

SECOND AFRICAN FORUM ON SOVEREIGN FINANCE

Enhancing Fiscal Space and Debt Sustainability

Venue: Addis Ababa, Ethiopia

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I. Context and Rationale

African economies are navigating an increasingly complex policy landscape shaped by tightening fiscal space, rising debt vulnerabilities, and escalating climate risks. These interlinked pressures are eroding macroeconomic resilience and constraining governments' capacity to invest in sustainable development. As of 2025, 16 African countries are assessed to be at high risk of debt distress, while 7 are already in debt distress, highlighting the depth of fiscal strain across the continent. Africa's external debt stock reached USD 685.5 billion in 2023—equivalent to 24.5 percent of combined GDP—and total external debt is projected to surpass USD 1.3 trillion by 2025. The composition of this debt—43 percent owed to private creditors, 23 percent to bilateral lenders, and 34 percent to multilateral institutions—leaves many economies vulnerable to refinancing shocks, exchange rate volatility, and tightening global interest rates.

Debt service pressures have intensified sharply. Across the continent, governments now allocate over one-quarter of government revenues to servicing debt—often exceeding combined spending on health and education. According to the African Development Bank (2024), total debt service in Africa has more than doubled over the past decade, reaching USD 163 billion, while interest payments alone now exceed public health budgets in thirty countries. In 2025, external debt service obligations are projected to reach USD 88.7 billion, further constraining fiscal space and crowding out essential investments in infrastructure, climate adaptation, and human capital. This rising fiscal burden threatens to entrench a cycle of low investment, weakened growth, and reduced resilience to external shocks.

At the same time, Africa remains one of the world's most vulnerable regions while contributing less than four percent of global greenhouse gas emissions. The continent hosts nine of the ten most climate-exposed countries yet receives just 3.5 percent of global climate finance. According to the Landscape of Climate Finance in Africa 2024 (FSD Africa and CPI), total climate finance flows to the region reached USD 44 billion in 2021/22—only a quarter of what is needed to meet the continent's Nationally Determined Contributions (NDCs). More than half of these flows are debt-based, further adding to sovereign liabilities, while private sector participation remains at a low 18 percent. **The structural mismatch between climate vulnerability, limited fiscal space, and the cost of borrowing underscores the urgency of developing a new debt and financing model that links fiscal resilience to climate and development outcomes.**

The Second African Forum comes at a pivotal moment, as global discussions on debt reform and climate finance set new benchmarks for sustainable development financing. This timing allows African Debt Management Offices (DMOs) to translate the outcomes and commitments of COP30 into actionable strategies tailored to their national contexts. Building on lessons from the 2025 Africa Climate Summit in Addis Ababa and recent regional policy dialogues, the Forum provides a unique platform for DMOs to operationalize post-COP30 priorities, aligning sovereign debt management with the evolving global architecture for sustainable and climate finance. It bridges

high-level policy agreements and the technical realities of debt managers, ensuring that Africa's engagement in global finance debates is anchored in evidence-based, implementable solutions.

Despite growing recognition of sustainable finance's potential, a significant innovation gap persists across Africa. While a few countries have piloted thematic or sustainability-linked bonds and debt for nature/development swaps, and most DMOs have yet to systematically integrate these instruments into core debt management frameworks and operations. Medium-Term Debt Strategies (MTDS), Debt Sustainability Analyses (DSAs), and Liability Management Operations (LMOs) often remain detached from environmental and social performance targets and related material sector reform that can help optimize economic growth. Bridging this gap requires building institutional capacity, data systems, and analytical tools that allow DMOs to embed sustainability considerations into sovereign financing decisions. Addressing this innovation gap is critical for transforming Africa's debt management from reactive refinancing toward proactive, investor-engaged and sustainability-informed fiscal resilience.

II. Objectives

The Second African Forum seeks to strengthen the capacity of African Debt Management Offices (DMOs) to leverage sustainable finance as a tool for debt management, credit enhancement, and productive investment. Specifically, it aims to:

1. Enable DMOs to **integrate sustainable finance instruments**—such as sustainability-linked bonds, green sukuk, and debt-for-climate or debt-for-nature swaps—within Liability Management Operations (LMOs), refinancing, and debt restructuring frameworks. It will help develop practical approaches for embedding environmental, social, and governance (ESG) considerations into Medium-Term Debt Strategies (MTDS) and Debt Sustainability Analyses (DSAs), while strengthening institutional frameworks and analytical tools that link debt management with national climate and development strategies. These efforts will enhance the capacity of DMOs to align fiscal resilience with climate and development objectives.
2. Demonstrate how sustainability performance can improve debt sustainability metrics, strengthen credit ratings, and reduce borrowing costs. It will facilitate dialogue among DMOs, **credit rating agencies, and institutional investors** to align sovereign risk assessments with ESG-linked performance indicators. Through this engagement, participants will explore how sustainability-linked instruments can serve as credible tools for attracting ESG-oriented capital, improving market access, and enhancing investor confidence in African sovereign issuances.
3. Foster **catalytic partnerships with philanthropic foundations, multilateral agencies, and guarantee providers** to mobilize concessional and blended finance at scale. It will encourage the co-design of guarantee and risk-sharing mechanisms tailored to African debt contexts, while promoting collaboration between public and private actors.

In doing so, the Forum will support continued coordination between UNECA, FSD Africa, and participating countries to translate its outcomes into actionable country-level roadmaps and investment and financing pipelines that advance Africa’s sustainable debt management agenda. The workshop seeks to enable participating countries to leave the workshop with a draft Technical Assistance engagement plan and with funding partnership conversations initiated.

III. Key Themes and Discussion Areas

The Second African Forum will be structured around five interrelated themes designed to bridge technical innovation and policy implementation in sovereign debt management. Each theme is intended to generate practical insights and shared learning among Debt Management Offices (DMOs), investors, and development partners on how to embed sustainability-linked approaches within debt and fiscal frameworks.

- **Sustainable Finance in Debt Management**

This session explores how green, blue, and sustainability-linked instruments can be embedded within sovereign refinancing strategies to optimize cost and tenure. Discussions will examine integration within Liability Management Operations (LMOs) and refinancing operations, drawing on lessons from Africa, Latin America, and Asia. Participants will assess pricing advantages, fiscal implications, and the conditions needed for scaling these instruments across diverse debt markets.

- **Debt Sustainability and Creditworthiness**

This session examines how sustainable finance instruments influence debt sustainability metrics and sovereign credit ratings. It will focus on aligning ESG-linked reporting frameworks with the expectations of credit rating agencies (CRAs) and investors to enhance transparency, reduce perceived risk, and improve market access for African sovereigns.

- **Institutional and Data Readiness for Sustainability-Linked Instruments**

This session focuses on the institutional and data foundations required to operationalize sustainability-linked instruments. Discussions will explore how strong legal frameworks, transparent governance structures, and reliable data systems can underpin ESG performance monitoring and verification. It will also consider how DMOs can strengthen inter-agency coordination and build the analytical capacity necessary to manage sustainability-linked debt operations effectively.

- **Developing a Sustainable Finance Roadmap**

This session focuses on mapping the pathway from debt diagnostics and fiscal analysis to project pipeline development and instrument structuring. It emphasizes how DMOs can align debt management functions with national climate and development plans to create coherent operational frameworks that translate sustainability principles into measurable fiscal outcomes.

- **Investor, CRA, and Philanthropy Engagement**

This session aims to facilitate direct dialogue among DMOs, investors, and philanthropic partners to co-design risk-sharing instruments, guarantee models, and blended finance mechanisms. It will explore opportunities for catalytic partnerships that can unlock private capital and support inclusive and climate-aligned economic recovery.

IV. Expected Outcomes

The Second African Forum is expected to generate both immediate outputs and longer-term outcomes that will strengthen the integration of sustainable finance into sovereign debt management across Africa.

Immediate outputs:

- A conceptual and operational framework for integrating sustainability-linked instruments into sovereign debt management and refinancing strategies.
- Actionable policy recommendations for DMOs on structuring instruments, enhancing transparency, and strengthening engagement with investors and credit rating agencies (CRAs).
- Commitments from philanthropic, multilateral, and guarantee partners to co-design catalytic capital and risk-sharing facilities tailored to African debt contexts.
- A joint communiqué summarizing key insights, agreements, and next steps to guide post-COP30 policy dialogue and donor coordination through 2026, reinforcing the implementation of global and continental commitments on sustainable and climate finance.

Longer-Term outcomes:

- Enhanced institutional capacity among DMOs to design and implement sustainability-linked financing mechanisms within Medium-Term Debt Strategies (MTDS), Debt Sustainability Analyses (DSAs), and Liability Management Operations (LMOs).
- Development of country-specific sustainable finance roadmaps and operational plans that translate forum insights into concrete policy and investment actions.
- Strengthened investor relations and communication frameworks integrating ESG-linked performance indicators into sovereign debt reporting and market engagement.
- Establishment of a regional working group, jointly convened by UNECA and FSD Africa, to monitor post-forum progress, share best practices, and coordinate technical assistance.
- Creation of a regional knowledge-sharing platform linking DMOs, regional development banks, and technical institutions to facilitate continuous exchange of data, methodologies, and experiences in sustainable debt management

V. Participants

The regional forum will convene a high-level and technically diverse audience, including:

- Debt Management Offices (DMOs) and Ministries of Finance from African countries.
- Multilateral and regional financial institutions: AfDB, IMF, and World Bank.

- Philanthropic and guarantee partners: e.g. CIFF, the Gates Foundation; ACF and others.
- Credit Rating Agencies (CRAs) and institutional investors, including ESG and impact investors.
- Think tanks, academic institutions, and technical organizations working on sustainable finance, debt management, and climate economics.

VI. Structure:

The Regional Forum will be organized over three days, combining high-level plenary sessions, technical panels, and interactive breakout discussions to ensure both strategic dialogue and practical exchange among participants. The overall structure is designed to facilitate peer learning, policy coordination, and the development of actionable country-level pathways for integrating sustainable finance into sovereign debt management.

- **Opening keynote:** The state of Africa’s sustainable debt Agenda
- **Opening panel:** Sustainable finance as a strategic debt management tool
- **Technical sessions:** Integrating LMOs, DSAs, and sustainability performance in debt operations
- **Case presentations:** Successful sovereign applications of sustainability-linked instruments
- **Breakout groups:** Designing country-specific sustainable finance roadmaps
- **Closing dialogue:** Philanthropy–Sovereign Partnerships for Scaling Sustainable Finance

VII. Contacts

- Khaled Hussein , Chief of Section, Subregional Initiatives , SRO-NA , UNECA
Email: hussein44@un.org , Tel : +212676633733
- Cecilia Bjerborn Murai, Principal Specialist , Sustainable finance ,FSD Africa
Email: Cecilia@fsdafrica.org, Tel : +254719871603
- Amandine Nakumuryango, Economic Affairs Officer, SRO-NA, UNECA,
Email : amandine.nakumuryango@un.org, Tel : + 212760569115
- John Ross Sogbossi, Associate- Sustainable Finance, FSD Africa
Email : Johnross@fsdafrica.org, Tel : + 22966054852