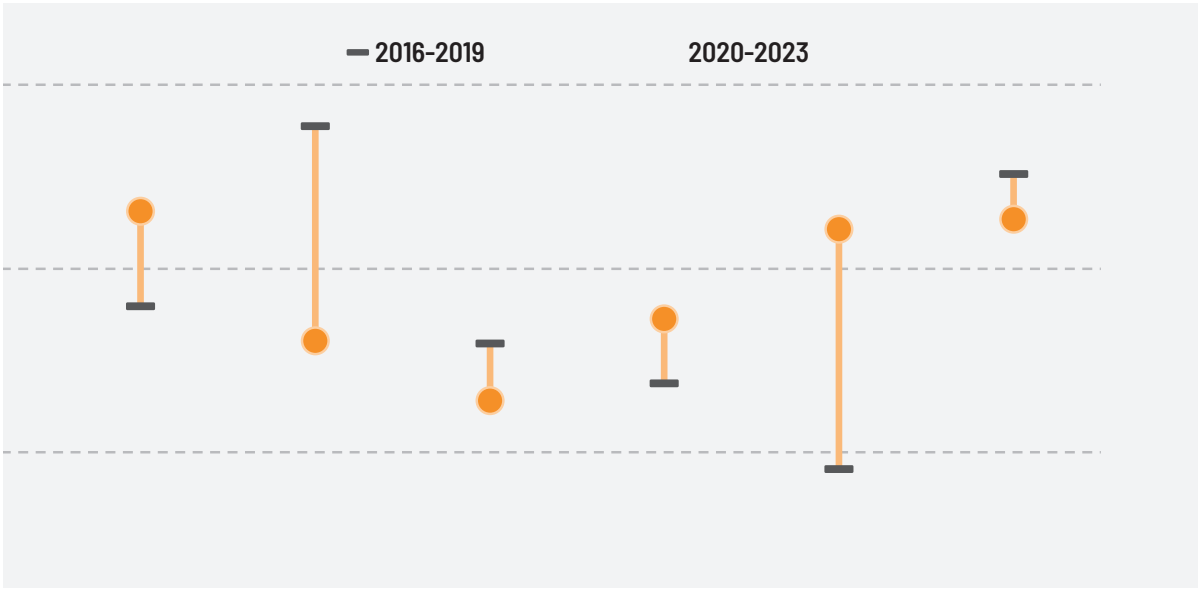
Figure 3: Total debt service on external debt (% of revenue)



Source: Author's calculations based on WEO data, April 2023.

According to the United Nations, a total of 3.3 billion people live in countries that spend more on interest payments than on either education or health. As shown in Figure 4 interest payments on public debt are consuming more than a third of government revenue in 2020 and 2021 as shown by the total debt service to revenue ratio. According to Egypt's Ministry of Finance for instance, interest payments on government debt accounted for 45.4% of all revenue in 2021. Debt service burden constrains essential social spending by taking up a higher proportion of fiscal expenditures which undermines the focus on critical investments in energy transition and the sustainable development goals.

Figure 4: Interest payments on external debt (% of revenue)



Source: Author's calculations based on WEO data, April 2023.

To guage the weight of this finding at the country level, data from the Central Bank of Egypt shows that of the $20 billion debt service in 2021/2022, $16 billion was principal repayments and $3.4 billion was interest payments, compared to $10.9 billion in 2020/2021. The increase mostly reflects the rise in principal repayments of about $8.8 billion. Had these resources deferred and been deplored for domestic financing needs in energy infrastructure and sustainable projects that create jobs instead of servicing debt, more investments and growth could be forthcoming. At this rate, the cost of servicing external debt exceeds expenditures on health (4.36%) and education (12.3%) combined in 2021.

4.3 The perils of international capital markets and Africa's vulnerabilities

The reliance on international capital markets as a source of financing for domestic expenditures has placed African countries in a precarious position, exacerbating both financial and economic vulnerabilities. Countries that gain access to these markets often face costly and risky financing arrangements, largely due to structural weaknesses in domestic capital markets and external global economic dynamics.

One key driver of Africa's foray into international capital markets has been the underdevelopment of domestic capital markets. As Senbet et al. (2017) highlight, most African economies lack robust and efficient financial markets capable of mobilising sufficient domestic savings to meet national development needs. This structural gap has been further exacerbated by the historically low interest rates prevailing in developed economies following the 2008 global financial crisis. With borrowing costs significantly lower in these markets, many investors sought higher returns in riskier emerging and frontier markets, prompting African governments to capitalise on the opportunity to secure funds through Eurobond issuances and private financial inflows.

While access to international financial markets has opened doors to a larger pool of credit and much-needed development finance, it has not been without its downsides. Private, unofficial flows from international investors, though beneficial in providing immediate liquidity, come with considerable risks, such as significant exposure to exchange rate volatility, rising refinancing costs, and unpredictable interest rate shifts. Such risks have made sovereign borrowing increasingly expensive and unsustainable for many African economies.

Since 2007, more than 20 African sovereigns have collectively raised over $120 billion from the Eurobond market, supplementing this with additional financing from Chinese commercial enterprises (Tatonga and Alagidede, 2021). This trend underscores the growing reliance on external financing sources, but it also highlights a concerning shift toward costly debt accumulation, which often does not translate into productive investments. Over time, such borrowing has amplified fiscal pressures, deepened balance-of-payments challenges, and increased debt-servicing obligations.

To illustrate the key characteristics of Africa's engagement with international capital markets, Table 1 provides a breakdown of Eurobond features, including interest rates, tenors, and issuing countries.

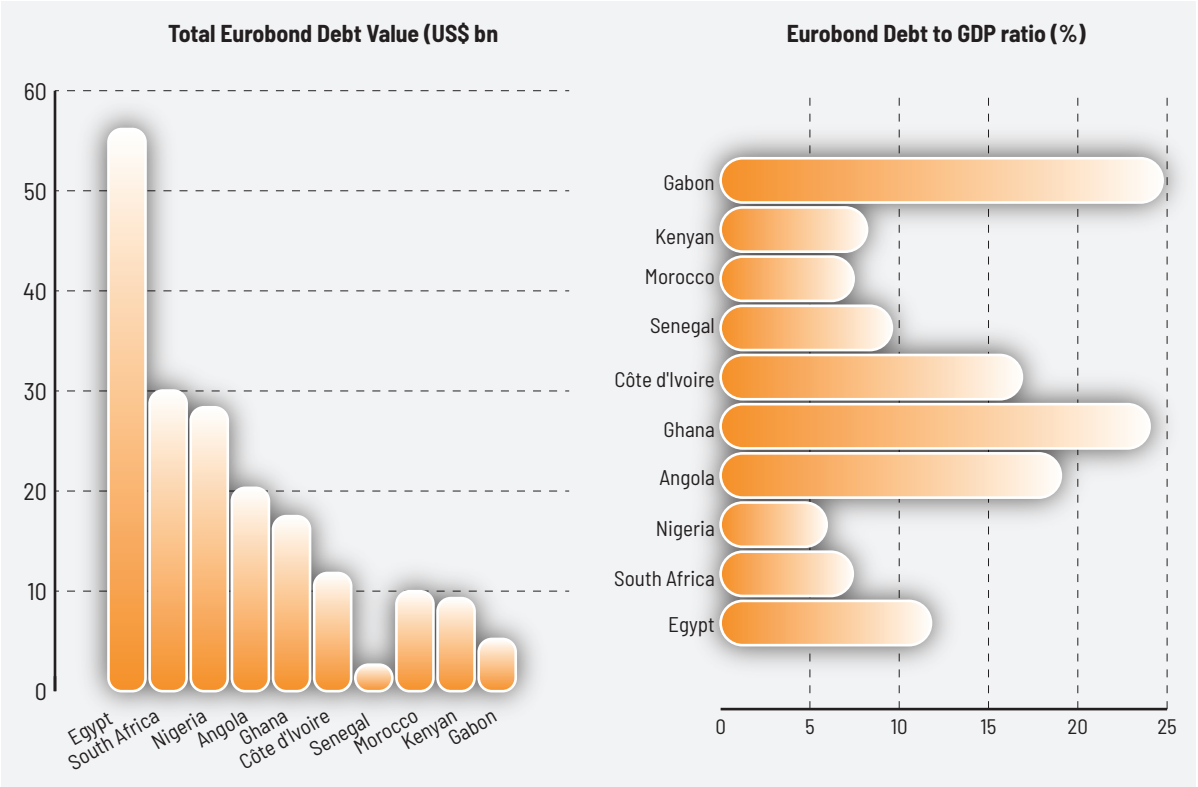
Table 1: An Overview of African Eurobonds

Country	Bonds Issued	Total Face Value (US$ bn")	Highest Coupon Rate (%)	Highest YTM (%)	Final Maturity Date (day-month-year)	Value of Projected Cash outflows (US$ bn)
Angola	6	9.75	9.5	12.50	26-11-2049	20.32
Cameroon	1	0.75	9.50	11.15	19-11-2025	0.93
Congo Rep.	1	0.47	6.00	10.15	30-06-2029	0.65
Cote d'Ivoire	5	8.04	6.38	8.37	15-06-2033	11.81
Egypt	22	29.32	8.88	18.52	16-02-2061	56.17
Ethiopia	1	1.00	6.63	47.41	11-12-2024	1.10
Gabon	4	4.00	7.00	13.47	24-11-2031	5.22
Ghana	10	8.76	8.88	80.84	11-09-2061	17.49
Kenya	5	5.90	8.25	15.81	28-02-2048	9.30
Morocco	6	6.25	6.50	7.05	15-12-2050	9.99
Mozambique	1	0.90	9.00	13.22	15-09-2031	1.55
Namibia	1	0.75	5.25	7.98	29-10-2025	0.85
Nigeria	12	15.12	9.25	11.69	28-09-2051	28.37
Rwanda	1	0.62	5.50	9.50	09-08-2031	0.89
Senegal	1	1.00	6.75	10.17	13-03-2048	2.65
Seychelles	1	0.015	5.50	9.40	11-10-2028	0.02
South Africa	10	16.00	7.30	9.05	20-04-2052	30.04
Tunisia	2	1.15	8.25	36.80	19-09-2027	1.29
Zambia	1	1.25	8.97	27.28	30-07-2027	1.70

Source: Development Reimagined Report (2023). **Notes:** *YTM-yield to maturity as of 14-08-23. ** bn=billion

The 19 countries in Table 1 hold together 91 active US$-denominated Eurobonds which have a final debt repayment date of September 2061, with varying values of annual debt repayment. Depending on their coupon rates, some countries pay up to 9%. The size of Eurobond debt as a proportion of GDP is around 25% in Gabon and Ghana. This amounts to about $5.22 billion and $17.49 billion respectively in the two countries (see Figure 5). The higher risk premiums African sovereigns face, relative to similarly rated emerging market peers underscores the systemic disadvantage African nations encounter when tapping global financial markets. While international capital markets offer African countries access to external financing, the associated costs and risks—driven by structural market inefficiencies and global economic imbalances—pose significant challenges. Without robust domestic capital markets and effective risk management strategies, continued reliance on international debt markets may further entrench Africa's financial vulnerabilities, limiting the continent's ability to achieve sustainable economic growth.

Figure 5: Size of the Eurobond in public debt



Source: Constructed by author from Development Reimagined Report (2023).

4.4 Long-term financing and systemic risks of Eurobonds

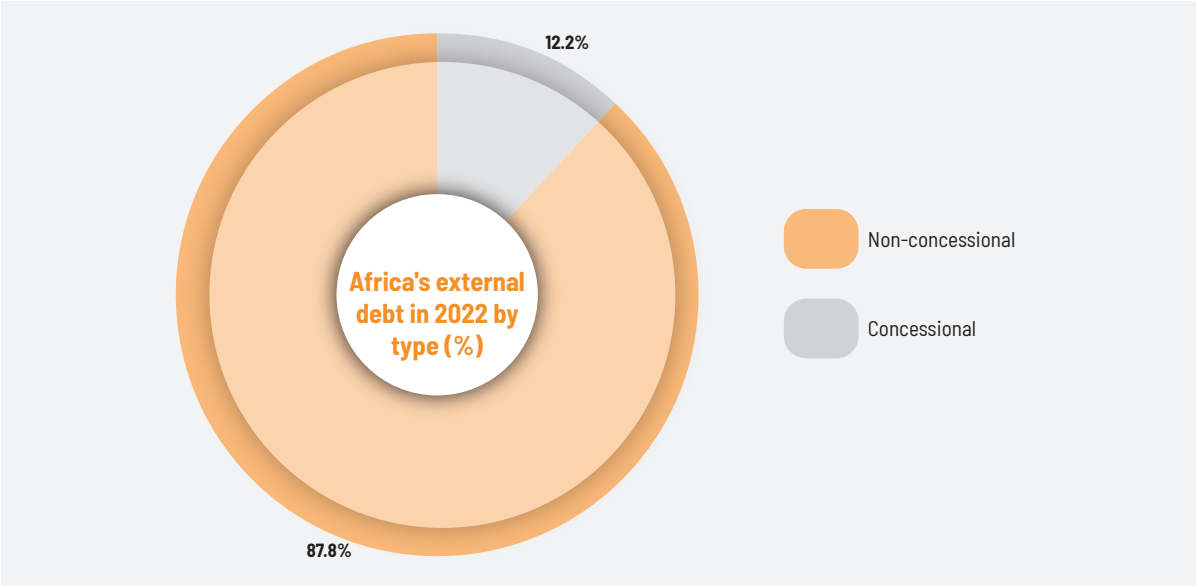
Eurobonds play a dual role in the financing strategies of developing economies, particularly in Africa, offering both opportunities and challenges. On the one hand, Eurobonds provide longer maturities compared to domestic bonds, enabling governments to secure long-term financing essential for large-scale infrastructure projects. Infrastructure development, which often requires extended repayment periods, is critical to fostering sustainable economic growth. Chakamera and Alagidede (2018) demonstrate that the combined effects of infrastructure stock and quality significantly enhance economic growth, particularly in regions with moderately developed institutions. Investments in reliable transport, energy, communication technology, and water infrastructure have the potential to raise productivity in sectors such as agriculture and manufacturing, while also reducing production and transaction costs. Consequently, borrowing from international capital markets to finance infrastructure can spur economic development, provided the projects are well-targeted and efficiently implemented.

At the same time, Eurobonds can contribute to the development of domestic capital markets when properly timed and strategically issued. By establishing a benchmark yield curve, Eurobonds facilitate price discovery and provide a reference point for future debt issuances. This, in turn, attracts further investment into the economy and supports the maturation of domestic financial markets. The ability to develop a sophisticated financial sector is particularly important for African economies seeking to mobilise local savings and reduce dependence on costly external credit.

4.5 Reduced ODA and non-concessional borrowing undermine development in Africa

The current framework governing concessional borrowing through the OECD reforms places African and Global South economies in a perilous position, effectively consigning them to debt dependency. The reforms stipulate that low-income countries can access at least 45% of their financing through Official Development Assistance (ODA), while middle-income nations are capped at just 10% (OECD,2020). This uneven allocation of aid not only perpetuates imbalances in global finance but also underscores the inadequacies of the development aid regime in addressing the long-term needs of African economies. A glaring example of this disparity is the persistent shortfall in ODA, with UNCTAD reporting that in 2023, aid from Development Assistance Committee (DAC) donors was still $143 billion below the 0.7% of Gross National Income (GNI) target set in SDG 17.

Figure 6: Concessional versus non-concessional lending



Source: Author's calculations based on WDI (2023).

This reduction in ODA highlights the deep-rooted flaws in the global financial architecture (GFA), where aid commitments are falling short of expectations, leaving African economies vulnerable. Furthermore, as detailed by the World Development Indicators (see Figure 6), a large proportion of African nations are dependent on non-concessional borrowing—an avenue that exposes them to higher costs and greater risks. Rather than accessing cheaper, concessional loans from multilateral development banks, many African countries rely as much as 88% of the time on more expensive external finance sources such as bonds, commercial bank loans, and private creditors. These loans are often compounded by rising interest rates, making it increasingly difficult for these nations to service their debts.

The case of Egypt exemplifies the risks posed by non-concessional borrowing. In a more fluid financial environment, Egypt has turned to volatile sources of finance, such as hot money inflows, which, while providing short-term liquidity, carry the significant risk of rapid outflows during economic crises or periods of rising global interest rates. This dynamic further deepens

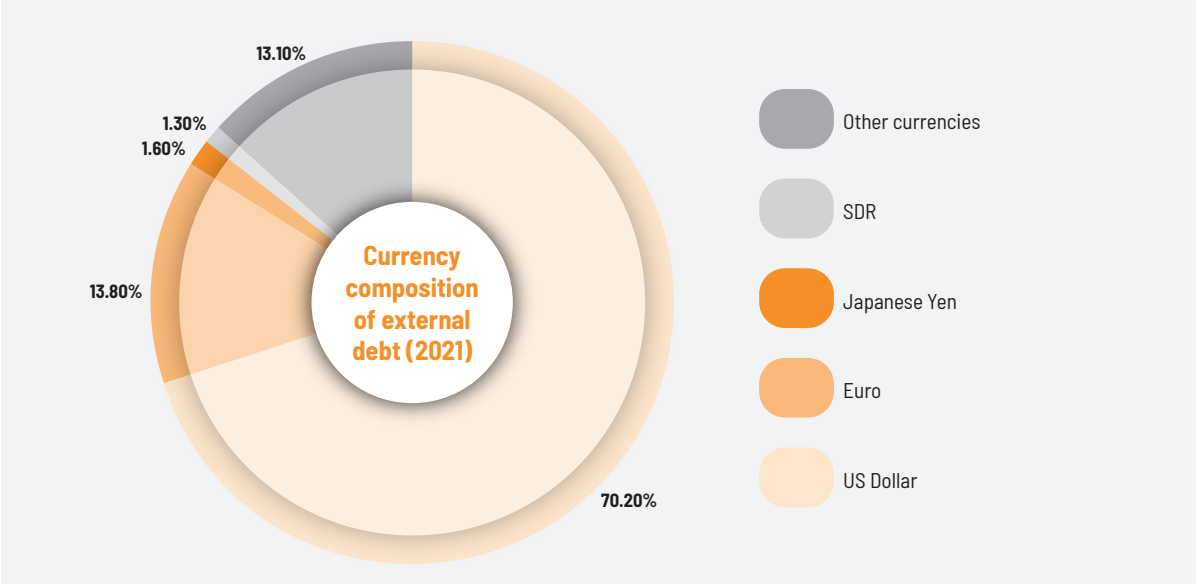
the cycle of debt dependency, making it harder for African countries to invest in sustainable development and economic growth.

Ideally, non-concessional loans should only be considered when offered at below-market rates and must be accompanied by grants to mitigate the burden of debt repayment. However, the current reliance on costly loans, combined with the reduction in ODA and the absence of adequate concessional financing, effectively traps African and Global South economies in a cycle of debt servitude, stalling their development aspirations and undermining their ability to achieve financial independence and sustainable growth.

4.6 The debt trap of foreign currency borrowing

Excessive borrowing by African countries in foreign currencies, particularly the US dollar, has become a major factor contributing to rising debt levels, exacerbating the risk of default, and undermining the financing of sustainable development goals (SDGs) across the continent. Unlike industrialised nations, which primarily borrow in their own currencies, African countries are largely price takers in the global debt market. They accept loan terms dictated by external creditors, who predominantly lend in currencies such as the US dollar or the Euro. This mismatch in currency denominations heightens the financial vulnerability of African nations, as they must generate foreign exchange to service debts that are not denominated in their own currency.

Figure 7: Africa borrows mostly in foreign currency



Source: Author's calculation based on WDI (2023).

A closer analysis of the World Development Indicators reveals a stark contrast in how African countries manage their sovereign debt compared to developed nations. For example, the UK, China, Canada, and the US each have over 98% of their central government debt denominated in their respective local currencies. In contrast, around 31 African countries have more than 50% of their public external debt denominated in US dollars. As shown in recent figures, over 70% of borrowing by African sovereigns, as of 2021, was denominated in the US dollar (see Figure 7). This

heavy reliance on foreign currency debt places African countries at a significant disadvantage, as they are exposed to exchange rate fluctuations and rising global interest rates.

The dominance of US dollar-denominated debt is a critical source of vulnerability for African economies. One of the most pressing risks stems from the high cost of servicing this debt, which is directly impacted by changes in the US Federal Reserve's interest rate. In 2022, the Federal Reserve raised its benchmark Federal Funds Rate seven times, increasing it from 25 basis points to 75 basis points, with the final increase reaching 50 basis points. These rate hikes significantly raised the cost of borrowing and increased the stock of dollar-denominated debt, further straining African economies. In addition, the depreciation of local currencies against the US dollar has worsened the debt burden, as African nations must pay back loans in a currency that continues to strengthen relative to their own.

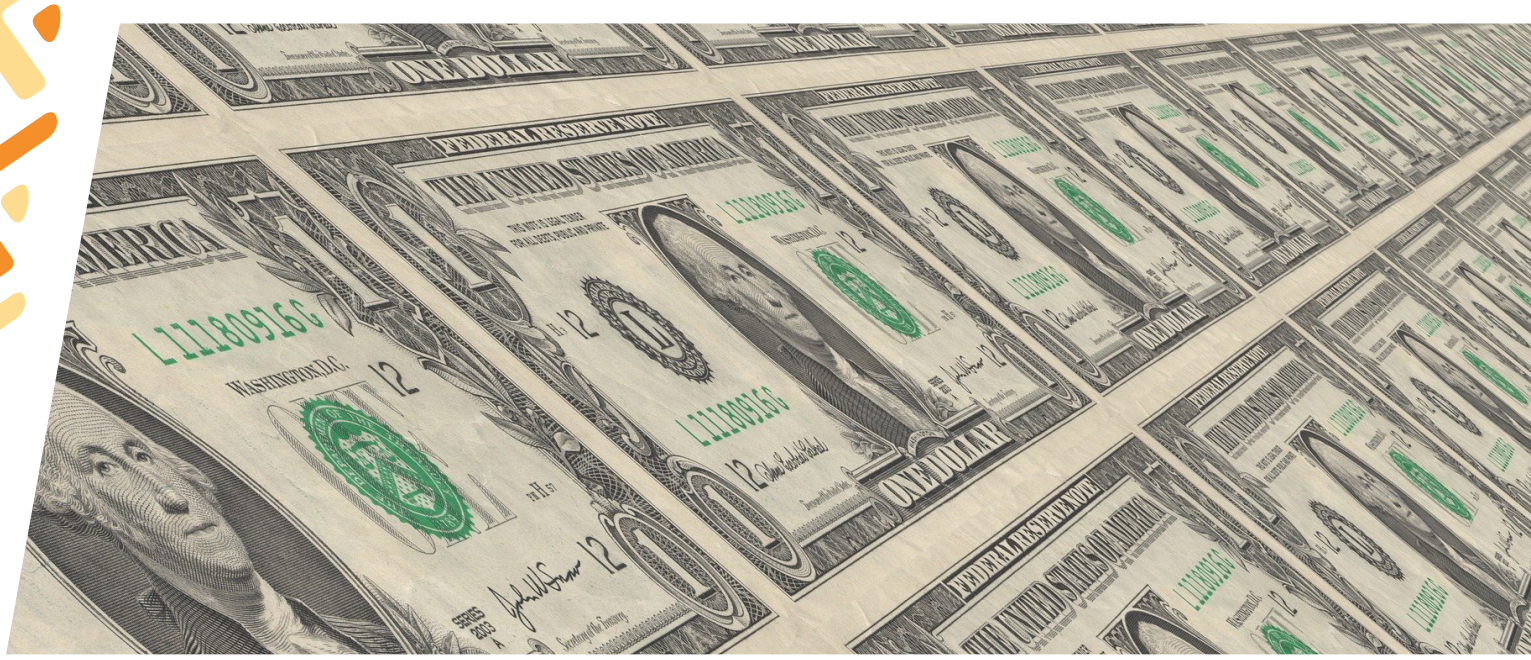
This situation has led to a dramatic increase in the risk of debt distress. By early 2024, over 20 African countries, according to the joint IMF/World Bank debt sustainability indicators were either already in debt distress or at high risk of it. The combination of higher borrowing costs, a stronger US dollar, and a lack of access to international capital markets has put African nations in a precarious position. The repercussions of these financial pressures extend beyond debt sustainability and risk default; they also have severe implications for financing the SDGs. The funds that could otherwise be directed towards infrastructure, education, healthcare, and other critical development projects are instead being siphoned off to meet the rising costs of servicing foreign currency-denominated debt.

The excessive borrowing in foreign currencies by African countries limits their fiscal autonomy and increases their vulnerability to external economic shocks. As the continent faces mounting challenges related to both the global financial environment and its own development needs, this over-reliance on foreign currency debt poses a significant barrier to achieving long-term economic stability and development goals. To mitigate these risks, African countries must explore strategies to reduce their dependence on foreign currency-denominated debt and prioritise financing mechanisms that align with their own economic realities.

4.7 Illicit financial flows: A barrier to Africa's development

Illicit financial flows (IFFs) represent a formidable barrier to Africa's economic development, exacerbating the continent's struggle with poverty, underdevelopment, and the achievement of the Sustainable Development Goals (SDGs). These illicit transactions, driven by criminal activities such as drug trafficking, trade mispricing, human trafficking, and corruption, drain vast sums of money from African nations, contributing to systemic underdevelopment. While the definition and scope of IFFs remain complex and multifaceted, their detrimental effects on the African economy are undeniable.

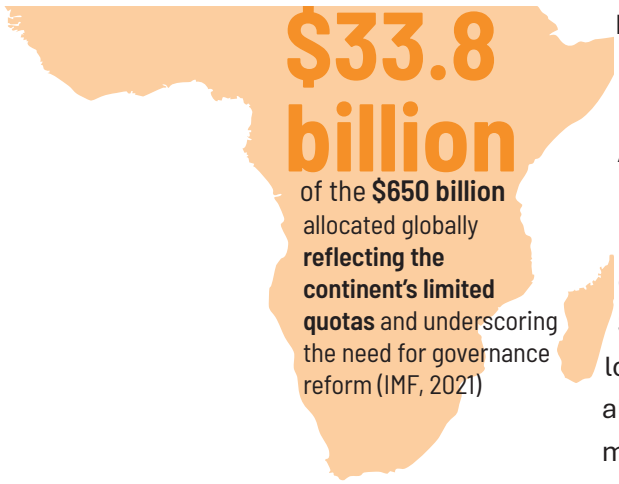
The High-Level Panel on Illicit Financial Flows from Africa, chaired by former South African President Thabo Mbeki, revealed that Africa loses over $50 billion annually due to these illicit activities. However, more recent estimates, such as those from the United Nations Conference



on Trade and Development (UNCTAD), place the loss even higher at $88.8 billion per year. This widening gap between earlier and current estimates highlights the growing scale of the problem. The bulk of these funds are siphoned off through mechanisms such as tax evasion, trade mispricing, money laundering, and capital flight. Some of the well cited data shows that between 2013 and 2015, just three African countries—Nigeria, Egypt, and South Africa—leaked over $72.6 billion in illicit financial flows, which is only a snapshot of the broader, continent-wide issue. Overall, capital flight from 30 African nations between 1970 and 2018 totalled approximately $2 trillion, amounting to 94% of the total GDP of these countries by 2018 (Ndikumana and Boyce, 2021).

The consequences of these illicit flows are stark. Resources that should have been used for investments in infrastructure, education, healthcare, and poverty alleviation are instead funnelled out of the continent, perpetuating a cycle of underdevelopment and stagnation. For instance, in Nigeria, where oil constitutes a significant portion of the national income, the theft and mismanagement of crude oil have become a key obstacle to economic progress. The country loses an estimated 100,000 to 250,000 barrels of oil per day, valued at around $6 billion annually, due to a combination of corruption, criminal gangs, and exploitation by multinational oil corporations (Katsouris and Sayne, 2013). This theft is not limited to oil; it reflects a broader trend of resource exploitation that hampers the economic potential of African countries.

Beyond the oil sector, multinational corporations play a pivotal role in facilitating IFFs through mechanisms like transfer pricing, which allows companies to artificially inflate costs and shift profits to low-tax jurisdictions. A notable example is Accra Brewery, a subsidiary of SABMiller (now part of AB Inbev), which in 2009 avoided substantial corporate taxes by funnelling profits through Mauritius. This scheme resulted in the loss of approximately £20 million in taxes—enough to fund the education of 250,000 children—underscoring the significant cost of such corporate malpractices for African nations (ActionAid, 2010).



Moreover, illicit drug trade networks, such as those operating in West Africa, further exacerbate the continent's economic woes. According to the United Nations Office on Drugs and Crime (UNODC), the region sees the movement of around 40 tonnes of cocaine annually, valued at approximately $2.1 billion. While the illegal drug trade fosters local crime syndicates and fuels violence, it also plays a disturbing role in global financial markets by using illicit proceeds to lubricate financial transactions. As the UNODC (2013) reports, these illicit flows contribute to the perpetuation of organised crime, with far-reaching consequences for governance, stability, and economic growth across the continent.

The depth of the problem is compounded by Africa's reliance on external sources of finance, which often come with their own set of exploitative conditions, further draining resources away from the continent. Without a concerted effort to tackle these illicit financial flows, Africa's development will remain precarious. In fact, UNCTAD's Economic Development in Africa Report 2020 suggests that curbing illicit capital flight could nearly halve the continent's annual financing gap of $200 billion needed to achieve the SDGs by 2030, potentially freeing up $89 billion per year (UNCTAD, 2020).

The statistics speak for themselves—Africa is, in effect, a net creditor to the rest of the world, losing more resources through illicit financial flows than it receives in foreign aid or investment. To break free from this cycle, urgent action is needed to clamp down on IFFs, strengthen financial governance, and ensure that Africa retains more of its financial resources for development. Until then, the continent will remain locked in a cycle of poverty, underdevelopment, and economic vulnerability.

5.0 REFORMING THE GLOBAL FINANCIAL ARCHITECTURE: ANALYSIS OF CALLS FOR REFORM

5.1 Understanding reform and its importance

Reform, in the context of the Global Financial Architecture (GFA), encapsulates the process of revising, restructuring, or fundamentally transforming the institutions, rules, and mechanisms that govern international finance. At its core, the need for reform arises from the GFA's inability to address systemic inequities, historical imbalances, and contemporary challenges, particularly those faced by the Global South. For Africa, the GFA has perpetuated cycles of underdevelopment through sovereign debt crises, inequitable access to finance, illicit financial flows, and climate financing disparities. Reform, therefore, becomes critical for creating a more just, inclusive, and resilient financial system that supports sustainable development for all nations.

When discussing reform, it is essential to interrogate what is being reformed and the extent of the transformation. Reform can take multiple forms depending on the objectives and scale of change. First, there are incremental reforms, which focus on adjustments or tweaks to the

existing system without fundamentally altering its structure. These include measures such as recalibrating credit rating systems to reduce borrowing costs for developing nations or increasing transparency to address illicit financial flows.

Second, structural reforms aim to address the deeper, systemic inequities embedded in the GFA. This approach involves rebalancing voting power in multilateral financial institutions like the International Monetary Fund (IMF) and the World Bank, improving debt restructuring mechanisms, and ensuring equitable climate finance flows. Structural reforms do not dismantle the system entirely but aim to redistribute power and resources more fairly.

Finally, radical reforms advocate for a complete overhaul or dismantling of the current architecture, which is often criticised for being a relic of colonial-era economic structures. Radical reformists argue for alternative financial systems rooted in regional or indigenous models, such as Africa's proposed natural resource-backed financing systems, to reduce dependency on external capital. The question of reform's extent is therefore not binary but involves a spectrum of approaches, from modest changes to transformative solutions. Determining the right approach depends on the underlying goals of equity, representation, and sustainability.

The importance of reforming the GFA lies in its potential to empower developing nations, particularly in Africa, by creating fairer financial systems that address historical injustices and meet contemporary challenges. Without such reforms, Africa will remain locked in cycles of debt, resource exploitation, and economic vulnerability, unable to achieve its developmental aspirations.

5.2 Calls for reform: The Africa High-Level Working Group on the GFA

The Africa High-Level Working Group (HLWG) on the GFA, composed of African policymakers and thought leaders, has articulated a clear agenda for reforming the global financial system to address Africa's development challenges. Their proposals emphasize the need for fairer access to global finance, debt relief mechanisms, and stronger representation for African nations in international financial institutions. Specifically, the HLWG calls for a recalibration of IMF Special Drawing Rights (SDRs) to ensure a more equitable distribution that reflects Africa's financing needs. They argue that during crises like the COVID-19 pandemic, Africa's limited SDR allocation exposed the continent's marginalisation within the GFA.

However, while the HLWG's proposals are significant, they often focus on incremental reforms rather than structural or radical changes. For instance, calls for debt relief mechanisms and governance adjustments address symptoms of the problem but do not fundamentally challenge the GFA's philosophical underpinnings, which prioritise Global North interests. This highlights a gap in the HLWG's agenda, as it does not go far enough to dismantle the historical power imbalances that perpetuate Africa's marginalisation.

5.3 Calls for reform: The United Nations reform agenda

The United Nations has consistently advocated for reforms to the GFA that align with the Sustainable Development Goals (SDGs). The UN's demands center on addressing global inequalities, improving debt sustainability, and ensuring that climate finance is accessible and equitable. For example, the UN calls for enhanced global cooperation to curb illicit financial flows, which deprive African economies of an estimated $88 billion annually. It also emphasizes the need for climate finance mechanisms that prioritise adaptation support for vulnerable regions like Africa.

While the UN's reform agenda is ambitious and comprehensive, its implementation faces significant challenges. The global financial system remains deeply entrenched in the political and economic interests of the Global North, making it difficult to achieve meaningful changes without broader consensus. Moreover, the UN's emphasis on multilateral cooperation often overlooks the urgency of regional and localised solutions that Africa could pursue independently.

6.0 INCREMENTAL REFORMS AND STRUCTURAL FAILURES OF THE GLOBAL FINANCIAL ARCHITECTURE

Incremental reforms to the Global Financial Architecture (GFA)—such as recalibrating credit rating systems, improving transparency to curb illicit financial flows (IFFs), and increasing access to concessional financing—have proven insufficient to resolve the debt crises of Africa and the Global South. These reforms fail to address the underlying structural inequities embedded in the GFA, focusing instead on superficial adjustments that leave its philosophical and institutional foundations intact. Without fundamentally challenging the power dynamics and neoliberal principles that prioritise creditor nations and multinational corporations, these measures serve to entrench the status quo rather than enable meaningful change.

Recalibrating credit rating systems has been a central focus of incremental reforms. However, the global credit rating oligopoly—dominated by Moody's, Fitch, and Standard & Poor's—continues to penalise developing nations with disproportionately high-risk premiums, often detached from economic fundamentals (Tatonga and Alagidede, 2021). This bias reflects a structural flaw in how risk is assessed, perpetuating a cycle where African nations pay exorbitant borrowing costs that exacerbate their debt vulnerabilities.

Similarly, transparency initiatives aimed at reducing IFFs have achieved limited success. IFFs, which drain over $88 billion annually from Africa, are facilitated by complicit financial centres in the Global North, weak regulatory enforcement, and corporate malpractices such as transfer pricing (UNCTAD, 2020). Despite frameworks like the High-Level Panel on IFFs (Mbeki, 2015), global governance mechanisms lack enforceability, allowing tax havens and multinational corporations to exploit systemic loopholes.

Concessional financing, another incremental reform measure, is constrained by insufficient commitments. The $100 billion annual pledge for climate finance remains unmet, with funds provided as loans rather than grants, increasing the debt burden of recipient nations (UNCTAD, 2024). Incremental reforms, in essence, do little more than paper over structural cracks while leaving the underlying power asymmetries of the GFA unchallenged.

Structural reforms, which aim to address deeper inequities in the GFA, have also fallen short. Efforts to rebalance voting power in multilateral financial institutions like the International Monetary Fund (IMF) and the World Bank have been undermined by the entrenched dominance of creditor nations. For instance, the United States maintains veto power at the IMF due to its disproportionately large quota share, ensuring that decisions align with its geopolitical and economic priorities (Mosley et al, 1995). This skewed governance structure marginalises the voices of African and Global South nations, reducing their influence on policies that directly impact their economies.

Debt restructuring mechanisms such as the G20's Common Framework have proven equally ineffective. The process has been criticised for its opacity, slow implementation, and lack of private creditor participation. For example, Zambia's efforts to restructure its debt under this framework have faced significant delays, exposing the limitations of current mechanisms in (IMF, 2023).

Equitable climate finance, often touted as a key structural reform, remains woefully inadequate. The continued failure of developed nations to fulfill their financial commitments, coupled with the predominance of loan-based financing, perpetuates dependency rather than fostering resilience. African nations, disproportionately affected by climate change, receive only a fraction of global climate finance, further entrenching inequities in global resource allocation (UNCTAD, 2024).

These structural reforms, while more ambitious than incremental adjustments, remain constrained by the GFA's foundational logic of market liberalism and creditor-driven priorities. The institutions themselves are designed to serve the interests of the Global North, making meaningful reform nearly impossible without fundamental changes to the GFA's philosophical and structural basis.

7.0 DISMANTLING THE EXISTING GFA: ALTERNATIVE POLICIES

The failures of both incremental and structural reforms make a compelling case for dismantling the existing GFA. Its colonial-era design perpetuates extractive relationships that lock developing nations into roles as raw material suppliers and low-value producers. The financial mechanisms embedded in the GFA—including debt conditionalities imposed by the IMF and World Bank—strip nations of policy autonomy, forcing them to prioritise creditor repayments over social investments in health, education, and infrastructure (Cheru, 2006).

The existing monetary and financial system cannot be reformed through incremental tweaks or structural adjustments; instead, it must be dismantled and replaced with alternative financial systems that prioritise African agency and sovereignty. The *Harare Declaration 2021* by AFRODAD calls for a new debt movement to position Africa as a "rule maker" rather than a "rule taker" in the global financial system; however, its weaknesses lie in its limited actionable mechanisms, reliance on political will, and the absence of clear strategies to address structural barriers to implementation. Without the constraints of the existing GFA, developing nations could pursue alternative financial arrangements rooted in equity, regionalism, and resource sovereignty.

7.1 Building regional financial ecosystems as a pathway out of Africa's debt crisis

Africa's debt crisis is fundamentally tied to the continent's dependence on external financing, which subjects nations to exploitative lending conditions, high interest rates, and volatile global financial markets. To break free from this cycle of dependency, African nations must strengthen regional financial ecosystems. Institutions like the African Export-Import Bank (Afreximbank) and the potential African Monetary Fund (AMF) hold immense promise as vehicles for mobilising domestic and regional capital, reducing reliance on external lenders, and fostering sustainable, homegrown development strategies. Afreximbank has already demonstrated the potential of regional financial institutions in addressing Africa's financing needs. Established in 1993, the bank provides financing for trade, industrialisation, and development across the continent. During the COVID-19 pandemic, Afreximbank showcased its capacity to mobilise regional resources by creating a $3 billion Pandemic Trade Impact Mitigation Facility to support African economies affected by the global crisis. Unlike traditional external lenders, the bank's approach is tailored to Africa's specific needs, emphasizing development-oriented financing rather than profit maximisation (Afreximbank, 2021).

Afreximbank's success illustrates how regional institutions can step in where global financial systems fail. For example, its work in supporting the African Continental Free Trade Area (AfCFTA) is enabling intra-African trade by financing cross-border infrastructure and providing payment solutions. This reduces African countries' exposure to external borrowing by fostering regional economic integration and strengthening internal markets (UNCTAD, 2020). Expanding Afreximbank's capacity and replicating its model in other areas of finance, such as climate adaptation and industrialisation, would enhance Africa's financial autonomy.

The proposed African Monetary Fund (AMF) offers another critical avenue for building regional financial ecosystems. First proposed in 1963 as part of the African Union's broader vision for economic independence, the AMF could serve as a lender of last resort for African nations, reducing reliance on institutions like the IMF and World Bank, which impose restrictive and often counterproductive conditionalities. The AMF would pool financial resources from African countries, enabling it to provide emergency liquidity, stabilise currencies, and support long-term development projects without the ideological constraints of neoliberalism (ECA, 2020).

One of the AMF's key advantages is that it would prioritise African interests and context-specific development goals. For instance, the AMF could tailor its financial support to foster industrialisation and agriculture—sectors critical to Africa's economic transformation. Moreover, with voting structures designed to ensure equitable representation, the AMF could overcome the governance imbalances that plague global financial institutions, where African voices remain marginalised.

Despite their potential, regional financial ecosystems face challenges, including limited initial capital, governance issues, and coordination difficulties among member states with differing economic priorities. For these ecosystems to succeed, African nations must strengthen institutional capacity, build strong political will and leverage partnerships strategically.

While reducing reliance on external lenders is key, regional institutions can still engage with global partners on equal terms, securing technical support and investments without compromising sovereignty.

Building robust regional financial ecosystems offers African nations a sustainable pathway out of the debt crisis. By mobilising regional resources, fostering economic integration, and prioritising development over profit, institutions like Afreximbank and the proposed AMF can provide Africa with the tools needed to achieve fiscal independence. In doing so, African nations can reclaim control over their economic futures, break free from the constraints of the Global Financial Architecture, and create a resilient, self-reliant financial system tailored to their unique development goals.

7.2 Monetising natural resource rents as an escape route from Africa's debt crisis

Africa is one of the wealthiest continents in terms of natural resources, yet its economies remain trapped in cycles of debt dependency and underdevelopment. The failure to effectively leverage the economic value of these resources has left African nations overly reliant on external financing mechanisms such as high-interest loans and Eurobond markets, which exacerbate debt vulnerabilities. Monetising natural resource rents—alongside innovative tools such as resource-backed financial instruments and land value taxation (LVT)—offers African countries a sustainable escape route from the debt crisis by unlocking the intrinsic value of their resources to fund development domestically.

Resource-backed financial instruments, such as bonds secured by future revenues from natural resources, provide a practical means for African countries to mobilise domestic capital while minimising dependence on costly external loans. Resource-backed bonds allow governments to secure immediate funding for critical infrastructure projects by leveraging expected revenues from oil, gas, or mineral exports. These instruments can provide long-term financing at lower interest rates than commercial loans because they are backed by tangible assets (Chakamera and Alagidede, 2018). However, the success of resource-backed instruments hinges on robust governance frameworks to ensure revenues are directed toward productive investments. Mismanagement of resource-backed loans, as seen in Mozambique's $2 billion "tuna bond" scandal, highlights the risks of corruption and lack of transparency. To mitigate these risks, African countries must establish mechanisms for public accountability and ensure that resource revenues are tied to clearly defined development goals, such as infrastructure, education, or healthcare.

Land value taxation (LVT) represents another powerful mechanism for generating domestic revenue. By taxing the unimproved value of land, governments can capture the economic rent derived from land ownership without discouraging productive investments. LVT is particularly effective in curbing speculative landholding, which often leads to inefficient land use and unequal wealth distribution. For African nations, where land is a critical economic resource, implementing LVT could generate significant revenues to finance social programs and infrastructure development (Ndikumana and Boyce, 2011). Urban centres in Africa, such

as Nairobi and Lagos, are experiencing rapid land value appreciation driven by population growth and urbanisation. An LVT would enable governments to capture a fair share of this value, redirecting it toward public goods rather than allowing it to accrue exclusively to private landowners. Rwanda provides a successful example of land reform, where land registration and fair taxation have enhanced land productivity and contributed to state revenue (UNCTAD, 2020). Scaling such efforts continent-wide could provide a sustainable revenue stream that reduces dependence on external borrowing.

Monetising natural resource rents offers dual economic and environmental benefits. First, it reduces Africa's exposure to volatile external capital markets, where high borrowing costs and currency risks have exacerbated debt distress. Second, it aligns with sustainable development objectives by encouraging the efficient use of land and resources. For instance, resource-backed financing can be tied to green energy projects, allowing African nations to leverage their resource wealth to transition toward renewable energy while securing funding for development.

Additionally, monetising natural resource rents can help combat illicit financial flows (IFFs), which drain $88 billion annually from Africa (Mbeki, 2015). Strengthening governance over resource revenues ensures that these funds remain within the continent, fostering domestic investment and reducing dependency on external financing.

While the potential of resource monetisation is vast, African nations face challenges in implementing these strategies effectively. Corruption, weak institutional capacity, and inequitable revenue-sharing arrangements often undermine resource management. For resource-backed instruments, fluctuating commodity prices can pose risks, as declining revenues may lead to repayment difficulties. To overcome these challenges, African governments must strengthen governance through transparent resource management and accountability mechanisms. Establishing sovereign wealth funds, like Botswana's Pula Fund, can help ensure resource revenues are invested sustainably. It is also critical for African governments to diversify their economies. Revenues from resource monetisation should be reinvested in sectors such as manufacturing and services to reduce dependence on commodity exports. And more importantly regional frameworks can enhance bargaining power in global resource markets and reduce competition among African nations for external investors.

7.3 Decentralised Finance (DeFi) through blockchain-based tools

DeFi eliminates the need for traditional financial intermediaries, such as commercial banks, credit rating agencies, and global financial institutions, which often impose high costs and exploitative conditions on African nations. By leveraging smart contracts—self-executing agreements on blockchain platforms—DeFi allows for direct, transparent, and efficient financial transactions. For instance, African governments could issue *sovereign blockchain bonds* directly to citizens or global investors, bypassing traditional capital markets and avoiding high interest rates dictated by credit rating agencies. In 2022, El Salvador became a pioneer in this field by issuing "volcano bonds" on blockchain, tied to future Bitcoin mining revenues. African countries could follow suit by issuing bonds backed by their own natural resources or infrastructure projects, making borrowing more affordable and accessible.

Corruption and lack of transparency are significant contributors to Africa's debt challenges, with billions lost annually through illicit financial flows (IFFs) (UNCTAD, 2020). Blockchain technology's immutable ledger can combat this issue by ensuring that all transactions, including public borrowing and expenditure, are traceable and auditable in real-time. African governments could use blockchain to track the use of funds raised through loans or bonds, ensuring that resources are directed toward intended development projects such as infrastructure, healthcare, or education. This level of transparency would increase investor confidence, reduce perceived risk, and lead to lower borrowing costs.

DeFi platforms can enable African nations to raise funds through decentralised crowdfunding for infrastructure and development projects. These platforms allow individuals, both within Africa and globally, to contribute small amounts of money in exchange for tokens that represent a share of the project's revenues. An example of this is *Kiva*, a blockchain-based microfinance platform that enables individuals to lend small amounts to entrepreneurs in developing countries. African governments could scale this model by creating platforms to fund large-scale infrastructure projects like renewable energy or transportation networks, reducing the need to borrow from external creditors.

Africa's abundant natural resources—gold, diamonds, oil, lithium, and cobalt—can be tokenised on blockchain platforms. Tokenisation involves creating digital tokens that represent ownership of a physical asset, such as a barrel of oil or a kilogram of gold, which can then be traded on DeFi platforms. By tokenising natural resources, African nations can raise capital by selling resource-backed tokens directly to investors without extracting the resources themselves. This approach not only generates revenue but also preserves the continent's natural wealth for future generations. For instance, Zambia could tokenize its vast copper reserves, while Nigeria could do the same with its oil resources, creating a sustainable alternative to external borrowing

While DeFi offers significant potential, several challenges must be addressed for it to become a viable solution to Africa's debt crisis. Many African countries lack the digital infrastructure required to implement blockchain-based financial systems. Investments in internet connectivity, data centres, and digital literacy are critical. The absence of clear regulations for blockchain and DeFi in many African nations creates risks for both governments and investors. Developing a regulatory framework that balances innovation with security is essential. Cryptocurrencies and tokens can be highly volatile, which could undermine the stability of DeFi-based systems. This challenge can be mitigated by pegging DeFi tools to stable assets, such as natural resources or regional digital currencies.

DeFi represents a powerful tool for African nations to escape the debt-growth trap and establish financial sovereignty. By leveraging blockchain-based financial tools, African countries can bypass exploitative external lenders, enhance transparency, and mobilise domestic resources for development. Initiatives like blockchain-based bonds, tokenized natural resources, and decentralized crowdfunding platforms offer practical pathways for reducing reliance on traditional financial systems and addressing Africa's sovereign debt challenges.

The adoption of DeFi would require strong political will, investment in digital infrastructure, and the development of regulatory frameworks to ensure secure and equitable implementation. With the right strategies, DeFi could transform Africa's financial landscape, enabling the continent to break free from debt dependency and build a self-reliant, sustainable economy.

7.4 Breaking debt dependency through African Financial Asset (AfA)

Africa's enduring debt crisis is rooted in its dependency on external financing, which has locked the continent into a debt-growth trap characterized by high borrowing costs, volatile financial markets, and stringent conditionalities imposed by institutions such as the International Monetary Fund (IMF). By disengaging from the Global Financial Architecture (GFA) and establishing homegrown financial systems like the African Financial Asset (AfA), African nations can reclaim fiscal autonomy and prioritise long-term development over creditor repayments. The AfA represents a bold and transformative proposal, leveraging Africa's vast natural resource wealth to create a stable financial instrument and an alternative to the exploitative fiat-based international financial system.

The AfA would function as a regional currency backed by Africa's immense natural resource wealth, including commodities like gold, silver, oil, and lithium. Africa holds over 30% of the world's remaining mineral wealth and more than 60% of its arable land, giving it a comparative advantage in creating a resource-backed financial system (UNCTAD, 2020). By tying the AfA to tangible assets, African nations could stabilise their monetary systems and reduce exposure to the inflationary risks and volatility associated with fiat currencies. Historical examples such as the Bretton Woods system, where currencies were pegged to gold, demonstrate the stability that commodity-backed systems can provide (Eichengreen, 2008).

Empirical evidence supports the feasibility of a resource-backed currency in Africa. For instance, South Africa and Ghana are among the world's leading gold producers, while Nigeria and Angola rank among the top oil exporters. With the growing demand for critical minerals like lithium and cobalt, essential for the global energy transition, Africa's resource wealth could serve as a robust foundation for the AfA. By monetising these resources, African nations could generate significant revenue to fund infrastructure, healthcare, and education, reducing their reliance on external loans (Ndikumana and Boyce, 2011).

One of the most significant advantages of the AfA is its potential to reduce Africa's dependency on foreign currencies like the U.S. dollar, which dominates over 70% of the continent's sovereign debt (IMF, 2023). This reliance exposes African economies to exchange rate volatility, which exacerbates debt burdens when local currencies depreciate. For example, Zambia's currency crisis in the 2010s led to skyrocketing debt repayments, undermining its fiscal stability. By establishing the AfA as a regional medium of exchange, African nations could reduce exposure to these risks while promoting intra-African trade.

The Pan-African Payment and Settlement System (PAPSS), launched in 2022 by the African Continental Free Trade Area (AfCFTA), provides a ready platform for integrating the AfA into

regional trade. PAPSS facilitates cross-border transactions in local currencies, eliminating the need for dollar-based settlements. By aligning the AfA with PAPSS, Africa could deepen financial integration and enhance the efficiency of trade within the continent, creating a self-reliant financial ecosystem (Afreximbank, 2021).

The success of the AfA would require the establishment of robust regional financial institutions to manage its issuance and stability. A centralised African Treasury Bank (ATB) could oversee the AfA, ensuring that it is backed by verifiable reserves of commodities and managed transparently. The ATB could also implement safeguards to address challenges such as price volatility in commodities and fluctuations in global demand. Sovereign wealth funds, modelled after Botswana's Pula Fund or Ghana's Heritage Fund, could be used to accumulate and store reserves of commodities backing the AfA. These funds have demonstrated the potential for resource-rich nations to manage wealth sustainably and invest in long-term development priorities (Gallagher and Kozul-Wright, 2022).

While the AfA holds transformative potential, it is not without challenges. Price volatility in commodities could affect the stability of the currency, especially during global economic downturns. For instance, the sharp decline in oil prices during the COVID-19 pandemic underscored the risks associated with over-reliance on a single commodity. To mitigate this, the AfA could be backed by a diversified basket of resources, reducing its exposure to price shocks in any single commodity.

Another challenge lies in the sourcing, storage, and security of the commodities backing the AfA. Establishing reliable mechanisms for verifying and safeguarding reserves will require significant investment in infrastructure and institutional capacity. Additionally, maintaining fixed exchange rates tied to commodities could prove complex, requiring constant adjustments to reflect market realities.

Despite these challenges, the potential benefits of the AfA outweigh its risks. By addressing governance weaknesses and adopting flexible management strategies, African nations could harness the AfA to disrupt exploitative financial structures and lay the groundwork for self-reliance. Examples from other regions highlight the potential of resource-backed financial systems. Venezuela's Petro cryptocurrency, backed by its oil reserves, aimed to circumvent international sanctions and create an alternative financial instrument. While the initiative faced implementation challenges, it underscores the viability of leveraging resource wealth to develop innovative financial solutions. Similarly, Malaysia's state-owned oil company, Petronas, has used its resource revenues to fund national development and maintain fiscal stability, showcasing how resource monetization can drive economic growth when managed effectively (Santiso, 2001).

In Africa, countries like Angola have used oil-backed loans to secure financing for infrastructure projects. While these loans often involve external lenders, they demonstrate the feasibility of linking natural resource wealth to financial instruments. The AfA could take this concept further by eliminating external intermediaries and creating a truly African financial asset.

The AfA offers a revolutionary pathway for Africa to break free from the debt-growth trap and reclaim fiscal sovereignty. By leveraging its comparative advantage in natural resources, Africa could create a stable, commodity-backed currency that reduces reliance on foreign capital and mitigates the risks of external debt. Combined with initiatives like PAPSS and supported by robust regional institutions, the AfA could transform Africa's financial landscape, fostering intra-African trade, enhancing regional integration, and empowering nations to invest in sustainable development.

The success of the AfA would depend on strong governance, institutional capacity, and regional solidarity. If implemented effectively, it could serve as a model for other resource-rich regions seeking to escape the constraints of the GFA and build self-reliant financial systems.

8.0 CONCLUSIONS AND REFLECTIONS

This paper is motivated by the urgent need to address the systemic inequities embedded in the Global Financial Architecture (GFA) that continue to marginalise African economies. While Africa holds a small share of global debt, it faces disproportionately high borrowing costs, exploitative financial mechanisms, and structural barriers to accessing affordable financing. These dynamics perpetuate cycles of debt dependency, economic stagnation, and vulnerability to global financial shocks. Recognising that incremental reforms have failed to address these fundamental flaws, this paper contributes to the discourse by proposing radical, transformative alternatives rooted in African resource sovereignty and innovative financing mechanisms.

The analysis highlights key findings that underscore the failures of the current GFA. Africa's debt paradox—low relative debt but high servicing costs—stems from biased credit ratings, reliance on foreign currency borrowing, and the predatory nature of international capital markets. Despite the continent's vast natural wealth, its economic resources are drained through illicit financial flows (IFFs), mispriced natural resource rents, and extractive financial systems. The study demonstrates that traditional solutions, such as debt relief and concessional financing, merely tweak the existing system without addressing the deeper structural challenges. While these incremental reforms provide temporary relief, they fail to break the cycle of dependency or create the fiscal space necessary for sustainable development.

In response, the paper advocates for radical reforms that prioritise African economic autonomy and innovation. It argues for the establishment of African Finance Assets, which leverage the continent's untapped natural resource wealth to mobilise domestic capital and reduce external debt reliance. Additionally, land value taxation emerges as a progressive tool to generate public revenue while curbing unproductive speculation. Mobilising natural resource rents equitably ensures that Africa's mineral and resource wealth directly finances infrastructure, education, and healthcare investments. Complementing these reforms, decentralised finance (DeFi) offers a transformative pathway to democratise access to capital, enhance transparency, and reduce dependence on centralised financial institutions.

However, the implementation of both incremental and radical reforms faces significant challenges. Incremental reforms, such as governance adjustments in multilateral institutions and debt restructuring mechanisms, remain constrained by entrenched power imbalances that prioritise creditor interests over equitable development. Meanwhile, radical reforms require strong political will, institutional capacity, and regional cooperation. Africa's financial sovereignty will depend on the ability of governments to resist elite capture, promote accountability, and navigate the geopolitical pressures that sustain the current system. Additionally, mobilising natural resource wealth effectively requires addressing corruption, enhancing revenue management systems, and ensuring that resource exploitation benefits local populations.

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