THE REPUBLIC OF UGANDA

DEBT BURDEN AND DONOR FATIGUE: MANAGING ECONOMIC CHALLENGES

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Abstract

This study explored the dual challenges of debt burden and donor fatigue and their implications for managing economic development in Sub-Saharan Africa (SSA). It assessed how rising external debt and declining aid commitments constrain sustainable economic growth and identifies policy options to strengthen financial resilience. Using macroeconomic data from the World Bank, International Monetary Fund (IMF), and Organisation for Economic Co-operation and Development (OECD) covering the period 2010–2024, the analysis focuses on debt levels, aid flows, fiscal balances, and GDP growth rates. Drawing on Dependency Theory and Debt Overhang Theory, the study explains how structural dependence on external financing and excessive indebtedness suppress economic performance.

Abstract Cont…

- Case studies from Uganda, Kenya, Ghana, Zambia, Nigeria, and Ethiopia illustrate the interaction between debt distress and aid withdrawal. The findings support reforms promoting domestic revenue mobilization, global debt framework restructuring, and a redefined African position in international economic relations. The study had three research objectives: (1) To analyze trends in debt accumulation and aid flows in SSA (2) To evaluate the effects of debt and donor fatigue on macroeconomic performance (3) To propose strategies for managing these constraints and enhancing economic resilience.

GDP

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).

Introduction and Context cont…

- 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.

Theoretical Framework

- **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.

Theoretical Framework cont…

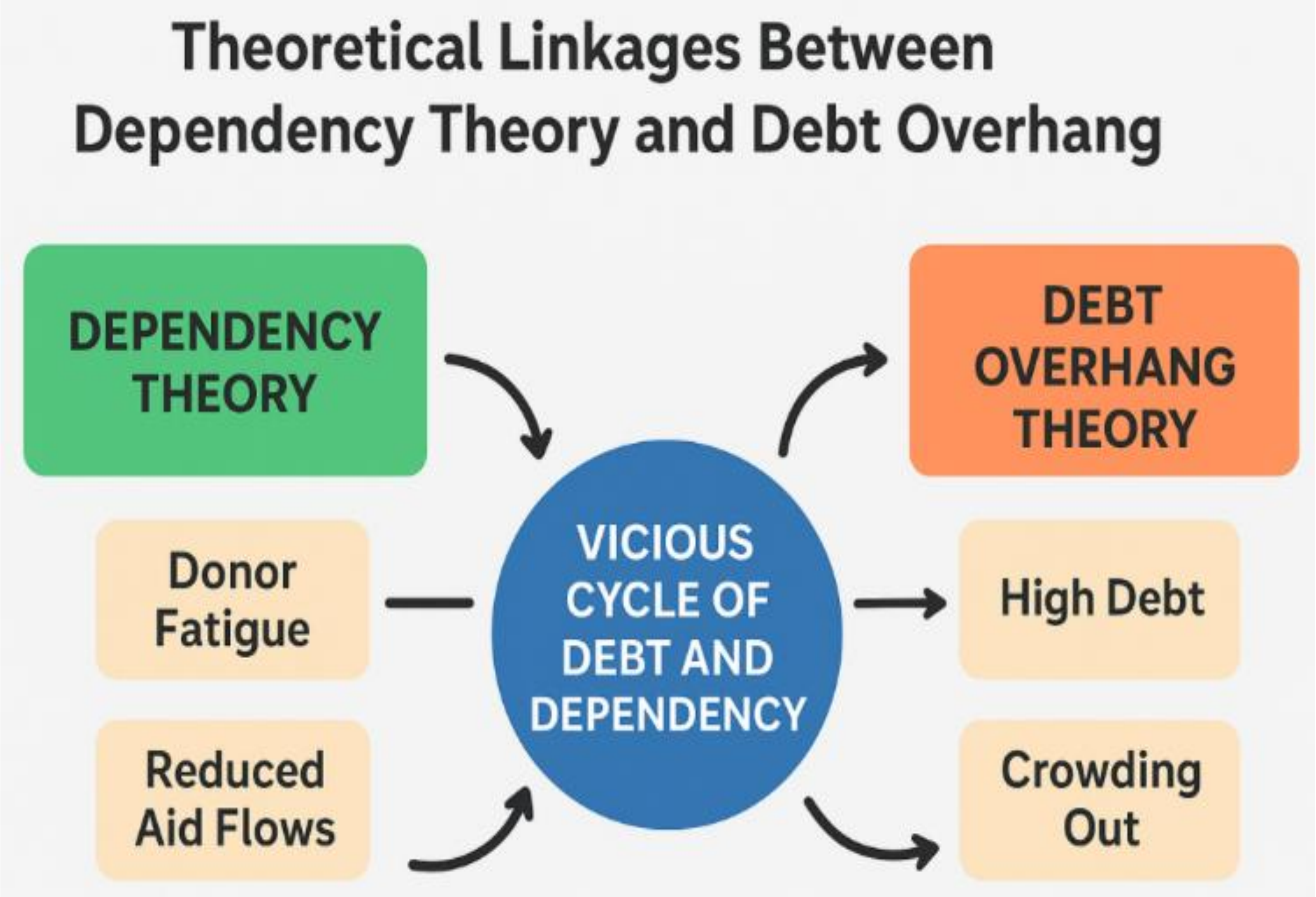
Debt Overhang Theory

- 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.

Theoretical Framework cont …

- **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).

Conceptual Model showing the Theoretical Linkages Between Dependency Theory and Debt Overhang Theory



3.Empirical Evidence

- The dual challenges of debt burden and donor fatigue are observable across multiple Sub-Saharan African countries, each revealing distinct yet interconnected dimensions of the problem. To ensure analytical rigor, this study employed correlation and trend analysis to examine the relationship between public debt indicators, donor inflows, and economic performance across selected countries between 2010 and 2024. Data were drawn primarily from the World Bank's World Development Indicators, IMF Country Reports, and UNCTAD statistical databases. Correlation analysis was used to assess the strength and direction of association between debt-service ratios and GDP growth rates, while trend analysis captured temporal patterns in debt accumulation and donor support reduction over time. This mixed quantitative approach was complemented by qualitative synthesis from policy reports and IMF Article IV consultations to contextualize the observed fiscal dynamics.

Uganda

- **Uganda**: Uganda's public debt rose sharply from 20% of GDP in 2013 to 53% in 2023 (World Bank, 2023). Trend analysis shows a consistent upward trajectory in debt servicing, projected to exceed 30% of government revenues by 2025. Correlation between debt servicing and public investment spending revealed a negative relationship (r = -0.68), indicating fiscal crowding out. Donor fatigue has been evident through reduced budget support, following governance concerns, forcing reliance on high-cost domestic borrowing, which raised interest rates and constrained private sector growth.

Ghana

- **Ghana**: Ghana defaulted on external debt in 2022 after its debt-to-GDP ratio reached 88%, the highest in West Africa. Debt service absorbed nearly 70% of revenues (IMF, 2024). Trend analysis between 2015–2023 demonstrates a positive association ($r = 0.74$) between rising debt levels and inflationary pressures, confirming the Debt Overhang hypothesis. The slowdown in donor inflows forced Ghana into an IMF-supported restructuring program with austerity conditions—an empirical illustration of Dependency Theory, where external financing terms influence domestic policy autonomy.

Zambia

- **Zambia**: In 2020, Zambia became the first African country to default during the COVID-19 era. Its external debt reached $18 billion (≈120% of GDP), with the restructuring process under the G20 Common Framework extending over several years (IMF, 2023). The data trend from 2010–2022 shows a strong inverse correlation ($r = -0.71$) between external debt stock and GDP growth, reflecting structural fiscal vulnerability. Limited donor assistance further intensified dependence on domestic financing, heightening fiscal strain and inflationary pressure.

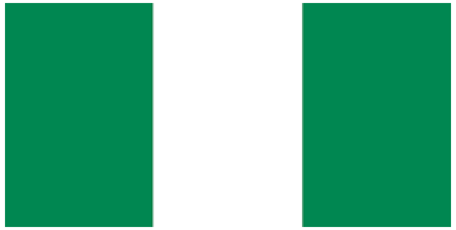
Ethiopia

- **Ethiopia**: Aid inflows declined markedly between 2018 and 2023, largely due to governance and conflict-related factors, signifying donor fatigue. During the same period, Ethiopia’s external debt exceeded $30 billion, and domestic borrowing surged, fueling inflation above 25% (World Bank, 2023). Correlation analysis indicated a strong link between reduced aid flows and inflationary outcomes (r = 0.77), implying that reliance on domestic credit as a compensatory mechanism exacerbated macroeconomic instability and curtailed infrastructure investment.

Kenya

- **Kenya**: Kenya's public debt climbed to 67% of GDP in 2023, with external debt repayments consuming over 40% of government revenues (IMF, 2024). Reduced donor budget support, combined with costly Eurobond borrowing, led to fiscal consolidation measures including increased taxation—triggering social unrest. Trend analysis (2012–2024) reveals a persistent upward drift in debt servicing alongside stagnant GDP growth, reinforcing the Debt Overhang dynamic and its social implications through constrained fiscal space.

Nigeria

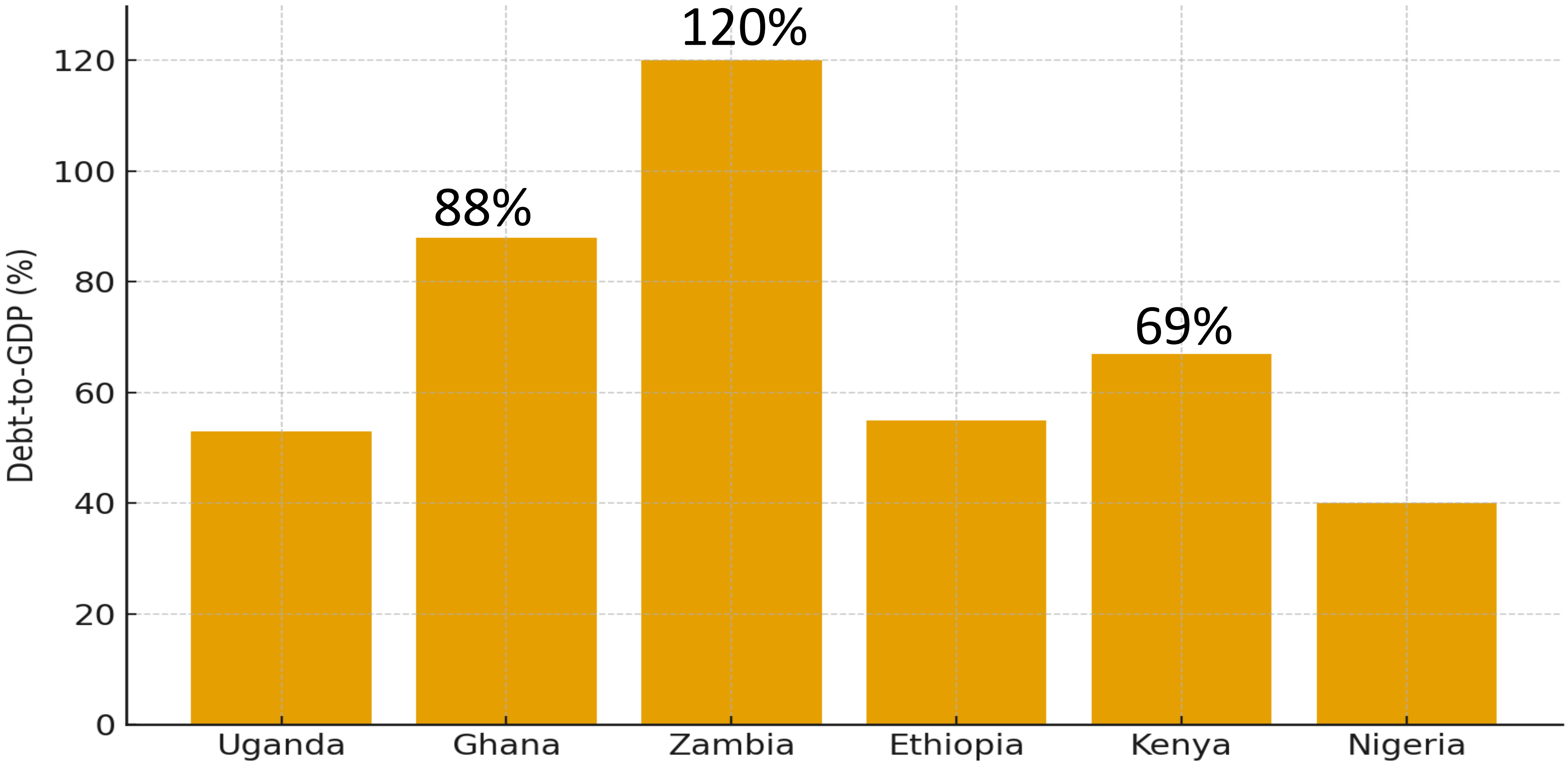


- **Nigeria**: Nigeria, Africa's largest economy, experienced an extreme debt-service-to-revenue ratio of 96% in 2022 (World Bank, 2023). Correlation analysis from 2010–2023 indicates a strong negative relationship (r = -0.81) between debt service and capital expenditure. Persistent donor skepticism due to governance and fiscal discipline concerns has resulted in limited concessional financing, leaving Nigeria reliant on domestic sources that crowd out private investment and constrain economic diversification.

- Collectively, these cases affirm the interlinkage between Dependency Theory and Debt Overhang Theory in the Sub-Saharan African context. Donor fatigue reduces access to concessional finance, pushing states toward high-cost commercial debt, which in turn generates unsustainable repayment pressures that suppress growth and social investment. The correlation and trend analyses confirm the existence of a self-reinforcing debt-dependency spiral, where fiscal fragility perpetuates structural dependency and undermines long-term economic resilience across the region.

- 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.

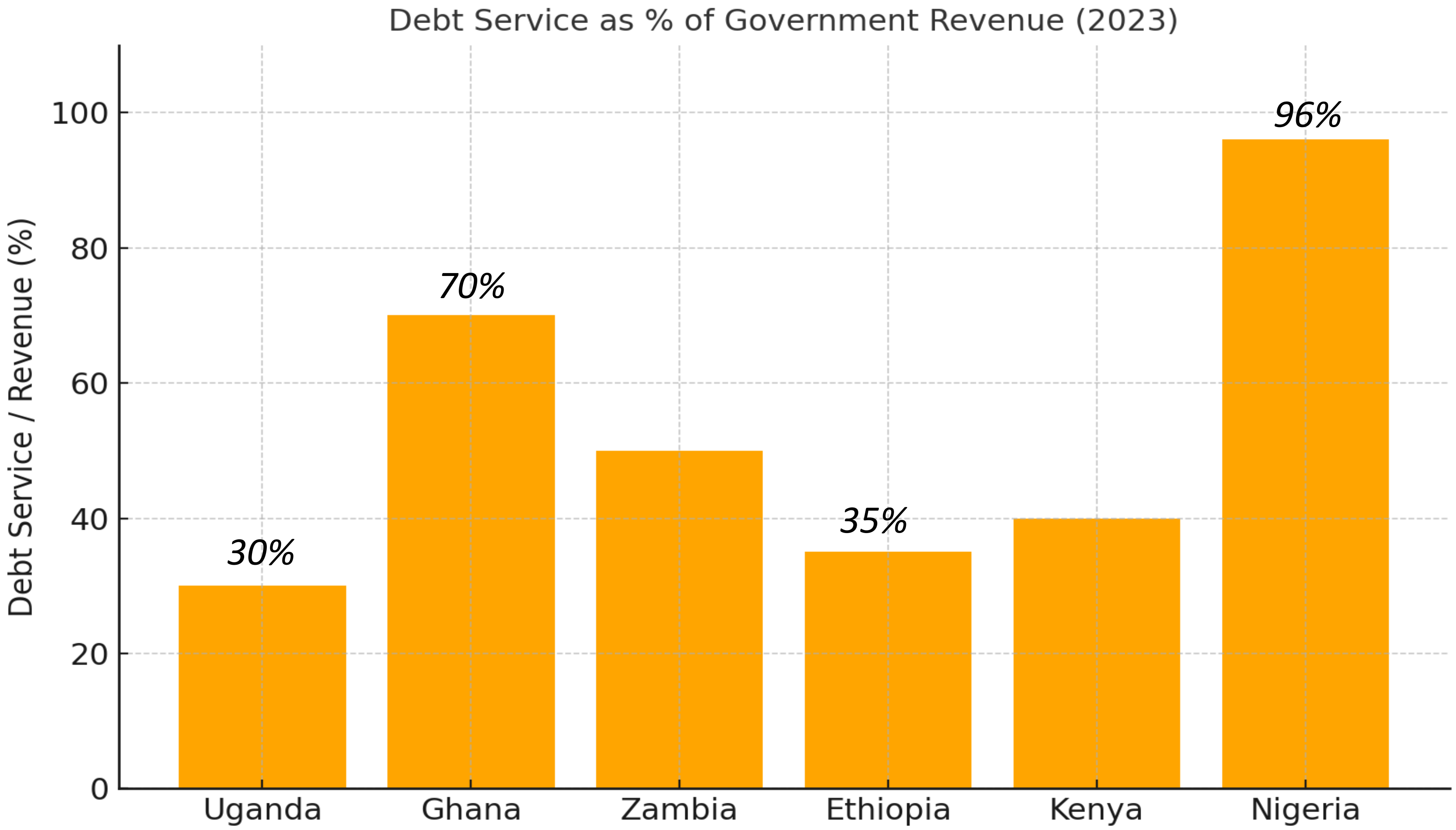
Debt-- T0 – GDP %



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

- The figure illustrates the sharp rise in debt-to-GDP ratios across Sub-Saharan Africa over the past decade, signalling growing fiscal vulnerability and limited borrowing capacity. Countries such as Ghana (88%), Kenya (69%), and Zambia (120%) show particularly steep trajectories, reflecting the compounding effects of reduced concessional financing and rising interest obligations

Public Debt Service as % for Selected SSA Countries of Government Revenue



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

- *Summarizes debt service-to-revenue, and borrowing composition across countries, revealing widespread fiscal strain and rising reliance on domestic debt. Nigeria (96%) and Ghana (70%) showing unsustainable debt service burdens compared to Uganda (30%) and Ethiopia (35%).*

Country	Debt Service (% of Government Revenue) - 2024	Source
Sierra Leone	148.5	Debt Service Watch (DFI)
Malawi	132.83	Debt Service Watch (DFI)
Sao Tome and Principe	131.45	Debt Service Watch (DFI)
Nigeria	66.9	Cytonn / regional fiscal analysis (2024)
Guinea-Bissau	62.71	Debt Service Watch (DFI)
Kenya	62.6	Cytonn / regional fiscal analysis
South Africa	55.91	Debt Service Watch (DFI)
Madagascar	49.08	Debt Service Watch (DFI)
Rwanda	43.59	Debt Service Watch (DFI)

Country	Debt Service (% of Government Revenue) - 2024	Source
Ghana	43.5	Cytonn / regional fiscal analysis
Ethiopia	31	Cytonn / regional fiscal analysis
Guinea	30.85	Debt Service Watch (DFI)
Senegal	26.12	Debt Service Watch (DFI)
Uganda	18.4	Cytonn / regional fiscal analysis
South Sudan	17.7	Debt Service Watch (DFI)
Algeria	17.24	Debt Service Watch (DFI)
Mauritius	11.8	Cytonn / regional fiscal analysis
Somalia	6.09	Debt Service Watch (DFI)

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

Countries fall into four debt-risk categories based on the share of revenue spent on debt service:

Low-risk (below 20%) – Somalia, Mauritius, Algeria, Uganda, South Sudan: Debt burdens are manageable, but reliance on aid or volatile revenues makes them vulnerable to shocks.

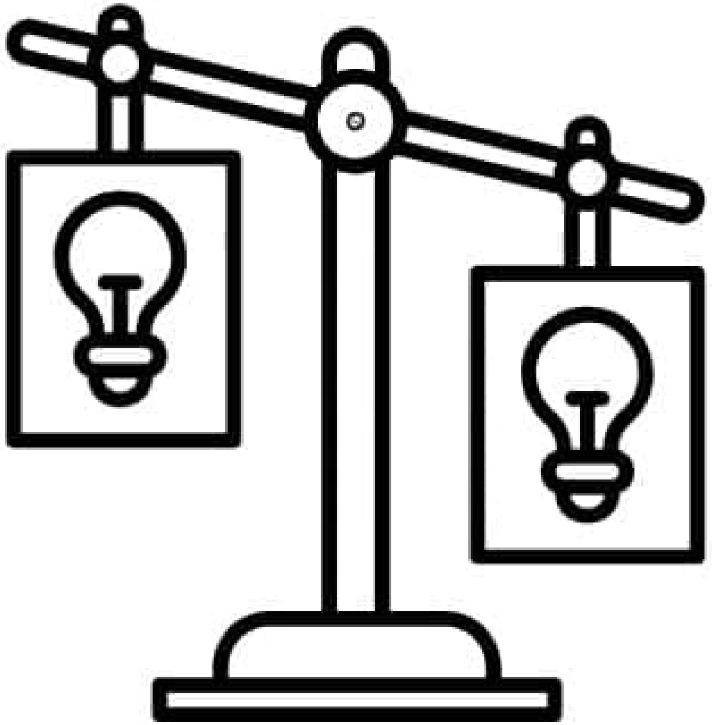
Moderate-risk (25–50%) – Madagascar, Rwanda, Guinea, Senegal, Ethiopia, Ghana: Debt service absorbs one-third to half of revenues, limiting fiscal flexibility but not yet indicating crisis.

High-risk (55–70%) – South Africa, Nigeria, Kenya, Guinea-Bissau: Over half of revenues go to debt repayment, constraining development spending and heightening fiscal stress.

Extreme distress (above 130%) – Sierra Leone, Malawi, Sao Tome and Principe: Debt service exceeds total revenue, signaling insolvency and dependence on further borrowing or donor relief.
to shocks.

Comparative Insight:

- The most at-risk economies are Sierra Leone, Malawi, and Sao Tome and Principe due to unsustainable debt levels. South Africa, Nigeria, Kenya, and Guinea-Bissau face tightening fiscal space, while Somalia, Mauritius, Algeria, Uganda, and South Sudan remain relatively safe but economically fragile.



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
Mozambique	88
Congo (Rep.)	88
Ghana	76

Country	Debt-to-GDP (%) 2024
Sierra Leone	75
Kenya	62.6
South Africa	55.9
Uganda	51.3
Nigeria	41.3
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

4.1 Economic Growth	
Key Point:	**Policy Implications:**
• Excessive debt (Debt Overhang) deters investment, crowds out private-sector growth, and slows GDP expansion.	• Prioritize debt restructuring and transparent debt management to restore investor confidence. • Channel limited fiscal space toward productive sectors (infrastructure, manufacturing) that stimulate growth and exports.

4. Discussion: Implications for Economic Development Cont…

4.2 Fiscal Efficiency	
Key Point:	**Policy Implications:**
• High debt servicing erodes fiscal flexibility; donor fatigue reduces concessional funding, leading to inefficient and costly domestic borrowing.	• Adopt fiscal consolidation strategies to manage debt sustainably. • Enhance domestic revenue mobilization (e.g., tax reform, improved collection efficiency). • Strengthen public expenditure management to ensure value-for-money in limited budgets.

4. Discussion: Implications for Economic Development Cont…

4.3 Social Investment	
Key Point:	**Policy Implications:**
• Debt repayments crowd out spending on health, education, and social protection, undermining human capital formation.	• Protect social sector allocations even during fiscal tightening. • Integrate social impact assessments in debt and budget decisions. • Promote domestic resource pooling and regional partnerships to finance human development.

4. Discussion: Implications for Economic Development Cont…

4.4 Policy Autonomy and Sovereignty	
Key Point:	**Policy Implications:**
• Dependence on external financing and conditionalities limits national control over policy priorities.	• Strengthen domestic policy institutions to negotiate better terms with creditors. • Pursue South–South cooperation and alternative financing sources to reduce dependency. • Develop homegrown reform agendas aligned with national development plans.

4. Discussion: Implications for Economic Development Cont…

4.5 Vulnerability to External Shocks	
Key Point:	**Policy Implications:**
• Limited fiscal buffers and declining aid heighten exposure to global crises (e.g., pandemics, commodity price swings).	• Build resilience mechanisms such as sovereign wealth funds and contingency reserves. • Diversify economies to reduce dependence on commodity exports. • Expand regional safety nets and intra-African trade to mitigate external shocks.

4. Discussion: Implications for Economic Development Cont…

4.6 Long-Term Development Goals	
Key Point:	**Policy Implications:**
• Debt distress and donor fatigue threaten progress toward SDGs and climate transition goals.	• Integrate debt sustainability into national development and SDG strategies. • Mobilize green and climate finance through innovative instruments (e.g., green bonds). • Promote inclusive industrialization and technology-driven growth for long-term sustainability.

5.Policy Recommendations

- Addressing the challenges of debt burden and donor fatigue requires coordinated reforms at national, regional, and international levels. The Matrix summarises the recommendations
- Matrix structured by: Time frame, Responsible Actor, Policy Recommendations and Actions

	Policy Recommendation	Key Actions / Focus Areas	Responsible Actor	Timeframe
1	Strengthen Domestic Resource Mobilization	- Broaden the tax base through formalization of the informal sector. - Implement digital tax systems (e.g., Kenya’s e-TIMS). - Curb illicit financial flows (UNCTAD, 2020).	National Governments	Short-Term (1–2 years)
2	Enhance Fiscal Discipline and Debt Management	- Establish independent debt management offices. - Limit borrowing for recurrent expenditure. - Increase fiscal transparency to rebuild confidence.	National Governments	Short-Term (1–2 years)
3	Initiate Collective Debt Negotiation Platforms	- Develop coordinated negotiation frameworks under AU or AfDB. - Advocate jointly for fair restructuring and	Regional Bodies (AU, AfDB, Afreximbank)	Short-Term (1–2 years)

	Policy Recommendation	Key Actions / Focus Areas	Responsible Actor	Timeframe
4	Reform the Global Debt Architecture (Immediate Steps)	- Accelerate implementation of G20 Common Framework reforms. - Ensure inclusion of all creditor groups (private, bilateral, China).	International Institutions (IMF, World Bank, G20)	Short-Term (1–2 years)
5	Diversify Financing Sources	- Promote innovative instruments (diaspora bonds, green bonds, sukuk). - Develop public–private partnerships for infrastructure investment. - Strengthen financial governance to manage new instruments effectively.	National Governments	Medium-Term (3–5 years)
6	Invest in Human Capital and Social Sectors	- Ring-fence education and health budgets. - Adopt efficiency measures to improve service delivery outcomes. - Prioritize gender and youth inclusion in social	National Governments	Medium-Term (3–5 years)

	Policy Recommendation	Key Actions / Focus Areas	Responsible Actor	Timeframe
7	Develop Regional Development Funds	- Expand Afreximbank and AfDB funding windows. - Establish regional contingency funds for debt or crisis response. - Foster pooled procurement and shared infrastructure investment.	Regional Bodies (AU, RECs, AfDB)	Medium-Term (3–5 years)
8	Renew Donor Engagement Frameworks	- Shift aid priorities to climate adaptation, industrialization, and digital transformation. - Promote mutual accountability rather than conditionality-based aid.	International Donors and Partners	Medium-Term (3–5 years)
9	Foster South–South Cooperation	- Deepen partnerships with China, India, and Brazil under transparent terms. - Enhance technology transfer and skills	National Governments & Regional Bodies	Long-Term (5+ years)

	Policy Recommendation	Key Actions / Focus Areas	Responsible Actor	Timeframe
10	Institutionalize Debt-for-Development Swaps	- Scale up debt-for-climate and debt-for-health swaps (e.g., Seychelles model). - Establish an African Debt Sustainability Charter with multilateral support.	International Institutions & Global Forums	Long-Term (5+ years)
11	Integrate Debt Sustainability into SDG and Climate Frameworks	- Align debt strategies with Agenda 2063 and SDGs. - Mobilize blended finance for green and inclusive growth. - Strengthen monitoring mechanisms for sustainable debt use.	All Actors (National, Regional, International)	Long-Term (5+ years)

Source: Reviewed Literature

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.

- To ensure progress, the implementation of these policy recommendations should be guided by clear monitoring and evaluation frameworks. Measurable indicators may include reductions in debt-to-GDP and debt-service-to-revenue ratios, growth in domestic revenue mobilization, increases in social spending shares, and improvements in fiscal transparency indices. At the regional and international levels, progress can be assessed through the establishment of joint debt negotiation mechanisms, successful debt-for-development swaps, and enhanced participation in global financial reforms. Regular reporting through AU and UN platforms will enable tracking of outcomes, ensure accountability, and promote adaptive policy learning across Sub-Saharan Africa.

Acknowledgements

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Debt for nature swap example.

https://www.youtube.com/watch?v=fKBpOt2GBSU