A DEBT DISTRESS AFRICA AND HIGH SERVICING COST -

Amid falling prices of raw materials, recession, and now COVID-19, Africa is in serious trouble as debt burden grows. According to World Bank data, 18 countries are at high risk of debt distress – a number that has more than doubled since 2013 - while eight countries are already in distress. The COVID-19 pandemic has worsened the situation. The issue is not about how much debt has been accumulated, but rather the high servicing cost driven by higher borrowing rates. Since the World Health Organization declared COVID-19 a global pandemic in March 2020, countries, societies, and individuals have struggled to respond to the pandemic’s devastation of health systems, economies, trade, and human wellbeing. While Africa has been spared the pandemic’s harshest health impacts, it has absorbed a heavy economic burden. Worse, the costs of climate change, already steep for most African countries, are set to escalate dramatically in the coming years.

ACTIONAID and other civil society organizations WACSO, EACSO, SADCNGO, WACSI, TRUST AFRICA, OXFAM, CIVICUS, AFRICAN RISING, ANCEFA, are concerned of the added burden of climate loss and damage that is already costing developing countries $250 bn a year and the bill could reach $700bn a year by 2030.

There is an evident need to shake off the grip of debt and austerity policies, and dramatically expand financing for essential public services and sustainable food systems in order to recover from COVID-19 and build climate resilience: for a comprehensive health response and mass vaccination, to prevent an education crisis, dramatically expand social protection, and strengthen food security. The upcoming African Finance Ministers conference must take decisive action on these issues.

This is the time for African governments to stand united and to be proactive in calling for national, regional, and global action on financing for development. Specifically, the finance ministers should promote innovative financing for recovery and initiatives to manage emerging risk; putting in place social safety nets and other measures aimed at the most vulnerable; and partnerships to galvanize public and private investments. Other creative solutions are also on the horizon, touching on the green economy, digital disruption, and social contracts.
ActionAid International in collaboration with other Pan-African CSOs (WACSO, EACSO, SADCNGO, WACSI, TRUST AFRICA, OXFAM, CIVICUS, AFRICANS RISING, AFRODAD, ANCEFA) call on the countries of the African Union — or as many of them as possible — to demand for a broad debt cancellation. African governments can also be united in taking action to expand domestic tax revenue through ambitious and progressive tax reforms. Stopping the race to the bottom on corporate tax by agreeing a minimum rate (for example of 30%) would be transformative. In the light of Covid-19 there is also a compelling case for introducing new digital taxes, for example on big tech companies that have seen their profits rise dramatically during the pandemic.

It is an open secret that most African countries have been subjected to net financial outflows (of debt servicing related flows) since the mid-1980s. The performance of these economies, coupled with a mounting debt burden due to Covid19 and climate change, indicates that African countries are incapable of simultaneously servicing their debt, tackling the immediate social spending needs imposed by Covid19 (including mass vaccine rollouts, getting children back in school and supporting informal workers), and achieving the necessary medium-term transition to green, inclusive economies. We do understand that Servicing of external debt places an enormous fiscal pressure on African countries. Such pressure has had an adverse effect on public investment and provision of social services as is reflected in the decline in the share of public investment in GDP from late 1970s onwards as well as high level of fiscal deficit. The mechanism that makes high debt burdens such a threat to African countries and their people is, of course, the vulnerability indebted countries have to harsh loan conditions from multilateral lenders. Therefore, it is imperative that until adequate debt cancellation becomes a reality, African governments resist counter-productive conditions that reverse the gains of the last two decades and make adequate public services for the population a distant dream.

The IMF, despite the very serious crisis that COVID-19 has caused for public spending and public services, appears set to tighten the austerity conditions attached to its programs [ref: The Pandemic & the Public Sector]. These conditions, including tight restrictions on deficits, inflation, and public spending (including personnel for public services) are designed to free up funds to pay foreign creditors, with little consideration of the fate of ordinary people. African governments must be united in rejecting these conditions in the name of fulfilling the basic human rights of their people.

We applaud the demands of finance ministers to support the IMF issuing $2 trillion in Special Drawing Rights which could provide $250 billion to Africa – providing urgently needed revenue for the Covid-19 response.

In addition, we call on African finance ministers to demand broad debt cancellation to the end of 2022 and insist that if such is not forthcoming, the governments will have no choice but to initiate a collective and comprehensive “debt strike.” In negotiations, a strong hand is necessary, African unity is crucial, and your conviction about the principles at stake and consequences of ignoring them should be as powerful as the economic conditions of the African majority warrant.
AN URGENT / IMMEDIATE BOOST CAN COME THROUGH:

a) IMF issuing $2 trillion in Special Drawing Rights and facilitating an inclusive and fair allocation process ensuring that poorer countries have priority.

b) Supporting a call for debt cancellation (the present debt suspension is not enough though if cancellation is not accepted then suspension must at least extend to end of 2022 and include all creditors such as private banks, using force majeur clauses) - so governments can immediately use revenue that would have gone on debt servicing.

c) Supporting bold unilateral action on digital and corporate tax (given failure and delays of the G20 /OECD process), to tax excess profits made by big tech companies and others during COVID-19 or at least to put all African pressure on this debate to be held under the UN umbrella.

d) Demanding changes to IMF practices: whilst their rhetoric is changing the IMF must stop in practice using COVID-19 emergency loans to extract commitments for a return to fiscal consolidation / austerity - as this will lead to imminent cuts to public spending (especially on wage bills): this is the moment to explore alternatives, with investment in public services to deliver SDGs at the core.

e) Pharma companies to ensure equity in licensing to manufacturers in the global south and transparency in supply and pricing of vaccines in the crisis and to rapidly ramp up production of affordable generic vaccines.

f) There is an evident need to raise more financing for essential public services in the light of COVID-19: for a comprehensive health response, for a mass vaccination programme, to prevent an education crisis (an issue on which Senegal is a great champion) and to offer social protection.

g) Patent-free vaccines.

MEDIUM TERM REFORMS TO PREVENT FUTURE CRISES.

a. Ambitious programmes of progressive tax reforms so that countries are increasing tax to GDP by at least 1% point per year.

b. Bold reforms to global tax rules and creation of a new UN tax body.

c. A new debt works out mechanism, so countries are not forced to turn to the IMF and accept their (unacceptable) loan conditions.

d. Urge governments to invest in clean and more sustainable green energy and speed up the transition away from fossil fuels.
PARTNERSHIP WITH PAN-AFRICAN CSOS

a. To jointly undertake a comprehensive debt audit at national level to critically examine the nature, purpose, terms and conditions, actual use of loans and the impact of loan-supported policies and programs, review and changes in the lending and borrowing and payment policies to prevent re-accumulation of unsustainable and illegitimate debt (show-case some of the flaws in the global economic model that is not working (conditionalities, illicit finance flows and tax waivers, tax holidays, etc)

b. Ensure Budget Processes are inclusive and transparent.

c. Better involvement of African Civil Society Organisations in the negotiations for the implementation of the African Continental Free Trade Agreement

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