



# Integrated discussion paper

## From crisis resolution to crisis prevention

Strengthening Africa's financial resilience through  
climate-aligned finance and strategic investment





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FSD Africa is a specialist development agency funded by the UK International Development, operating in more than 30 countries and working to help make finance work for Africa's future. The organisation does this by mobilising, especially domestic, private capital to provide long-term financing for Africa's development needs and to create systemic change in financial markets.

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# Abbreviations and acronyms

<b>ADF</b>	African Development Fund
<b>AfCFTA</b>	African Continental Free Trade Area
<b>AfDB</b>	African Development Bank
<b>Afreximbank</b>	African Export–Import Bank
<b>AFSM</b>	African Financial Stability Mechanism
<b>AMF</b>	African Monetary Fund
<b>AMRO</b>	ASEAN+3 Macroeconomic Research Office
<b>APRM</b>	African Peer Review Mechanism
<b>ASEAN+3</b>	Association of Southeast Asian Nations Plus Three
<b>ASGP</b>	African Stability and Growth Pact
<b>ATAF</b>	African Tax Administrative Forum
<b>AU</b>	African Union
<b>AUC</b>	African Union Commission
<b>BOAD</b>	West African Development Bank (Banque Ouest Africaine de Développement)
<b>CABRI</b>	Collaborative Africa Budget Reform Initiative
<b>CEMAC</b>	Central African Economic and Monetary Community
<b>CMIM</b>	Chiang Mai Initiative Multilateralisation
<b>DFI</b>	Development finance institution
<b>DSA</b>	Debt sustainability analysis
<b>EAC</b>	East African Community
<b>ESM</b>	European Stability Mechanism
<b>EU</b>	European Union
<b>FLAR</b>	Latin American Reserve Fund (Fondo Latinoamericano de Reservas)
<b>G20</b>	Group of Twenty
<b>GDP</b>	Gross domestic product
<b>IDA</b>	International Development Association
<b>IMF</b>	International Monetary Fund
<b>JTC</b>	Joint technical committee
<b>MEFMI</b>	Macroeconomic and Financial Management Institute of Eastern and Southern Africa

<b>MDB</b>	Multilateral development bank
<b>MTEF</b>	Medium-term expenditure framework
<b>ODA</b>	Overseas development assistance
<b>REC</b>	Regional economic community
<b>RFA</b>	Regional financing arrangement
<b>SDRs</b>	Special drawing rights
<b>STC on Finance</b>	Specialized Technical Committee on Finance, Monetary Affairs, Economic Planning and Integration
<b>SWF</b>	Sovereign wealth fund
<b>TDB</b>	Eastern and Southern African Trade and Development Bank
<b>UNECA</b>	United Nations Economic Commission for Africa
<b>WAEMU</b>	West African Economic and Monetary Union

# Executive summary

Africa's macro-economic vulnerabilities, ranging from fiscal fragility and commodity dependence to the increasing frequency of climate shocks, highlight the urgent need for a predictable, African-led financial safety net. In response, the African Union (AU), with technical support from the African Development Bank (AfDB), has endorsed the development of the **African Financial Stability Mechanism (AFSM)** and is advancing the complementary design of the proposed **African Stability and Growth Pact (ASGP)**.

This integrated paper outlines a two-pillar architecture designed to strengthen Africa's ability to manage shocks, avoid defaults and promote credible fiscal governance:

- The **AFSM** is envisioned as Africa's regional financing arrangement (RFA) – a concessional liquidity facility anchored in the AU's legal and institutional frameworks and expected to evolve towards a treaty-based footing over time (see Annexure 7 for proposed alternative institutional pathways). The mechanism draws on best practices in global RFAs but is tailored to the continent's institutional realities. Instruments include refinancing loans, market support operations and guarantees.
- The **ASGP**, still under consultation, is proposed as a flexible fiscal governance framework that promotes country-specific fiscal rules, peer accountability and tailored paths to sustainability. Unlike harmonised convergence pacts in other regions, the ASGP explicitly avoids uniform targets and instead supports nationally owned fiscal strategies reviewed through African institutions like the Collaborative Africa Budget Reform Initiative (CABRI) and the African Peer Review Mechanism (APRM).

Together, the AFSM and ASGP aim to reinforce macro-economic stability while preserving national sovereignty and adaptability. Their design addresses key risks:

- The AFSM offers short-term liquidity in response to shocks, including climate-induced ones. However, it is not envisaged to have the capacity to fund long-term investments such as climate mitigation or adaptation.
- The purpose of the ASGP is to develop country-tailored fiscal frameworks that include climate-linked flexibility (e.g. up to 2% of gross domestic product (GDP) deviation for resilience investment). The fiscal framework for each country will be subject to peer review and include a requirement for return to sustainability.
- Both instruments are governed by a streamlined architecture, anchored by a single joint technical committee, a lean secretariat and the existing AU Specialized Technical Committee on Finance, Monetary Affairs, Economic Planning and Integration.

The AFSM is expected to be capitalised through a blended finance model, combining:

- Member contributions (paid-in or callable);
- Potential special drawing rights (SDRs) rechannelling;
- Support from the AfDB, the Eastern and Southern African Trade and Development Bank (TDB), the African Export-Import Bank (Afreximbank) and other African development finance institutions (DFIs); and
- Participation from sovereign wealth funds (SWFs), philanthropic partners and international DFIs.

While this paper recognises that pooled resources may be constrained in the event of a systemic crisis, it lays a strong foundation for innovations in a second phase, including segmented reserve models and expanded insurance mechanisms.

Any eventual use of SDRs, SWFs or blended finance tools should include robust, independently verifiable reporting mechanisms. Future discussions could therefore explore how third-party validation by neutral African or global institutions might reinforce transparency and build trust among contributors.

Impact will be measured by visible metrics such as improved budget credibility, reduced spreads for programme countries, and enhanced fiscal transparency, without overburdening national systems. Going forward, it will be important to consider how institutions such as the CABRI and the APRM will coordinate reporting templates and shared data definitions to aid comparability.

Above all, this two-pillar framework is a continent-owned conversation, designed not to replace existing institutions but to anchor them in a credible, cooperative system that reflects Africa's diversity, dynamism and determination to chart its own macro-economic path. It is envisaged that countries that comply with this framework will enjoy 'virtuous cycle' benefits such as stronger credit ratings and increased foreign direct investment.

# 1. Introduction and rationale

This discussion paper is designed to stimulate debate, consolidate feedback from earlier consultations and inform the next phase of dialogue on operationalising the African Financial Stability Mechanism (AFSM) and the complementary African Stability and Growth Pact (ASGP). The ideas presented are illustrative and exploratory.

## 1.1 The rationale for an African financial safety net

Africa has made significant strides in macro-economic management over the past two decades. However, the continent remains vulnerable to repeated external shocks, from pandemic-related collapses in demand to commodity price swings, to climate disasters, to global interest rate hikes. These shocks often overwhelm national fiscal buffers and expose the limits of external aid and multilateral crisis responses. More recently, an important shock has been the withdrawal of overseas development assistance (ODA) by key donors, putting additional onus on African policy-makers to take responsibility for the response in managing macro-economic crises.

The experience of the COVID-19 pandemic, the Russian war in Ukraine and intensifying climate events have shown that Africa needs its own financial safety net – one that is regionally anchored, politically legitimate and operationally responsive.

In response to these events, the African Union (AU) Assembly adopted Decision 817 in 2022, which endorses the establishment of the AFSM. The AFSM is envisioned as a liquidity facility that provides concessional, rules-based financial support during times of crisis. In parallel, African policy-makers have recognised the need for a complementary fiscal governance platform, now taking shape as the proposed ASGP.

This two-pillar framework seeks to close Africa's macro-economic architecture gap by:

- Providing **rapid liquidity** during shocks to countries in good standing regarding implementation of their fiscal frameworks; and
- Encouraging credible, **country-owned fiscal paths** through regional peer accountability.

## 1.2 Avoiding misconceptions: What the framework is not

To ensure clarity of purpose and institutional alignment, it is essential to **define what this framework does not intend to be**. The AFSM–ASGP structure is:

- Not a monetary union or currency convergence agenda;
- Not a climate adaptation investment fund – it provides liquidity during climate-related shocks, not capital for green infrastructure; and
- Not a substitute for the International Monetary Fund (IMF), the World Bank or donor support – but a complement, grounded in African institutional commitment and control.

**Instead, the two-pillar framework is** a flexible, continent-owned safety net for macro-economic resilience, tailored to Africa's diversity and capacity realities (see Annexure 6 for a detailed explanation).

### 1.3 The institutional gaps this framework intends to fill

While various African initiatives have targeted infrastructure, trade and regional integration, no formal architecture exists for macro-economic stabilisation. The AFSM–ASGP framework responds to four key gaps:

1. **Liquidity gap:** Africa has no regional emergency financing tool comparable to the Latin American Reserve Fund (FLAR), Asia’s Chiang Mai Initiative Multilateralisation (CMIM) or the European Stability Mechanism (ESM).
2. **Credibility gap:** the absence of a fiscal coordination platform undermines policy consistency and market confidence.
3. **Ownership gap:** up until now, responses to crises have been heavily donor-driven and poorly adapted to local conditions.
4. **Coordination gap:** there is no mechanism to align fiscal governance with liquidity access, resulting in fragmentation and weak incentives for discipline.

By introducing a rules-based, AU-backed response framework, the AFSM and the ASGP can begin to close these institutional blind spots.

### 1.4 Why national tailoring and peer accountability matter

The ASGP’s logic is simple: a shared framework for fiscal responsibility that respects country-level variation. Unlike convergence pacts similar to those of the European Union (EU), the ASGP allows:

- Countries to adopt fiscal rules suited to their macro-economic structure, volatility and institutional maturity;
- Regional partners to review progress through peer mechanisms, via the African Peer Review Mechanism (APRM) and the Collaborative Africa Budget Reform Initiative (CABRI); and
- Greater flexibility through tiered rule templates, climate-linked carve-outs, and escape clauses.

This design reflects the core principle that fiscal credibility comes not from uniformity but from transparency, peer accountability and national ownership. Assembling standardised data is fundamental to peer accountability. Future dialogue could explore the design of standardised templates that are jointly supported by the APRM and the CABRI to strengthen comparability. However, once the AFSM and the ASGP are operationalised, mechanisms will need to be adopted by which countries are included or excluded according to their observance of predefined eligibility requirements.

### 1.5 The climate imperative: Clarifying the role of the African Financial Stability Mechanism

Climate shocks now account for a rising share of Africa’s macro-fiscal stress event, from drought-induced revenue collapses to cyclone-related reconstruction pressures. The AFSM framework explicitly recognises that climate events are legitimate macro-economic shocks, not just environmental crises.

The AFSM can be used to provide short-term liquidity to countries facing severe fiscal disruption, whether caused by macro-economic factors or driven by exposure to climate-related risks. However, it is not designed to finance stronger resilience to risks, such as long-term climate adaptation or green infrastructure. Those investments must be channelled through public budgets or dedicated climate funds, with fiscal flexibility provided under the ASGP where appropriate.

This separation of functions ensures realism, avoids duplication and helps align the AFSM with accepted international macro-finance norms.

## 1.6 An African-led path forward

The AFSM–ASGP framework is not intended to be an abstract blueprint but rather a **practical, AU-owned mechanism** that builds on existing political mandates, leverages established technical institutions and where countries can be phased in over time. Its design principles include:

- **Simplicity:** one liquidity mechanism, one fiscal platform and one coordination channel.
- **Scalability:** early-mover countries can opt in voluntarily, with peer learning before the AFSM–ASGP framework has been fully codified. Similar piloting will be required of later entrants.
- **Institutional alignment:** roles for the AU, the African Development Bank (AfDB), the APRM, the CABRI and the United Nations Economic Commission for Africa (UNECA) are leveraged, not duplicated.
- **Credibility:** access to liquidity is conditional on fiscal discipline but based on agreed national (not externally imposed) paths that are externally peer reviewed to ensure cross-country consistency.

In time, this platform may evolve into a broader resilience architecture including pre-arranged insurance, regional buffers or swap lines. However, the immediate opportunity is clear: Africa will benefit from taking the first step towards credible, coordinated macro-economic safety on its own terms. In moving forward, discussions could also reflect on how long-term sustainability and financial, institutional and political value might be ensured as these ideas evolve from dialogue to design.

## 2. Africa's financial stability challenge

Africa's macro-economic landscape is increasingly shaped by compound and recurring shocks, ranging from global interest rate cycles to commodity price volatility, to climate-induced disasters. While individual countries have demonstrated resilience and reform momentum, these efforts remain compromised by the absence of a credible, coordinated and context-sensitive regional response framework.

Despite longstanding calls for enhanced fiscal discipline and pooled crisis support, Africa still lacks a regionally anchored mechanism that can respond with the speed, scale and legitimacy required during times of stress. The result is over-reliance on external actors, fragmented domestic policy responses and missed opportunities for solidarity-based support.

## 2.1 Asymmetric shocks in the fiscal space and common vulnerability

One of the defining features of Africa's economic landscape is the asymmetry of impact. The same global shock (e.g. a United States interest rate hike, an oil price fluctuation or a climate event) can have dramatically different effects across countries depending on:

- Debt exposure and refinancing timelines;
- Revenue-raising capacity and dependence on volatile sectors;
- Foreign exchange reserves and chosen exchange rate regimes; and
- Institutional capacity and the availability of fiscal buffers.

This heterogeneity makes rigid policy convergence ineffective and calls instead for a framework that can accommodate national variation while reinforcing regional discipline and support.<sup>1</sup> At the same time, exposure to heterogeneous risks also offers African countries opportunities to more effectively address these risks, provided this is done within a collaborative framework.

## 2.2 Liquidity stress without a regional backstop

The lack of a dedicated African liquidity mechanism has real costs. Over the past five years:

- More than 20 countries have been rated as 'high risk' for debt distress or in default;<sup>2</sup>
- Market access has become prohibitively expensive or been shut off entirely in key economies;
- Domestic debt burdens have crowded out social and development spending;<sup>3</sup> and
- Countries have relied heavily on ad hoc bilateral arrangements or IMF programmes, often with delayed disbursements and contested terms.<sup>4</sup>

The 2021 special drawing rights (SDRs) allocation by the IMF, of which Africa received only 5%, highlighted the continent's limited ability to leverage global liquidity tools at scale. While innovative proposals for rechanneling SDRs have emerged, Africa still lacks an institutionally suitable, tested and reputable platform to absorb and deploy such resources within a coordinated, rules-based framework.<sup>5</sup> Credibility will rely on transparent reporting of how liquidity support is deployed. Reliable and credible independent verification will strengthen trust among members and partners.

Therefore, a regional liquidity facility, backed by African institutions, is needed to provide timely, concessional and politically legitimate support when shocks occur, especially targeting countries that act in good faith to maintain fiscal discipline.

## 2.3 Fragmented fiscal coordination and limited trust

Some regional blocs such as the West African Economic and Monetary Union (WAEMU), the Central African Economic and Monetary Community (CEMAC) and the East African Community (EAC) have adopted fiscal convergence targets. However, enforcement is weak and political ownership is often low. There is:

- No continent-wide fiscal surveillance platform;

- No trusted peer accountability mechanism for fiscal reform; and
- No incentive-aligned structure linking fiscal behaviour to liquidity support.<sup>6</sup>

This creates a credibility gap, not just with creditors and markets but also among African governments themselves. It also leaves Africa exposed to external perceptions and policy preferences in defining fiscal stability.

In addition to weak enforcement, African countries face challenges regarding weak fiscal data systems. Dialogue on the AFSM–ASGP nexus should therefore encompass practical ways to strengthen data reliability through technical assistance, common definitions and support from the CABRI, the APRM and UNECA to ensure that peer review assessments are based on consistent, factual information.

## 2.4 A missed opportunity for African solidarity

The COVID-19 pandemic, the Russian war in Ukraine and ongoing climate shocks have all shown how ill-prepared the continent is to respond collectively. Despite the issuance of SDRs and some regional lending windows, Africa remains dependent on external actors, often under terms that are ill-suited to its institutional realities. In recent months, this dependency has been brought into question as several major donors have reduced their commitments to ODA. This poses both a threat and a challenge, with much greater emphasis being placed on African policy-makers to meet the resulting challenges.

African policy-makers have an opportunity to address the absence of an African-based institutional structure. They can do this by advancing a coordinated response that links rapid liquidity access through the AFSM with nationally calibrated fiscal rules under the ASGP, grounded in African institutions, political ownership and real-world realities. Discussions could begin with a small group of willing countries piloting the approach to demonstrate credibility and build trust before wider adoption. Ensuring long-term sustainability, building transparency and, as appropriate, imposing incentives and sanctions will be central to maintaining credibility, confidence and accountability as the framework evolves.

# 3. The African Financial Stability Mechanism

The proposed African Financial Stability Mechanism (AFSM) is a liquidity facility, endorsed by the AU Assembly in 2022 (Decision 817), to provide timely, rules-based and concessional financial support to African countries that are facing macro-economic shocks.<sup>7</sup> The AFSM is designed to function as the continent’s primary rapid response instrument, bridging liquidity gaps, restoring confidence and reinforcing domestic reform efforts during fiscal distress. The credibility of the AFSM will depend on full endorsement of the liquidity mechanism by member states (most likely enshrined in a treaty) and their full commitment to the agreed eligibility criteria. Access to AFSM liquidity will be conditional on compliance with the African Stability and Growth Pact (ASGP).

Unlike traditional development finance, the AFSM is not focussed on project investment or structural reform. Its objective is to offer emergency macro-financial relief in response to exogenous shocks such as:

- Sudden loss of market access;

- Commodity price crashes;
- Global financial volatility; and
- Climate-related fiscal disruptions (e.g. post-disaster liquidity shortfalls).

### 3.1 Instruments and facility design

The AFSM will operate through a menu of liquidity tools, adapted to country risk profiles and shock typologies.

Instrument	Purpose	Description
Concessional liquidity loans	Support short-term budgets	Fast-disbursing, time-bound financing to prevent disorderly adjustment
Market support operations	Restore investor confidence	Foreign exchange liquidity, bond purchase windows or co-investment platforms
Guarantees and risk mitigation	Crowd in private capital	Credit enhancement for bond roll-over or green recovery bonds
Climate shock liquidity facility <sup>8</sup>	Buffer climate-driven budget gaps	Pre-arranged drawdown triggered by rapid-onset disasters or drought index triggers <sup>9</sup>

All disbursement mechanisms will be pre-approved based on eligibility tiers, reviewed by the joint technical committee (JTC) and governed under AU treaty provisions. To preserve agility in the face of extraordinary crises, a dedicated ‘shock response tier’ will be embedded within the disbursement framework. This tier activates in the event of force majeure events such as natural disasters, pandemics and geo-political shocks, enabling rapid rules-based access to support countries under exceptional circumstances. Governance of the shock response tier will remain under the oversight of the AU’s Specialized Technical Committee on Finance, Monetary Affairs, Economic Planning and Integration (STC on Finance), ensuring transparent and accountable application within the system.

### 3.2 Access rules and risk management

Access to the AFSM will follow a tiered eligibility framework, informed by:

- ASGP participation and commitment to fiscal transparency;
- External risk diagnostics (e.g. AfDB, APRM, UNECA); and
- Commitment to medium-term macro-stability.

A three-tiered access structure is proposed:

**Tier 1:** full access for countries that meet ASGP benchmarks and transparency thresholds.

**Tier 2:** conditional access for countries on an agreed reform path.

**Tier 3:** restricted access for countries outside the fiscal coordination framework.

This structure aims to reduce moral hazard while preserving flexibility and equity. Positive incentives alone are unlikely to be sufficient to sustain credibility. Future deliberations

could therefore examine a balanced approach that combines rewards for compliance, such as enhanced access or reputational recognition, with application of proportionate sanctions for persistent deviation, including temporary access caps or deferred eligibility.

### 3.3 Capitalisation and institutional hosting

The AFSM is proposed to be hosted by the AfDB and could be capitalised through a blended structure, including:

- Paid-in or callable capital from member states (see Annexure 8);
- SDR contributions where feasible, via prescribed holders or with AfDB credit enhancement or liquidity support mechanisms;
- African development finance institutions (DFIs) such as the African Export–Import Bank (Afreximbank), the Eastern and Southern African Trade and Development Bank (TDB) and the West African Development Bank (BOAD);
- Philanthropic and global development finance partners; and
- Possible contributions from African SWFs as voluntary anchors.

Future dialogue could explore replenishment cycles or a revolving-fund model, supported by predictable contributions and diversified foreign exchange sources. Greater transparency, including reliable and credible independent verification of the use of SDRs, SWFs, or blended finance, would reinforce accountability and build trust while preserving African ownership.

### 3.4 Integration with the ASGP

The AFSM is linked with but not subordinated to the African Stability and Growth Pact. ASGP participation is regarded as a means to enhance access and credibility. This relationship is governed by:

- Joint review mechanisms via the JTC;
- Legal linkages in loan agreements and peer review frameworks; and
- Waiver pathways that can be used to allow access during exceptional crises, with the extent of available liquidity being dependent on a country's ASGP compliance status.

Access to AFSM support would be expected to align with a country's demonstrated commitment to the ASGP framework. Participation in the ASGP, or credible progress towards it, would be a core aspect of the eligibility assessment for AFSM resources.

## 4. The African Stability and Growth Pact

The African Stability and Growth Pact (ASGP) is a proposed fiscal coordination framework under development to support responsible, transparent and nationally owned fiscal governance across the continent. It responds to the absence of a continent-wide peer review platform for macro-fiscal performance and aims to build mutual confidence among member states, investors and development partners.

Unlike traditional convergence pacts, the ASGP does not impose uniform targets. Instead, it enables countries to define context-specific fiscal rules, commit to medium-term sustainability pathways and engage in regular African peer review. As noted in Section 3, access to AFSM financial resources will be calibrated according to the strength of an eligible country's commitment to fiscal transformation pathways.

The ASGP is currently at a consultative stage, with technical inputs from the CABRI, the APRM, the AfDB and UNECA. Its formalisation would eventually require AU treaty endorsement.

## 4.1 Core design features

The ASGP operates on five design principles.

Principle	Description
National tailoring	Countries define their own fiscal rules based on the macro context, volatility and their political economy
Peer accountability	The APRM and the CABRI lead performance reviews, supported by the AfDB and UNECA analytics
Transparency	National medium-term expenditure frameworks (MTEFs), budget execution data and fiscal frameworks form the basis of review
Flexibility in case of exposure to shocks (including climate events)	Rules may include time-bound carve-outs (e.g. up to 2% of GDP), during which countries undertake resilience investment, with recovery paths
Access incentives	Strong ASGP performance increases access to AFSM liquidity and market support

This framework supports responsible borrowing without forcing austerity and prioritises trust over conditionality. While peer accountability is vital, consistent reporting and comparable data remain a challenge. Future discussions will need to explore how the APRM and the CABRI, with support from UNECA and the AfDB, might align reporting templates and, as needed, apply independent validation to strengthen credibility.

## 4.2 Differentiated fiscal rule tiers

To reflect Africa's diversity, the ASGP proposes a tiered fiscal framework, ranging from binding deficit or debt limits for reform-mature countries to more flexible anchor-based benchmarks and adjustment paths for higher-risk states. This avoids a one-size-fits-all approach and allows calibration to country capacity, volatility and risk exposure.

Tier	Fiscal rule type	Intended for
1	Deficit and debt ceilings (e.g. 3% and 60–70% of GDP) – closer to binding fiscal rules	Low-risk or reform-mature countries
2	Structural fiscal balance or fiscal effort rules – anchor-based guidance with some flexibility	Moderate-risk or resource-dependent countries
3	Custom adjustment frameworks tied to debt sustainability analysis (DSA) and IMF programmes – performance anchors tied to DSA	High-risk or debt-distressed countries

Rather than imposing external benchmarks, the proposed fiscal framework builds on the periodic assessment of performance. Review outcomes are used to assess policy credibility and to inform access to the African Financial Stability Mechanism (for detailed rule templates, see Annexure 3).

### 4.3 Institutional delivery and timeline

The ASGP will be implemented through existing African institutions:

- **CABRI** will support ministries of finance in designing and operationalising fiscal rules;
- **APRM** will lead the peer review process, including annual performance assessments; and
- **AfDB and UNECA** will provide modelling, debt diagnostics and risk scenario planning, including for climate risks.

The roll-out will follow a phased approach:

**Phase 1: piloting (2025–2027).** A core group of countries adopt and peer review each other's fiscal frameworks.

**Phase 2: review and refinement (2028–2030).** Feedback loop integrated and fiscal dashboards developed.

**Phase 3: AU treaty endorsement (post 2030).** ASGP formalised under AU legal framework, with incentives tied to AFSM access.

### 4.4 The strategic value of the ASGP

The African Stability and Growth Pact helps close the gap between **sovereignty** and **coordination**. By giving countries space to define credible rules, it encourages:

- Predictable macro-economic management;
- Transparent and non-punitive monitoring;
- A clear pathway to restore credibility after crises; and
- Political recognition of good fiscal governance.

The ASGP also enhances Africa's agency in shaping fiscal norms that reflect continental realities while simultaneously providing a platform for future integration with global frameworks. For example, the IMF's Rapid Credit Facility and Extended Credit Facility or the Group of Twenty's (G20) Common Framework for Debt Treatments.

The ASGP's success will hinge on political and market incentives. Recognition of compliant countries through AU platforms, peer review reports and/or improved AFSM access could serve as strong motivators. Demonstrated adherence as well as withdrawal of support and application of sanctions in cases of non-compliance will strengthen credibility and investor confidence. Future discussions could explore how credit-rating agencies and multilateral partners might contribute by recognising ASGP compliance as a positive signal of fiscal stability and by sanctioning countries that fail to sustain their compliance.

## 5. Strategic use of special drawing rights and blended finance: Distinguishing AFSM and ASGP capitalisation needs

Securing adequate, predictable and diversified capital for the African Financial Stability Mechanism (AFSM) is essential to its credibility and success. Given the fiscal constraints that many AU member states face, a creative and phased approach is required, grounded in practical instruments, flexible resource sources and realistic expectations.

AFSM capital must be structured in foreign exchange and sourced from stable and recognisable mechanisms. The facility can draw on a blend of SDRs, hard currency contributions from member states, potential allocations from African SWFs with external holdings, and concessional finance from development partners. Together, these elements can form a scalable, risk-aware capital base that is capable of responding to external shocks.

Importantly, Africa's economic heterogeneity offers an opportunity for risk diversification in the AFSM portfolio. Countries with varying economic exposures, such as those reliant on different commodity exports or possessing different levels of macro-fiscal resilience, create a natural buffer when pooled. This will enhance the facility's ability to manage liquidity risk. Nevertheless, the AFSM's design must remain alert to the limits of pooled financing in the event of systemic or region-wide shocks that strain all members concurrently.

While this section focusses primarily on building the external foreign exchange base for the AFSM, it also highlights complementary instruments that can help member states achieve broader fiscal sustainability under the African Stability and Growth Pact (ASGP). These include domestic capital market deepening, guarantees to crowd in institutional investors, and targeted risk-sharing structures – tools that are vital to long-term fiscal stability but not appropriate for capitalising the AFSM itself.

The sub-sections that follow distinguish between these two funding objectives and outline appropriate tools for each one.

### 5.1 Financing the African Financial Stability Mechanism

The AFSM is designed to provide member states with access to rapid and predictable liquidity in response to external shocks. As a result, its capital base must be held in **foreign exchange**. Key sources include:

- **Special drawing rights:** SDRs are ideally suited to serve as *core capital* for the AFSM. Their nature as reserve assets, their non-debt liabilities and their global recognition make them appropriate for macro-liquidity purposes. Recent global reallocations of SDRs offer a strategic opportunity to anchor the AFSM's capitalisation.
- **Hard currency member contributions:** member states can complement SDRs by making paid-in capital contributions in hard currency, possibly structured according to quotas, GDP share or vulnerability criteria.
- **Sovereign wealth funds:** some African SWFs manage assets in foreign currency. Their participation through strategic allocations to the AFSM can align sovereign investment with regional resilience objectives.

- I **Concessional or blended finance from development partners:** external DFIs may contribute through foreign exchange-based capital instruments, supporting the AFSM's liquidity goals and acting as early confidence-builders.

**Note:** SDRs in this context serve as core, not merely catalytic, capital. Their role is not to mobilise other sources but to form the backbone of the AFSM's balance sheet.

## 5.2 Supporting the African Stability and Growth Pact through domestic resource mobilisation

In contrast, the ASGP focusses on helping countries reduce fiscal and debt vulnerabilities through stronger domestic resource mobilisation. While not a source of liquidity for the African Financial Stability Mechanism, this track is vital to strengthening fiscal resilience and reducing overreliance on external borrowing. Relevant financing tools include:

- I **Local-currency debt market deepening:** enhancing domestic debt-issuance frameworks and diversifying measures (e.g. longer tenors, inflation-linked bonds) can enable governments to meet ASGP targets without increasing foreign exchange exposure.
- I **Partial credit guarantees and first-loss structures:** these can help attract domestic institutional investors (e.g. pension funds, insurance companies) to sovereign and sub-national issuance, supporting broader fiscal sustainability.
- I **Green and thematic guarantee facilities:** mechanisms such as the Green Guarantee Company can enable climate-aligned public investment and ease compliance with ASGP thresholds, particularly in fiscally constrained contexts.
- I **Innovative blended finance platforms:** these may include sub-sovereign finance facilities or pooled vehicles tailored for priority infrastructure, health or education investments that align with ASGP indicators.

**Note:** These tools deepen domestic markets and support fiscal authorities but are not suitable to capitalise the AFSM, whose operations require external liquidity. It will be important to maintain a clear distinction between financing for the AFSM and the domestic resource initiatives that underpin the ASGP. The former relies on foreign exchange reserves for liquidity support, while the latter focusses on strengthening fiscal sustainability through local-currency instruments and market development. Keeping this distinction clear will help prevent expectations that one facility can serve both functions.

## 5.3 Conclusion: A dual-track finance strategy for resilience

No single source, SDRs, SWFs or concessional finance can independently meet Africa's evolving financial needs. However, a coordinated dual-track financing approach ensures that the AFSM is underpinned by foreign exchange-based reserves while the ASGP is supported through robust domestic resource mobilisation. Distinguishing these pathways enables African policy-makers and partners to tailor tools to the nature of the challenge – external shock liquidity versus long-term fiscal sustainability.

## 6. Operationalising the AFSM–ASGP nexus

The African Financial Stability Mechanism and the African Stability and Growth Pact are designed to function as mutually reinforcing components of a credible, African-owned macro-economic safety net. While each instrument has its own logic and institutional pathway, their integration is essential to ensuring that short-term crisis support (through the AFSM) is deployed in ways that encourage responsible fiscal behaviour and reduce future vulnerability.

This section presents a roadmap for linking the two instruments through a simple, enforceable and scalable operational model while recognising the need for flexibility in implementation and respect for country-level differences.

### 6.1 Mutual reinforcement: Why integration matters

The AFSM–ASGP nexus is based on incentive alignment:

- The AFSM offers timely, concessional liquidity to countries in crisis; and
- The ASGP establishes nationally tailored fiscal paths to ensure responsible budget management and reduced vulnerability.

When integrated, these frameworks:

- Reduce moral hazard;
- Increase creditor and investor confidence; and
- Build regional ownership of macro-economic stability.

Future dialogue could explore how fiscal credibility might translate into tangible benefits, such as faster access to support countries or improved investor confidence.

### 6.2 Eligibility framework for AFSM access

AFSM access should be linked to ASGP participation and performance but in a way that avoids rigid conditionality. A tiered access model is proposed.

Tier	Access conditions	Available tools
1. Full ASGP compliance	Meet fiscal rules and reporting standards	Full access: refinancing, market interventions, guarantees, climate windows
2. Partial compliance	Minor deviations, with a credible adjustment plan	Limited access: capped support, technical assistance, reform-linked lending
3. Non-compliance or no ASGP participation	Persistent rule breaches or no engagement	Ineligible for AFSM support, with consideration given to humanitarian or emergency crises

This model creates incentives and ensures that access decisions are linked to progress relative to a country's own external adjustment and fiscal plans, not an externally imposed

standard. The extent of access will depend on the credibility and level of ambition enshrined in a country's fiscal plans. It will be important to be fully transparent about the criteria for how eligibility for liquidity support is assessed and implemented.

### 6.3 Institutional governance architecture

To avoid coordination fatigue, the nexus will rely on a streamlined structure:

#### Joint technical committee (JTC)

A single lean committee will be mandated to review ASGP progress reports, assess country access eligibility and advise the AU STC on Finance. Its membership will include representation from the:

- African Union Commission (AUC)
- AfDB
- APRM
- CABRI
- UNECA

#### Technical secretariat

Hosted by the AU or the AfDB, this secretariat will:

- Coordinate information and country communications;
- Interface with AFSM and ASGP operational units; and
- Maintain the performance dashboard and AFSM access registry, which records country eligibility, utilisation history and outstanding obligations in line with agreed disbursement rules.

#### Country engagement

No new platforms are created. Ministries of finance will engage through:

- The existing AU STC on Finance; and
- Peer learning channels supported by the APRM, the CABRI and the AfDB.

This approach respects sovereignty, minimises costs and ensures clear lines of accountability. Whether the secretariat is placed in the AU, the AfDB or a hybrid arrangement, the focus should be on efficiency, coordination and transparent accountability, rather than on creating new institutional layers. Technical expertise could be pooled from existing African institutions as needed, avoiding duplication and ensuring continuity.

### 6.4 Legal and operational linkages

To ensure coherence between the AFSM and the ASGP:

- **Compliance is defined** as alignment with a country's nationally agreed fiscal trajectory (e.g. MTEF and ASGP peer-reviewed benchmarks), not a universal rulebook;

- **AFSM treaties and policy documents** will reference ASGP engagement as an eligibility factor, without requiring harmonisation;
- **Loan agreements** may include clauses linking disbursement to transparency, eligibility rule application and reporting; and
- **Waiver mechanisms** will be governed by the AU STC on Finance, allowing flexibility in cases of severe shocks due to factors such as climate events, conflict and humanitarian need.

These measures ensure institutional credibility while protecting local adaptation and flexibility.

## 6.5 Phased roll-out

A sequenced approach is recommended:

### Phase 1: piloting (2025–2027)

- Five–seven countries pilot the integrated model;
- Peer reviews published; and
- Access procedures tested and refined.

### Phase 2: institutionalisation (2028–2030)

- Formal AU endorsement of the joint model;
- ASGP treaty instruments finalised; and
- AFSM access rules integrated into AU policy infrastructure.

Risk mitigation measures include:

Risk	Mitigation strategy
Politicisation of fiscal compliance assessments	Transparent rules, third-party review via UNECA or the APRM
Weak national data systems	Capacity building via CABRI and AfDB country programmes
Asynchronous policy cycles (e.g. election years)	Rolling average compliance metrics to smooth year-on-year volatility and incorporate escape clauses to allow temporary deviation during well-defined exceptional events <sup>10</sup>
Resistance from non-participating regional economic communities (RECs)	Alignment with regional fiscal frameworks and recognition of divergent national fiscal pathways

## 6.6 Conclusion: A coordinated system for African resilience

The integrated AFSM–ASGP framework is a pragmatic, African-led response to the continent’s recurrent fiscal shocks and structural vulnerabilities. It provides a two-pillar architecture: the African Financial Stability Mechanism as a **rules-based liquidity backstop**, and the African Stability and Growth Pact as a **fiscal discipline framework** tailored to country circumstances. Together, these instruments aim to link the provision of liquidity by the AFSM with preservation of its institutional integrity and credibility.

A well-integrated AFSM–ASGP system can transform Africa’s crisis response landscape from fragmented firefighting to coordinated, rules-based resilience. If implemented with trust, simplicity and flexibility, this nexus will:

- Improve access to liquidity without undermining discipline;
- Encourage early reform rather than delayed rescue; and
- Reinforce institutional cooperation within an African-owned macro-economic governance framework.

Ultimately, this integrated approach signals Africa’s readiness to manage its own financial stability in a coordinated, accountable and forward-looking manner. It reflects a collective ambition to replace fragmented crisis responses with a system anchored in trust, discipline and shared responsibility – a foundation for future resilience and economic sovereignty.

## 7. Impact measurement and accountability

For the AFSM–ASGP framework to succeed, it must deliver visible, measurable value, not just in terms of managing external shocks and fiscal compliance but also in political credibility, market impact and institutional trust. Yet designing a monitoring system that is both rigorous and accessible to a broad range of decision-makers requires striking a balance: too much complexity could undermine implementation, while too little detail could weaken legitimacy.

### 7.1 What success looks like

Success should be judged on both direct and catalytic outcomes.

**For the AFSM**, key metrics include:

- Speed of disbursement in response to shocks;
- Number of countries accessing liquidity without delay;
- Reduced market spreads for programme countries (before and after access); and
- Avoidance of disorderly default or debt distress and/or untoward drain on foreign exchange reserves during crisis events.

**For the ASGP**, key metrics include:

- Adoption of tailored fiscal rules at national level;
- Improved budget credibility (e.g. measured through variance between planned versus actual spending);
- Regularly published peer-reviewed compliance reports; and
- Increased domestic and external investor confidence (e.g. sovereign ratings, bond issuance trends).

These indicators reflect internal policy discipline as well as external validation.

## 7.2 Institutional ownership of monitoring

Impact measurement must remain anchored in African institutions, not external evaluators. The following actors are proposed:

- **CABRI:** tracks budget credibility, fiscal rule application and expenditure trends.
- **APRM:** publishes peer review outcomes, risk ratings and compliance dashboards.
- **AfDB:** supports financial and macro-economic diagnostics, including simulations of policy impact.
- **UNECA:** leads longitudinal tracking and cross-country comparisons.

These partners would publish an annual 'State of Fiscal Resilience' report that summarises ASGP performance, AFSM access patterns, and regional risks. The emphasis would be on sharing data, lessons and results to create a collective understanding of progress towards stability and growth.

## 7.3 Market signalling and global credibility

The ultimate test of the AFSM–ASGP impact will be how it shifts perceptions in capital markets and policy circles. Key signals include:

- Rating agency recognition of ASGP compliance as a stabilising factor;
- Improved debt terms or spread compression post AFSM access; and
- Greater willingness of multilateral banks and donors to co-invest or guarantee sovereign debt.

A simple dashboard of these macro signals can be included in public communications, showing that Africa's institutions are not just operating but also performing well. Periodic validation of aggregate results by neutral African or third-party global institutions could further strengthen confidence in reported outcomes while maintaining African ownership.

## 7.4 Citizen visibility and public trust

For these reforms to gain democratic legitimacy, citizen-facing tools must also be considered:

- APRM scorecards should be made publicly accessible;
- Fiscal dashboards should be translated into short, plain-language summaries for national parliaments and civil society; and
- Countries that perform well could receive positive recognition at AU summits, building political capital for reform champions.

Where possible, divergence from agreed fiscal reform pathways should be transparently explained to improve public understanding of fiscal trade offs. For example, reflecting climate-linked flexibility, such as the sanctioning investments in climate resilience under the ASGP.

## 7.5 Avoiding overengineering: A caution

While measurement is essential, it must not paralyse the system. The following principles apply:

- I Only a **core set of indicators** will be tracked for access and performance;
- I Peer review will rely on **existing data systems**, not new reporting burdens; and
- I Evaluation will be used for **learning and signalling**, not punishment.

The goal is accountability with simplicity – not complexity without purpose.

## 7.6 Conclusion: Making progress visible and political

For too long, Africa's macro-economic credibility has been judged by others. The AFSM and the ASGP offer a path to self-defined, peer-owned performance, grounded in Africa's institutions and calibrated to its realities.

By linking liquidity with discipline, and visibility with trust, this framework can:

- I Prevent future crises;
- I Strengthen market confidence;
- I Build political momentum for reform; and
- I Prove that African leadership in macro-economic governance is not just possible but also already underway.

## 8. Annexures

### Annexure 1: Definitions of core concepts

Term	Definition
African Financial Stability Mechanism (AFSM)	A proposed AU-endorsed liquidity facility that is intended to operate under clear, rules-based arrangements and to evolve towards a treaty footing over time. Hosting arrangements remain under discussion, with the AfDB among the options, owing to the bank's strong balance sheet and rating. Instruments include refinancing loans, market interventions and guarantees.
African Stability and Growth Pact (ASGP)	A proposed fiscal coordination framework under development to support credible, nationally tailored fiscal paths for African countries. It promotes discipline through differentiated fiscal rules and peer accountability but does not aim for fiscal harmonisation.
Fiscal rules (tiers 1–3)	Differentiated fiscal frameworks based on country risk profiles. Tier 1 indicates low-risk countries, with standard deficit or debt targets. Tier 2 indicates moderate-risk countries, with flexible rules. Tier 3 indicates high-risk or distressed states, with corrective plans.
Compliance (in the ASGP context)	A country's progress in adhering to its own nationally defined fiscal path, as reviewed through the ASGP's peer mechanism – not a uniform rule applied across all states.
Liquidity shock	A sudden and temporary disruption to a country's financial system or fiscal capacity, often triggered by exogenous events such as commodity price swings, climate disasters or global interest rate changes.
Regional financing arrangement (RFA)	A regional institution designed to provide emergency liquidity to member countries in times of crisis. Examples include Latin America's FLAR, Asia's CMIM and Europe's ESM. The AFSM would serve as Africa's RFA.
Special drawing rights (SDRs)	An international reserve asset created by the IMF and allocated to member countries. SDRs can be rechannelled to support development or crisis response through prescribed holders or trust arrangements.
Moral hazard	A situation where countries (or creditors) take on excessive risk, believing they will be bailed out. The AFSM–ASGP nexus is designed to reduce both debtor and creditor moral hazard through incentive-compatible access rules.
Climate-linked fiscal flexibility	A carve-out in ASGP fiscal rules allowing temporary, pre-approved deviation (e.g. up to 2% of GDP) for climate resilience investments or emergency climate response – subject to return-to-sustainability plans.
Peer review (APRM role)	A structured process through which African countries assess each other's fiscal performance, reform progress and transparency. Used in the ASGP to enhance accountability without imposing sanctions.

## Annexure 2: Peer comparison – the AFSM versus global RFAs

Feature	Latin America	Asia	Europe	Africa (proposed)
	Latin American Reserve Fund (FLAR)	Chiang Mai Initiative Multilateralisation (CMIM)	European Stability Mechanism (ESM)	African Financial Stability Mechanism (AFSM)
Legal basis	Treaty-based reserve fund	Multilateral swap arrangement	Intergovernmental EU treaty	AU treaty-based, with AfDB hosting
Institutional host	FLAR secretariat in Bogotá	The Association of Southeast Asian Nations Plus Three (ASEAN+3) Macroeconomic Research Office (AMRO)	ESM headquarters in Luxembourg	Execution by the AfDB and oversight by the AU
Capitalisation	Paid-in capital from members	Pooled commitments (swap lines)	Paid-in and callable capital	Mixed: paid-in capital, callable capital, SDRs and DFIs
Size (approximate)	US\$7.8 billion	US\$240 billion	€500 billion	Initial target of US\$15–25 billion
Instruments offered	Loans (balance-of-payments support)	Currency swaps	Loans, guarantees, bank recap tools	Loans, guarantees, market operations, climate shock liquidity
IMF collaboration	Optional (not linked)	The first 30% is IMF independent; the rest requires programmes	Closely integrated	Linked via IMF principles (not dependent)
Surveillance role	Limited	Conducted by AMRO	Extensive fiscal or structural oversight	Joint monitoring by the AU, APRM, CABRI
Disbursement speed	Moderate	High (swap-based)	High (conditional)	Rapid liquidity support targeted
Unique characteristics	Longstanding South–South model	Asian regional integration with sovereign risk pooling	Deepest fiscal integration model	African-owned, climate-responsive, embedded in the AU treaty system

## Annexure 3: Draft fiscal rule templates by tier

The African Stability and Growth Pact (ASGP) proposes a tiered rule structure to reflect the diversity of economic conditions, institutional capacities and fiscal risks across African countries. The table below provides illustrative templates for each tier.

Tier (illustrative)	Country characteristics	Example fiscal anchor	Flexibility or climate clause	Monitoring and review tool	Discussion prompts
1. Advanced	Countries with established fiscal frameworks, credible debt management and regular publication of fiscal data	Structural or cyclically adjusted balance rule (e.g. within about 1% of GDP)	Automatic escape clause for major shocks, allowing temporary fiscal flexibility for resilience or recovery spending (up to 1.5% of GDP)	APRM review, national fiscal councils, medium-term frameworks	How can rules balance counter-cyclical policy and credibility?
2. Intermediate	Countries transitioning from numerical to rules-based frameworks, building debt transparency and MTEFs	Primary balance target (e.g. less than 3% of GDP deficit)	Temporary deviation clause for resilience or reconstruction spending in response to shocks	CABRI-supported fiscal templates, IMF Article IV	What incentives sustain reforms during transition?
3. Foundational	Countries with nascent fiscal systems, limited data or high debt vulnerability. Initial emphasis on reporting and fiscal anchor design	Basic debt-to-GDP ceiling (e.g. 70%) or expenditure rule	Case-by-case flexibility during major shocks	Annual budget execution reports, AfDB technical support	How can early adopters build credibility while improving data and systems?

**Note:** These templates are intended to stimulate dialogue on different pathways to stronger fiscal governance, without imposing uniform standards or benchmarks. During future ASGP consultations, they could serve as a practical reference for:

- Comparing how countries integrate fiscal flexibility for resilience within their anchor frameworks;
- Identifying the progressive steps needed to move from foundational to advanced levels of credibility; and
- Facilitating peer learning on how to balance fiscal rules, discretion and credibility in diverse national contexts.

## Annexure 4: SDR channelling options for the AFSM

Option	Mechanism	Key features	Legal and operational feasibility	Transparency or verification considerations	Discussion prompts
1. Through the AfDB as a prescribed holder	Requires IMF designation; the AfDB would receive and on-lend SDRs under existing governance	Builds on the AfDB's AAA rating and credit framework	Moderate: would need IMF Executive Board approval	AfDB financial statements and independent audit already in place	What additional reporting assurances might countries require?
2. Through a dedicated SDR liquidity trust	SDRs pooled in a trust co-governed by the AU and the AfDB	Allows joint African oversight	Moderate to complex: requires new legal instrument and trust management capacity	Would require annual disclosure and external evaluation	How can governance avoid duplication with IMF or AfDB mechanisms?
3. Through an AU special purpose fund	The AU establishes an SDR-receiving facility backed by AfDB technical support	Strengthens AU ownership	Complex: the AU is not currently a prescribed holder; would need enabling arrangement	Transparency standards would need to be designed from scratch	What benefits would justify creating a new legal entity?
4. Through a hybrid model (AfDB hosting with AU oversight)	Combines AfDB financial management with AU policy oversight	Balances credit rating and political legitimacy	Feasible: can operate under the AfDB Treasury umbrella	Leverages AfDB reporting plus AU peer review visibility	How can responsibilities be clearly delineated to prevent overlap?

**Note:** Each pathway presents trade offs between legal feasibility, operational readiness and political ownership. AfDB-anchored models provide faster implementation and stronger credit ratings, while AU-led models offer greater continental visibility and alignment with treaty-based governance. A blended or hybrid approach could serve as a transitional step: SDRs could initially be channelled through the AfDB under AU policy oversight while longer-term options for a treaty-based African reserve facility are developed.

## Annexure 5: Institutional roles matrix

This matrix outlines the roles of key African institutions that would be involved in the operationalisation, monitoring and governance of the African Financial Stability Mechanism (AFSM) and the African Stability and Growth Pact (ASGP).

Institution or platform	Core function	Potential role in the AFSM	Potential role in the ASGP	Market signalling and results communication	Discussion prompts
African Union Commission (AUC)	Political and policy leadership	Provides continental mandate, oversight via AU policy organs and STCs	Endorses and coordinates member state fiscal frameworks under the ASGP	Issues annual communication highlighting member achievements; promotes visibility at AU summits	How can the AUC maintain oversight without duplicating AfDB operational functions?
African Development Bank (AfDB)	Financial and operational execution	Potential host or treasury manager for the AFSM; ensures prudential management and credit integrity	Provides analytical support on fiscal rules and capacity building	Publishes summaries of financial statements and performance updates; co-chairs communication with investors and rating agencies	What reporting rhythm balances transparency with confidentiality?
Collaborative Africa Budget Reform Initiative (CABRI)	Fiscal policy and expenditure management network	–	Supports fiscal-rule calibration, budget transparency and country-level diagnostics	Contributes data for dashboards and policy briefs; highlights reform progress	How can CABRI's national-level insights inform continental review without overburdening ministries?
African Peer Review Mechanism (APRM)	Peer review and governance evaluation	Integrates AFSM and ASGP participation into governance scorecards	Facilitates voluntary peer assessments of fiscal credibility and governance	Communicates peer review findings to political leaders and citizens through AU channels	How can APRM results be linked with AFSM eligibility signalling?
United Nations Economic Commission for Africa (UNECA)	Economic research and data harmonisation	Provides macro-economic analytics and modelling to support AFSM liquidity triggers	Develops shared data definitions and fiscal indicators	Maintains a regional economic database that is accessible to all stakeholders	How can data harmonisation improve credibility without creating new reporting layers?

Regional economic communities (RECs)	Sub-regional coordination	Act as conduits for sub-regional fiscal cooperation and liquidity-sharing pilots	Facilitate harmonisation of fiscal-rule frameworks across member blocs	Disseminate success stories and lessons through REC summits	Which RECs could be early adopters for regional pilots?
African peer learning platforms such as the Macroeconomic and Financial Management Institute of Eastern and Southern Africa (MEFMI) and the African Tax Administrative Forum (ATAF)	Capacity building and training	Support financial risk management and debt sustainability analysis (DSA) for AFSM participants	Offer training on fiscal-rule implementation and monitoring	Publish periodic technical notes or learning reports	How can training be aligned with national reform timetables?

## Annexure 6: What the AFSM–ASGP framework is not

What it is not	What it actually is
A fiscal harmonisation pact	The ASGP supports nationally tailored fiscal paths, not standardised deficit or debt targets across countries.
A monetary union framework	There is no plan for currency unification. The framework is focussed on fiscal governance and liquidity, not monetary integration.
A climate investment vehicle	The AFSM provides short-term liquidity during climate-induced shocks but does not finance long-term climate adaptation or infrastructure projects.
A parallel IMF	The AFSM is designed to complement IMF and multilateral efforts, not to replace them. It is aligned with IMF RFA collaboration principles.
A compliance-driven surveillance regime	The ASGP is based on peer review and voluntary compliance, not top-down conditionality or sanctions.
A short-term aid mechanism	Both instruments are designed to improve medium-term macro-fiscal resilience, not provide one-off bailout funds.
A complex new bureaucracy	Governance is intentionally streamlined: one JTC, one secretariat, and use of existing AU mechanisms.
A duplicative funding platform	The AFSM is complementary to the AfDB and African DFIs, and designed to unlock co-financing, not compete with other institutions.

**Note:** The AFSM–ASGP framework is an African-led, AU-backed response to recurring fiscal shocks – designed to reward fiscal responsibility, enable timely crisis support and strengthen macro-economic sovereignty through trust and peer accountability.

## Annexure 7: Proposed institutional pathways for the AFSM

Option	Description	Advantages	Disadvantages	RFA recognition potential
1. Treaty-based organisation	New AU treaty establishes the AFSM, ratified by member states (e.g. the African Continental Free Trade Area (AfCFTA) and the African Monetary Fund (AMF))	<ul style="list-style-type: none"> <li>• High political legitimacy and binding commitments</li> <li>• Strong enforceability of contributions and rules</li> <li>• Aligns with global RFAs (e.g. ESM, FLAR)</li> </ul>	<ul style="list-style-type: none"> <li>• Very slow ratification</li> <li>• Requires large paid-in capital</li> <li>• Risk of delay (AMF still pending since 2014)</li> </ul>	High: full recognition as an RFA once operational
2. AfDB-hosted facility	Dedicated AFSM liquidity window within the AfDB, leveraging AfDB's capital and AAA rating	<ul style="list-style-type: none"> <li>• Fast to operationalise under AfDB charter</li> <li>• Strong market credibility</li> <li>• Avoids treaty delays</li> </ul>	<ul style="list-style-type: none"> <li>• Weaker AU ownership perception</li> <li>• Seen as AfDB product, not pan-African</li> </ul>	Medium: could function as a de facto RFA, but treaty upgrade is needed for full status
3. AU specialised fund	AFSM established as AU financial fund via AU Assembly decision; not a full treaty	<ul style="list-style-type: none"> <li>• Strong AU political anchoring</li> <li>• Faster than a treaty</li> <li>• Retains continental legitimacy</li> </ul>	<ul style="list-style-type: none"> <li>• Limited enforceability of contributions</li> <li>• Credit rating relies on external partners</li> </ul>	Medium: AU mandate supports recognition, but has weaker legal footing than a treaty
4. RFA-type mechanism (contractual)	AFSM structured as contractual arrangement among willing states (like the CMIM before 2010)	<ul style="list-style-type: none"> <li>• Allows coalition of those willing to proceed</li> <li>• The IMF may recognise it as an RFA</li> <li>• Flexible and scalable</li> </ul>	<ul style="list-style-type: none"> <li>• May fragment AU ownership</li> <li>• Less enforceability without a treaty</li> </ul>	Medium-high: recognised as RFA if rules-based and peer-enforced

**Note:** The proposed institutional pathways for the AFSM intend to balance speed of implementation with political legitimacy and market credibility.

## Annexure 8: Capitalisation pathway options for the AFSM

Instrument	Description	Advantages	Disadvantages or risks	Implications for the AFSM
Paid-in capital	Cash contributions deposited upfront by AU members, partners or SDR reallocations	<ul style="list-style-type: none"> <li>• Strongest base for credibility</li> <li>• Immediately available for lending</li> <li>• Counts fully in equity ratios</li> </ul>	<ul style="list-style-type: none"> <li>• Costly for fiscally constrained members</li> <li>• Hard to mobilise at scale (ODA fatigue)</li> <li>• Requires significant upfront commitment</li> </ul>	Provides the most solid foundation but likely limited in scale; may need phased contributions and SDR rechanneling
Callable capital	Legally binding commitments to provide funds if needed; not paid upfront	<ul style="list-style-type: none"> <li>• Boosts leverage with rating agencies</li> <li>• Can multiply lending capacity</li> <li>• Common in multilateral development banks (MDBs) (e.g. AfDB, World Bank)</li> </ul>	<ul style="list-style-type: none"> <li>• Donor appetite declining (post 2008 crisis, ODA cuts)</li> <li>• Weak if guarantors' own ratings are low</li> <li>• International Development Association (IDA) and African Development Fund (ADF) replenishments show recent shortfalls</li> </ul>	Overreliance could undermine credibility, given Africa's sovereign credit profiles; callable capital needs to be balanced with other sources
Non-sovereign capitalisation	Resources from African pension funds, SWFs, insurers and central banks	<ul style="list-style-type: none"> <li>• Taps into Africa's growing institutional capital</li> <li>• Strengthens ownership beyond governments</li> <li>• Diversifies risk and reduces donor dependency</li> </ul>	<ul style="list-style-type: none"> <li>• Requires attractive risk-return instruments</li> <li>• Needs legal structures to allow participation</li> <li>• Investors would be cautious without guarantees</li> </ul>	Could provide a politically powerful signal of African ownership; requires structuring hybrid instruments (e.g. guaranteed notes)
Innovative instruments	Hybrid capital, guarantees, SDR-backed notes, concessional windows with blended finance	<ul style="list-style-type: none"> <li>• Attracts diverse funders (DFIs, philanthropies)</li> <li>• Tailored to market appetite</li> <li>• Increases flexibility</li> </ul>	<ul style="list-style-type: none"> <li>• Complexity in structuring</li> <li>• May need credit enhancement</li> <li>• Higher transaction costs</li> </ul>	Allows the AFSM to scale creatively while traditional donor flows remain constrained
Phased capitalisation	Start small with limited paid-in capital, build track record, then scale callable or non-sovereign capital over time	<ul style="list-style-type: none"> <li>• Realistic, given fiscal constraints</li> <li>• Builds credibility gradually</li> <li>• Reduces upfront political resistance</li> </ul>	<ul style="list-style-type: none"> <li>• Limits scale of initial operations</li> <li>• Requires careful signalling to markets</li> <li>• Risk of under-capitalisation in early years</li> </ul>	Pragmatic path: launch early with modest scale, then expand once credibility is established

## Annexure 9: Consultation synthesis – key questions and feedback

Theme or question raised by stakeholders	Underlying concern or issue	Summary of feedback or perspective provided	Reflected or addressed in the revised paper
1. Credibility and feasibility of fiscal framework	Whether uniform fiscal targets are realistic across diverse economies	Broad agreement that fiscal rules should be nationally calibrated, not standardised. Countries preferred flexibility with peer learning	Annexure 3 revised to clarify tier structure and stress 'nationally tailored fiscal rules'
2. AFSM eligibility and conditionality	Fear that eligibility might become coercive or IMF-style	Participants supported a voluntary, incentive-based link between ASGP participation and AFSM access	Section 6 revised to show linkage as 'incentive-enhancing rather than conditional'
3. Phased implementation and pilot approach	Concern over launching a complex mechanism simultaneously across all countries	Strong endorsement for a pilot phase involving willing countries to test design and credibility	Incorporated into sections 3 and 6 and Annexure 8: 'start small – demonstrate value'
4. Transparency and independent verification	How to ensure trust without excessive reporting	Support for light, third-party validation of results using existing African institutions (AfDB, UNECA)	Added across sections 3.3, 5.1, 7.3 and in Annexure 4: 'avoids duplication with IMF processes'
5. Institutional coordination	Risk of duplication between the AU, AfDB, CABRI, APRM and UNECA	Consensus that each institution should retain its mandate with lean coordination through a JTC	Annexure 5 now includes 'coordination principles' and a roles matrix emphasising complementarity
6. Communication and market signalling	How to maintain credibility with markets and citizens	Stakeholders encouraged regular accessible reporting to investors and the public	Sections 7.3 and 7.4 and Annexure 5 updated to include 'results communication' and 'citizen visibility'
7. Political ownership and AU anchoring	How to balance AfDB operational strength with AU legitimacy	Broad preference for a hybrid approach combining AfDB hosting with AU oversight, at least in the early stages	Reflected in Section 3.3 on hosting neutrality
8. Sustainability and funding predictability	Whether resources will be reliable and replenished	Suggested periodic replenishment cycles and a revolving-fund model	Integrated into Section 5
9. Scope and boundaries	Misunderstanding that the AFSM could finance development projects	Clarified that the AFSM is a <i>liquidity</i> facility, not an investment fund	Strengthened wording in Section 1.2 and Annexure 6: 'what the framework is not'
10. Data quality and peer review capacity	Weak statistical systems may undermine credible peer assessments	Recommended harmonising templates via CABRI and APRM, with UNECA support	Added to Sections 4.1 and 4.3 as future dialogue points

# Endnotes

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- 8 While currently framed around climate-related events, the design of the climate shock liquidity facility could be adapted to encompass other exogenous shocks that are relevant to the AFSM's mandate, such as pandemics, energy price volatility and geopolitical disruptions. Similar instruments in other regions have evolved to offer broader crisis response functionality, which may be considered as the AFSM's lending toolkit matures.
- 9 Wiegand J (2023) IMF's engagement on climate issues. IMF. Available at <https://www.imf.org/en/-/media/files/about/partners/cso/imfs-engagement-on-climate-issues.pdf>
- 10 Escape clauses refer to clearly defined conditions (e.g. natural disasters, severe political instability) under which temporary non-compliance with ASGP targets is permitted, provided they are time-bound and approved through the governance framework.



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