DEBT BURDEN AND DONOR FATIGUE: MANAGING ECONOMIC CHALLENGES

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Abstract

This study examined the dual challenges of debt burden and donor fatigue and their implications for managing economic development in Sub-Saharan Africa. The purpose of the study was to assess how excessive external debt and declining aid commitments hinder sustainable economic growth, identify policy responses that can foster financial resilience in the Sub-Saharan African economies. The objectives were: to analyze trends in debt accumulation and aid flows across Sub-Saharan African economies; to evaluate the effects of debt and donor fatigue on macroeconomic performance; to propose practical strategies for managing these constraints. The study exploited survey data and macroeconomic indicators from the World Bank and International Monetary Fund (IMF), covering public debt levels, aid disbursement patterns, fiscal balances, and GDP growth rates between 2010 and 2024. This paper examined these challenges through Dependency Theory and Debt Overhang Theory. Dependency Theory highlights the structural reliance of SSA economies on external actors, explaining the dynamics of donor fatigue, while Debt Overhang Theory clarifies the growth-suppressing effects of excessive debt. Using current data from the IMF (2024), World Bank (2023), and OECD (2023), the study demonstrated how debt distress and aid withdrawal interact to weaken growth, efficiency, and social service delivery. Case studies of Uganda, Kenya, Ghana, Zambia, Nigeria and Ethiopia among others show how these theoretical dynamics play out in practice. The paper concludes with policy recommendations aimed at strengthening domestic revenue mobilization, reforming global debt frameworks, and reconfiguring Africa's structural position in global economic relations. Descriptive statistics and correlation measures were used to explore the relationships between debt, aid, and economic performance.

Keywords: Sub-Saharan Africa, debt burden, donor fatigue, economic resilience, fiscal policy.

1. Introduction and Context

The pursuit of sustainable economic development in Sub-Saharan Africa (SSA) has been undermined by two interrelated challenges: a growing debt burden and donor fatigue. The region's external debt stock increased from \$303 billion in 2010 to over \$1.1 trillion by 2023 (World Bank, 2023). Simultaneously, aid flows have stagnated or declined, with donor countries diverting resources to competing crises such as the war in Ukraine, climate adaptation in their own countries, and post-COVID-19 recovery (OECD, 2023). This dual financial squeeze threatens progress toward the Sustainable Development Goals (SDGs), as debt servicing crowds out social investment while reduced donor inflows limit fiscal buffers. This paper addresses the implications of these challenges by applying two complementary theories: Dependency Theory and Debt Overhang Theory. Dependency Theory situates donor fatigue within Africa's historical structural reliance on external support, while Debt Overhang Theory explains how excessive borrowing discourages investment and slows growth.

2. Theoretical Framework

2.1 Dependency Theory

Proposed by scholars such as Andre Gunder Frank (1967), Dependency Theory argues that developing economies remain locked into exploitative relations with developed countries, perpetuating underdevelopment. For SSA, aid dependence creates a structural vulnerability: once donors reduce support (donor fatigue), governments face fiscal crises and limited policy autonomy. Thus, donor fatigue operates as an independent variable constraining economic development outcomes like efficiency and growth.

2.2 Debt Overhang Theory

Articulated by Krugman (1988), Debt Overhang Theory holds that when a country's debt exceeds its repayment capacity, expected future resources are absorbed by debt service. This discourages private investment and constrains growth. In SSA, the debt burden becomes an independent variable that limits development outcomes such as fiscal efficiency and social spending.

2.3 Interlinkage of Theories and Study Variables

The two theories complement each other in explaining SSA's current predicament. Dependency Theory highlights external structural reliance (donor fatigue), while Debt Overhang Theory emphasizes internal fiscal strain (debt burden). Together, they show how:

Debt burden → crowding out of investment and social spending → reduced efficiency and growth

Donor fatigue → reduced aid inflows → increased reliance on costly borrowing → worsening debt burden

Both → weaken overall economic development outcomes (quality of growth, fiscal efficiency, social investment).

3. Empirical Evidence

The dual challenges of debt burden and donor fatigue are observable across multiple Sub-Saharan African countries, each revealing unique dimensions of the problem:

Uganda: Uganda's public debt reached 53% of GDP in 2023, up from 20% a decade earlier (World Bank, 2023). Debt service is projected to consume over 30% of government revenue by 2025, crowding out expenditure on health and education. Donor fatigue has also been evident, with reduced budget support following governance concerns, forcing the government to rely more heavily on domestic borrowing, which has raised interest rates and limited private sector growth.

Ghana: Ghana defaulted on its external debt in 2022 after its debt-to-GDP ratio hit 88%. Servicing costs consumed nearly 70% of revenues, leaving little for social services (IMF, 2024). Donor inflows also slowed, forcing Ghana into an IMF-supported restructuring program with austerity measures, illustrating both Debt Overhang and Dependency dynamics.

Zambia: In 2020, Zambia became the first African country to default during the COVID-19 era. Its external debt had reached $18 billion, nearly 120% of GDP, and restructuring under the G20 Common Framework dragged on for years (IMF, 2023). Donor assistance was limited, leaving the government dependent on domestic resources and exacerbating fiscal strain.

Ethiopia: Aid inflows fell significantly in recent years due to governance and conflict-related concerns, reflecting donor fatigue. Simultaneously, Ethiopia's external debt stock exceeded $30 billion in 2022, forcing reliance on costly domestic borrowing, which fueled inflation above 25% (World Bank, 2023). This dual squeeze limited public investment in infrastructure and social services.

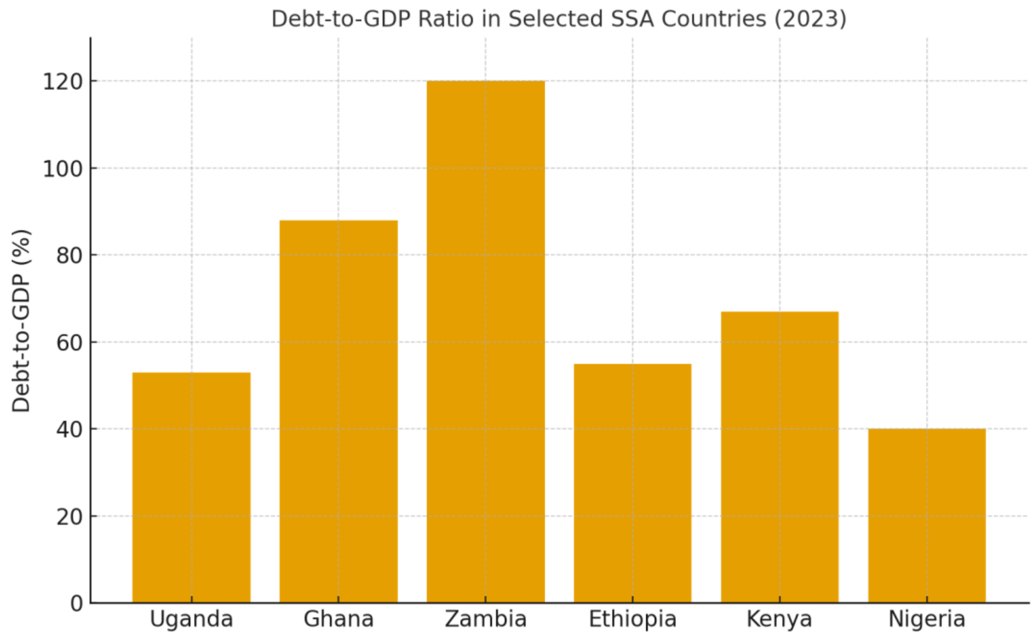
Kenya: Kenya's debt stock rose to 67% of GDP in 2023, with external debt repayments consuming over 40% of government revenue. Reduced donor budget support, coupled with high-cost commercial loans, pushed the government to raise taxes, sparking social unrest (IMF, 2024). This case illustrates how donor fatigue pushes states towards debt dependence, reinforcing the Debt Overhang problem.

Nigeria: As Africa's largest economy, Nigeria faces a heavy debt-service burden, with 96% of government revenue in 2022 used for debt servicing (World Bank, 2023). Despite large financing needs, donor support has been modest due to concerns about governance and fiscal discipline. This combination has left little fiscal space for infrastructure, education, or health spending, slowing economic development.

These cases underscore the interlinkage of Dependency Theory and Debt Overhang Theory in practice. Donor fatigue reduces concessional financing, forcing states to turn to commercial debt, which quickly escalates into unsustainable burdens. The debt burden then suppresses growth and social investment, creating a vicious cycle of dependency and fiscal fragility across Sub-Saharan Africa.

The following Figures and Tables illustrate the empirical evidence on debt dynamics in some Sub-Saharan African countries. The first graph presents Debt-to-GDP ratios, while the second shows Debt Service as a percentage of government revenue. These indicators highlight the dual challenges of debt burden and donor fatigue for economic development in the region.

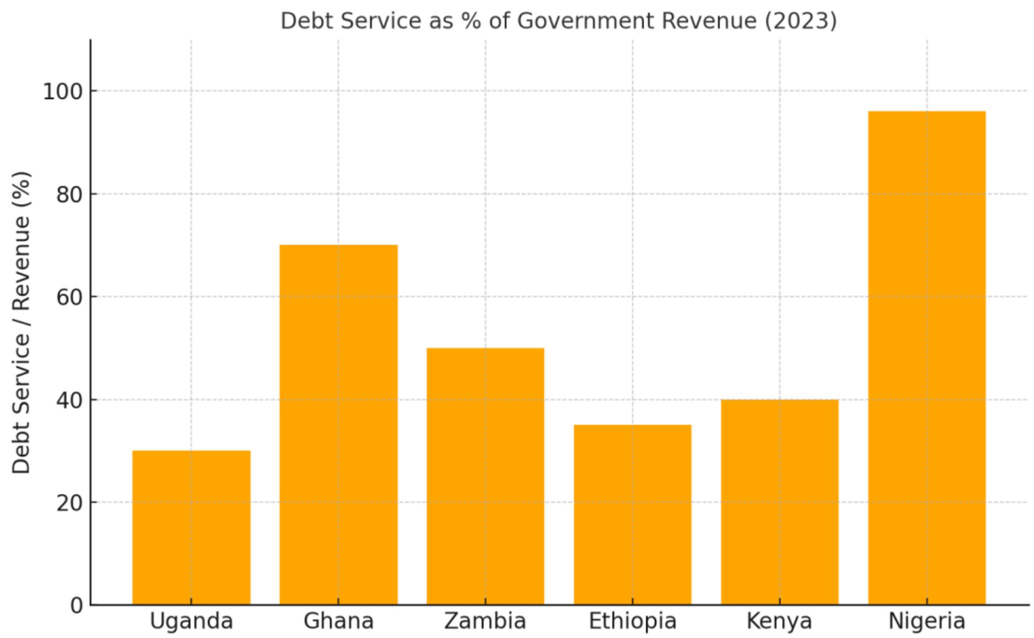
Figure 1: Debt-to-GDP Ratio



Source: World Bank (2023); IMF (2024) estimates.

Debt-to-GDP Ratio (2023) – shows how countries like Zambia (120%) and Ghana (88%) face extreme debt distress, while Uganda (53%) and Nigeria (40%) are at moderate but rising levels.

Figure 2: Debt Service as % of Government Revenue



Source: World Bank (2023); IMF (2024) estimates.

Debt Service as % of Government Revenue (2023) – demonstrates the fiscal pressure, with Nigeria (96%) and Ghana (70%) showing unsustainable debt service burdens compared to Uganda (30%) and Ethiopia (35%).

Table 1: Presents Debt Service as a percentage of government revenue for selected African countries.

Country	Debt Service (% of Government Revenue) - 2024	Source
Algeria	17.24	Debt Service Watch (DFI)
Madagascar	49.08	Debt Service Watch (DFI)
Malawi	132.83	Debt Service Watch (DFI)
Rwanda	43.59	Debt Service Watch (DFI)
South Africa	55.91	Debt Service Watch (DFI)
South Sudan	17.70	Debt Service Watch (DFI)
Guinea	30.85	Debt Service Watch (DFI)
Guinea-Bissau	62.71	Debt Service Watch (DFI)
Sao Tome and Principe	131.45	Debt Service Watch (DFI)
Sierra Leone	148.50	Debt Service Watch (DFI)
Somalia	6.09	Debt Service Watch (DFI)
Senegal	26.12	Debt Service Watch (DFI)
Kenya	62.6	Cytonn / regional fiscal analysis
Nigeria	66.9	Cytonn / regional fiscal analysis (2024)
Ghana	43.5	Cytonn / regional fiscal analysis
Uganda	18.4	Cytonn / regional fiscal analysis
Ethiopia	31.0	Cytonn / regional fiscal analysis
Mauritius	11.8	Cytonn / regional fiscal analysis

Sources: Development Finance International (Debt Service Watch), 2024; World Bank International Debt Statistics 2024; Cytonn Research / regional fiscal reports, 2024.

Interpretations

Algeria (17.24%) & South Sudan (17.70%)

Both are in the relatively safe zone. Their governments use less than one-fifth of revenue on debt repayment, leaving fiscal space for development. However, Algeria's oil dependence means revenue volatility could still make debt sustainability fragile.

Madagascar (49.08%), Rwanda (43.59%), Guinea (30.85%), Senegal (26.12%), Ethiopia (31.0%), Ghana (43.5%)

These countries are in the moderate-risk zone. Nearly one-third to half of revenues go to debt service. This constrains fiscal flexibility but does not yet represent extreme distress. For example, Rwanda has made large development investments but risks being squeezed if revenues don't rise.

South Africa (55.91%), Guinea-Bissau (62.71%), Kenya (62.6%), Nigeria (66.9%)

These are in the high-risk zone. Over half of government revenue is used to repay debt, leaving little for public investment. For instance, Nigeria's oil earnings haven't kept pace with borrowing, worsening fiscal stress. South Africa's structural spending pressures (wages) compound the burden.

Malawi (132.83%), Sao Tome and Principe (131.45%), Sierra Leone (148.50%)

These are extreme cases of debt distress. Debt service exceeds government revenue, which is fiscally unsustainable. It means these countries must borrow further, restructure, or rely on donor relief to meet obligations. This severely limits funding for poverty reduction and SDGs.

Somalia (6.09%) & Mauritius (11.8%)

Both are in the low-risk group. Debt service consumes a small share of revenue, suggesting manageable obligations. In Somalia's case, debt relief initiatives under the Heavily Indebted Poor Countries (HIPC) framework explain the low ratio. Mauritius benefits from a relatively diversified economy and better fiscal management.

Uganda (18.4%)

Falls in the low-moderate range, with debt service still below 20%. However, Uganda's rising borrowing for infrastructure could push this higher if revenues don't expand.

Comparative Insights

Most at risk: Sierra Leone, Malawi, Sao Tome and Principe- with ratios above 130%, showing structural fiscal insolvency.

Moderate risk: South Africa, Nigeria, Kenya, Guinea-Bissau- in the 55–70% band, meaning debt obligations are squeezing fiscal policy space.

Relatively safe: Somalia, Mauritius, Algeria, Uganda, South Sudan - below 20%, but some rely on narrow revenue bases or aid, making them vulnerable to shocks.

Table 2: Presents the Debt-to-GDP ratios for selected African countries for the year 2024.

Country	Debt-to-GDP (%) 2024
Sudan	238.8
Cabo Verde	109.7
Zambia	100.8
Egypt	88.0
Mozambique	88.0
Congo (Rep.)	88.0
Ghana	76.0
Sierra Leone	75.0
Nigeria	41.3
South Africa	55.9
Kenya	62.6
Uganda	51.3
Mauritius	11.8
Democratic Republic of Congo	11.1

Sources: World Bank International (2024)

Key Observations

High Debt-to-GDP Ratios: Countries like Sudan, Cabo Verde, and Zambia have exceptionally high debt-to-GDP ratios, indicating significant debt burdens relative to their economies.

Moderate Debt Levels: Nations such as Nigeria, South Africa, and Kenya maintain moderate debt levels, suggesting a balance between borrowing and economic output.

Low Debt-to-GDP Ratios: Mauritius and the Democratic Republic of Congo exhibit low debt-to-GDP ratios, reflecting limited reliance on debt financing.

4. Discussion: Implications for Economic Development

The interaction of debt burden and donor fatigue creates a vicious cycle that undermines Sub-Saharan Africa's capacity to achieve sustainable economic development. The main implications are outlined below:

4.1 Suppression of Economic Growth

According to Debt Overhang Theory, excessive debt discourages both foreign and domestic investment. Investors anticipate that returns will be diverted to debt service rather than reinvested into the economy. In Ghana, for example, debt servicing consumed nearly 70% of government revenues in 2022 (IMF, 2024), limiting fiscal space for growth-oriented expenditures. The result is slower GDP growth, weaker private-sector dynamism, and diminished competitiveness in global markets.

4.2 Erosion of Fiscal Efficiency

High debt servicing costs reduce fiscal flexibility and efficiency. Governments are forced to allocate disproportionate shares of budgets to creditors rather than to development priorities. In Nigeria, debt servicing absorbed 96% of revenue in 2022 (World Bank, 2023). This left the government unable to finance infrastructure, healthcare, and education adequately. Donor fatigue compounds this problem by reducing concessional aid, forcing countries to rely on expensive domestic borrowing, which further erodes efficiency through high interest payments.

4.3 Decline in Social Investment

The diversion of funds to debt service comes at the expense of social sectors critical for long-term development. Uganda, for example, faces rising debt repayments projected to exceed 30% of government revenues by 2025, limiting its ability to expand health and education programs. This reduces human capital development, perpetuating cycles of poverty and underemployment. Dependency Theory explains this as structural vulnerability: donor withdrawal and debt repayment obligations undermine SSA's capacity to autonomously pursue social development.

4.4 Reduced Policy Autonomy and Sovereignty

Donor fatigue and debt distress increase reliance on international financial institutions such as the IMF and World Bank. These institutions often impose conditionalities that constrain policy space, including austerity measures, subsidy cuts, and tax reforms. While aimed at fiscal stabilization, such policies can trigger social unrest, as witnessed in Kenya following new tax hikes in 2023. Thus, SSA governments face limited sovereignty in setting development priorities, reinforcing the dependency dynamics identified by Dependency Theory.

4.5 Heightened Vulnerability to External Shocks

The combined challenges increase SSA's vulnerability to global economic shifts. Donor fatigue means less aid during crises, while high debt leaves little fiscal buffer to absorb shocks. During the COVID-19 pandemic, many African states could not provide adequate stimulus packages because of debt constraints, unlike developed economies. This vulnerability undermines resilience and increases exposure to global volatility in commodity prices, interest rates, and geopolitical crises.

4.6 Undermining of Long-Term Development Goals

The dual challenges jeopardize progress toward the Sustainable Development Goals (SDGs). Reduced financing for infrastructure, healthcare, and education delays industrialization and inclusive development. Furthermore, high debt limits investment in climate adaptation and renewable energy, undermining Africa's role in global sustainability transitions.

5. Policy Recommendations

Addressing the challenges of debt burden and donor fatigue requires coordinated reforms at national, regional, and international levels. The following recommendations are grounded in empirical evidence and theoretical insights:

5.1 National-Level Strategies

a. Strengthen Domestic Resource Mobilization: Broaden the tax base through formalization of the informal sector.

- Implement digital tax collection systems (e.g., Kenya's e-TIMS).
- Reduce illicit financial flows, estimated to cost Africa over $88 billion annually (UNCTAD, 2020).

This reduces dependency on external donors while providing sustainable revenue streams.

b. Enhance Fiscal Discipline and Debt Management: Establish independent debt management offices to track and manage borrowing.

- Limit borrowing for recurrent expenditure; prioritize concessional loans for productive investments.
- Improve transparency to rebuild investor and donor confidence.

c. Diversify Financing Sources: Promote innovative instruments such as diaspora bonds, green bonds, and Islamic finance (sukuk).

Leverage the African Continental Free Trade Area (AfCFTA) to expand intra-African trade and reduce reliance on external markets.

d. Invest in Human Capital and Social Sectors: Ring-fence spending on health and education even during debt distress. Adopt efficiency measures to ensure better returns on limited resources.

5.2 Regional-Level Strategies

a. Collective Debt Negotiation: African states can negotiate debt relief collectively through platforms such as the African Union (AU) or the African Development Bank (AfDB), increasing bargaining power with creditors.

b. Regional Development Funds: Expand regional financing mechanisms (e.g., Afreximbank, AfDB) to provide alternative funding, reducing reliance on bilateral donors.

c. South–South Cooperation: Strengthen economic ties with emerging economies such as China, India, and Brazil, while ensuring balanced agreements to avoid new forms of dependency.

5.3 International-Level Strategies

a. Reform Global Debt Architecture: Improve the G20 Common Framework to ensure timely, transparent, and inclusive restructuring processes that involve all creditors, including private lenders and China. Explore the establishment of an African Debt Sustainability Charter supported by international institutions.

b. Renew Donor Engagement: Advocate for a recalibration of aid priorities to align with Africa's structural needs, especially in climate adaptation, digital transformation, and industrialization.

Encourage long-term partnerships based on mutual accountability rather than conditional aid.

c. Promote Debt-for-Development Swaps: Expand debt-for-climate and debt-for-health swaps, where debt obligations are redirected to finance development priorities. For instance, the Seychelles' debt-for-nature swap (2016) offers a model for other African states.

6. Conclusion

The dual challenges of debt burden and donor fatigue in Sub-Saharan Africa undermine growth, fiscal efficiency, social investment, policy autonomy, and resilience. Dependency Theory highlights the structural vulnerabilities that donor fatigue exposes, while Debt Overhang Theory clarifies the growth-suppressing effects of excessive debt. To break the cycle, African states must pursue domestic reforms, strengthen regional mechanisms, and push for reforms in global debt governance. Ultimately, sustainable development in SSA requires both internal resilience and a fairer international financial system that allows Africa to chart its own development trajectory.

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