AFRODAD

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ON DEBT AND DEVELOPEMNT

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AFRODAD Newsletter

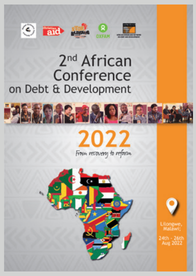
In this edition

Second Edition of the African Conference on Debt and Development (AfCoDD II)

The second edition of the African Conference on Debt and Development (AfCoDDII) brought together civil society organisations, people from academia, representatives of government agencies and multilateral bodies who gathered in Lilongwe, Malawi on August 2022. The conference was physically attended by 172 participants from 23 different countries. The conference focused on three pillars: the political pillar, research and ideation pillar, and public mobilisation (#SisiNdioTuko). There was a strong re-commitment from participants to follow up on the demands of the Harare Declaration which calls for a reformed international financial architecture with Africa as "Rule Maker" not a "Rule Taker" in the global financial system.

Also building on the acceptance of His Excellency, President Lazarus Chakwera to be an African regional champion for an African accountability mechanism for debt relief and economic recovery, AFRODAD and its partner Malawi Economic Justice Network have been working with the government of Malawi to offer policy advice.

Check out the video catalog for insightful conversation.
Endorse the Harare Declaration.



AfCoDDII Sessions

AFCODDII Main Session ,24-26 August, Lilongwe Malawi AfCoDD II - From Recovery to Reform: Sisi Ndio Tuko | Stop the Bleeding ; AfCoDD II - The Political Economy of Climate Change, Energy Transition, and Debt in Africa's Transformation ; AfCoDD II - COVID-19 and Sovereign Debt: The Case of SADC ; AfCoDD II - Governing Debt in Africa: Can an African Debt Observatory Help to Improve Debt Management Strategies

- AfCoDD 11 Cameroon Session co-hosted with Africa Development Interchange Network (ADIN), attended by 44 people physically, on 16 August 2022.
- AFCODD11 Zimbabwe National Session, video 1, video 2, video 3, co- hosted with Zimbabwe Coalition on Debt and Development (ZIMCODD), attended by 40 participants on 16 August 2022. ZIMCODD produced a outcome statement at the end of the conference
- AfCoDD 11- Tanzania Country Session , co-hosted with Tanzania Coalition on Debt and Development (TCDD) in Tanzania (TCDD), attended by 55 participants on 15 August 2022
- , AfCoDD II – Nigeria Country Session , co-hosted with Africa Network for Environment and Economic Justice (ANEEJ), attended by 42 participants, on 18 August 2022
- AFCODD 11 Uganda National Session, AfCoDD II – Uganda Country Session , co-hosted with Uganda Debt Network (UDN) attended by 79 participants on 18 August 2022
- AfCoDD 11 Zambia in Country Session co-hosted with Center for policy trade and Development (CTPD) attended by 40 Participants on 22 August 2022.
- AFCODD 11 Mozambique National Session, Video 1 , Video 2 , co-hosted with Centre for Democracy and Development (CDD) attended by 41 participants on 22 September 2022

Resource Backed loans: Risks and Opportunities

According to Natural Resource Governance Institute (NRGI), Resource-backed loans (RBLs) are all loans provided to a government or a state-owned company in which repayment is either made directly in natural resources such as oil or minerals, or from a resource-related future income stream; or repayment is guaranteed by a resource-related income stream, or where a natural resource asset serves as collateral. A presentation by David Mihayli from NGRI during the AFCoDD touched base on a research done by NRGI which provided evidence linking RBLs to draining development in Africa. The NRGI Report identified 30 RBLs that have been signed with 11 African countries between 2004 and 2018. The presentation outlined a number of risks and opportunities aligned to resource backed loans.

Implications

Given that these loans are repaid in kind and that they may have collateral attached, they can exacerbate debt distress and also undermine debt sustainability. RBLs can increase debt repayments since their interest rates can flutter across fixed and floating rates. Furthermore, on top of annual interest, there is also the requirement to pay a flat management fee, a commitment fee and a one-time insurance premium. All these costs add to the debt payable. The loan terms of RBLs are often hidden thereby lacking transparency. Information on loan collateral arrangements and the mode and schedule of repayment are rarely made public.

Forward Looking

Opportunities

However, despite the risks they pose, RBLs have a number of opportunities if utilized well. RBLs can be an opportunity to get governments to commit proceeds derived from natural resources to productive investment rather than recurrent expenditures. These loans can be used to fund infrastructure which is key in developing countries. RBLs can be structured to mitigate volatility and can be negotiated in difficult times. Some RBLs have a repayment structure that effectively enables the government to pay less in monetary terms when commodity prices are low and repay the loan quicker when conditions are favorable.

Given that RBLs are risky and they can also create good opportunities, it is of paramount importance for governments to ensure that principles of prudent loan contraction have been adhered to. The AFRODAD Borrowing Charter provides such principles.

- Transparency and accountability - to deal with these loans transparently and accountably. The government needs to borrow transparently, and all key terms of each loan contract should be promptly made public.

- Vetting of loans - Furthermore loans and the associated spending should be brought on budget, be vetted by countries' ministries of finance and subject to parliamentary scrutiny.

- Public disclosure - As enshrined in AFRODAD's Borrowing Charter, African governments should disclose and publish relevant terms and conditions of all financing agreements to citizens and should respond openly to requests for related information from them. Legal restrictions to disclosing information should be based on evident public interest and should be applied reasonably. Most importantly, money accrued from borrowing should be spent in productive investments which can generate returns over the long term. Given the costs involved, the use of RBLs as a form of short-term advance should be avoided. Governments of resource-rich countries should insist that the monetary burden of repayment be less when commodity prices are low and that loans are repaid quicker when prices are high. Also, the treasury should scrutinize any RBL and ensure that the additional loan fits in its overall debt management strategy and that total debt levels stay within prudent levels.

AFRODAD Welcomes the Discontinuation of the Doing Business Report

By Adrian Chikowore

Having been one of African Civil Society Organisations which have been calling upon the World Bank's board of executive directors to end the publication of the World Bank's Doing Business Report (DBR), AFRODAD welcomes the World Bank's discontinuation of its Doing Business Report. The publication of this report has been the focus of longstanding and well-substantiated criticisms, including from academics, legal experts, civil society organisations and trade unions. These criticisms have been raised on several grounds, including methodology, data selection and scope, questionable robustness of the aggregate rankings, and its anti-regulation bias.

After 17 years driving economic policy and regulatory reforms including corporate income tax cuts and the reduction of workers' rights and social protection benefits, the World Bank finally suspended its harmful business climate ranking. For too long, the Doing Business Report has encouraged policies that have worsened inequalities – including deregulations which exacerbated the global gender and racial division of labour, eroded labour protections and domestic resource mobilisation capacity, suppressed domestic aggregate demand and economic diversification and thus strained the legitimacy of state institutions.

Implications

The Doing Business Report agenda has had an intrinsic correlation to jeopardising the achievement of some SDGs goals and respective targets in that it was focused more on the costs of doing business than "the benefits of running a society as it failed to consider social or environmental impacts. Moreso, for the DBR, it did not matter if reducing regulations harmed the environment or employment conditions, or if lowering taxes constrained governmental capacity to fund public investment and provide decent public health or social protection for as long as such reforms lowered the costs of doing business. This agenda thereby encouraged harmful tax competition and races to the bottom with regard to the protection of the environment and labour rights.

The DBR also promoted a race to the bottom that had limited positive results because it led governments to seek improvements in their country's DBR ranking believing that these would increase growth through increased investment, especially foreign direct investment (FDI). However, evidence noted otherwise as a World Bank Policy Research Working Paper found that countries that undertook large-scale reforms as compared to other countries did not necessarily attract greater FDI inflows. For developing countries such as those in Africa, the report noted a limited statistical relationship between FDI flows and implementing ease of doing business policy regulations. As such, we applaud this discontinuation because the DBR's ranking competition was encouraging debilitating investor-friendly government behaviour whereby the DBR had become a tool for governments to formulate, evaluate and legitimise their economic policies through development and pronouncement of cosmetic reforms. Moreso, as the African continent has been struggling to respond to and recover from the health and economic crises triggered by the Covid-19 pandemic, the consequences of the deregulatory race-to-the-bottom incentivised by the DBR and its world rankings had become painfully evident.

Forward Looking

Moving forward, we believe that the discontinuation of the report is just but one of the few progressive steps towards a just recovery that still requires that the world addresses key weak aspects of the development trajectory that the bank was promoting. The development trajectory was centred on economic analyses that contributed to the lack of preparedness of policymakers through promoting wrong notions of resilience that focused on doing business and foreign investors, rather than good jobs and income security – with a narrowing of the aims and objectives of economic policy."

As highlighted in AFRODAD's Harare Declaration Observation 8 and AFRODAD's African Borrowing Charter on responsible lending policies, we recommend that the World Bank through a reformed and equality based global financial architecture keeps concentrating on its original mandate of intermediating finance at the lowest possible cost for sustainable development, relief and recovery in trying times such as COVID-19.

The Inclusion of Women in the Public Debt and Development Discourse in Africa

By Tryphine Tshuma

The Inaugural African Conference on Debt and Development (AFCODD) held by AFRODAD spoke to and observed the need to include women's voices in debt management. The reality is that women continue to be largely affected in the process of servicing public debt but remain the last priority when governments are borrowing. Women's voices are central to finding the solutions to address public debt as they are one of the most vulnerable groups both socially and economically.

Implications

The accumulating debt in most African countries has led governments to reduce public spending to repay loans to creditors. Worse still, apart from servicing debt, governments are faced with addressing the economic effects of COVID-19. Countries such as Mozambique are still dealing with the after-effects of the Cyclone Idai caused by climate change which has also become another burden to the Mozambican government. Therefore, in addressing these climate and debt challenges, African governments cut expenditure especially on social protection and this has had a bearing on women and children who largely depend on this funding.

Women comprise a larger group of people that is vulnerable to poverty and with that governments are indebted to them if they fail to provide them with sustainable livelihoods and adequate service delivery. The advent of the COVID-19 has exposed how governments are indebted to women. COVID-19 has affected women to a larger extent as it has played a negative role in their households' social and economic needs. COVID-19 regulations restricted day to day business and women especially those that depend on the small business enterprises lost their sources of income. This was met with bankrupt governments that could not effectively intervene through social protection schemes.

Sub Saharan Africa had the highest share of poor females in the year 2020 and the share is projected to remain the highest even in 2030.The global health pandemic exposed the gap in terms of financing social protection in Africa with effects being borne mostly by women.

The inclusion of women in debt management is crucial at this time for them to influence prudent fiscal management as well as tackling the global financial architecture which needs wide ranging reforms. At the global level (World Bank-IDA-20) the urgent need to address gender inequality has been taken into consideration since this has been worsened by the COVID-19 pandemic. The building back better initiative by the World Bank is critical to contribute to inclusive growth. IDA-20 resources are set to also support women's empowerment, ensuring removal of barriers to women's ownership and control over assets as well as make fiscal policy and budget systems more gender responsive.

The civil society fraternity has strengthened advocacy for inclusive growth and sustainable development by including women in debt and development conversations and revealing how costs of servicing debt affect women. AFRODAD and its partners on the AfCoDD adopted feminist approaches to debt and development through the Harare Declaration.

Forward Looking

Governments should strengthen domestic resource mobilisation to enable them to finance social protection even during unprecedented crisis as this will unfold as responsible resource governance. Financing social protection should be viewed as an investment than a liability to African governments.

The representation of women in influential institutions has improved for example IMF, UNCTAD and WTO are among institutions led by women. Therefore, women should now be in a position to make informed contributions and fighting the skewed financial architecture.

Governments should also be capacitated to craft budgets and design policies that are gender responsive. Women's access to and control over income and assets strengthen social networks and improve women's public, economic, social and political empowerment. AFRODAD contributes to capacity building of women the parliamentarian trainings.

#BuildingFowardTogether

Infrastructure Development and Public Debt - Is Africa Investing in The Right Infrastructure for Sustainable Development?

By Reginald Chaoneka

African countries have a huge deficit in infrastructure with a financing gap in the range of US$68 billion – US$108 billion per annum. Commitments to fund infrastructure average around US$80 billion per year and transport infrastructure consume the biggest chunk (40%) followed by energy projects (30%).

Infrastructure development plays a major role in achieving Sustainable Development Goals (SDGs) such as poverty reduction, health, education, access to energy, clean water, and sanitation. The continent lacks basic service infrastructure such as health facilities, clean water and sanitation facilities which makes it vulnerable to pandemics (such as COVID-19) and climate change shocks. Evidence shows that 22 of the 25 countries most vulnerable to infectious diseases are in Africa.

Investment in basic social infrastructure is a priority since for every US$1 invested in water and sanitation bring returns of about four-times in Africa. The transport and energy projects which have a deficit of about 8% are being prioritised while water and sanitation has a financing gap of about 84% yet few resources are being channelled to the sector. This is because social infrastructure such as water has poor creditworthiness (low returns); high perception of political and regulatory risk; bureaucracy and corruption. Currently, long-term funding for infrastructure in Africa is provided by external sources with over 75% coming in the form of loans. Since 2013, China became the biggest bilateral source of infrastructure financing accounting for about 23% of total infrastructure finance in Africa.

Implications

The rapid increase of public debt has also constrained many African countries' capability to further finance the much-needed infrastructure and at the same time debt service continue to crowd out other priority expenditure such as education, water, sanitation and health. This affects mainly the vulnerable sections of society that include rural population, women, youth and children. It is also expensive for countries with high debt burden to raise money on the capital markets due to high sovereign risk.

During the construction phase, the multiplier effect of infrastructure projects has been low since most contracts are awarded to foreign companies and the procurement of materials is done offshore. Given that about 90% of Africa's population live under very corrupt governments, tenders for the projects may be corruptly awarded which may affect quality of the infrastructure. The cost of poor quality infrastructure ranges between 5% -20% of the original contract value. The whole process of selecting projects to be prioritised and the loan contraction have very little input from citizens which weakens both the social contract between citizens and the government and the impact of the project on citizens. There has been low investors' appetite for Africa's infrastructure which reflects poor institutional structures and poor packaging of projects.

Countries with conducive political, regulatory, institutional and legal framework such as South Africa and Egypt have been able to attract more of both public and private resources to finance infrastructure projects. African governments have inadequate skills to package bankable projects which results in poor rate of projects reaching financial close (only 10% of bankable projects reach financial close) while about 80% fail to go beyond feasibility studies.

Forward Looking

More benefits are derived when communities are actively involved at all stages of the project. This strengthens trust and the social contract between citizens and government. Governments should ensure that infrastructure construction is socially inclusive, contribute to job creation, provide capacity building, and transfer expertise and know-how to local communities. There is need to prioritise infrastructure that supports industrialisation, agriculture transformation and mitigate effects of climate change and Covid-19.

To ensure maintenance of infrastructure, life-cycle cost approach should be used when tendering. Efforts should also be made to reduce financial risk in infrastructure projects by using credit enhancements such as guarantee by government or multi-lateral financial institutions such as World Bank, minimum revenue guarantees and political risks insurance (PRI) especially for water projects.

For external loans, currency risk needs to be managed by ringfencing some resources to mitigate the risk. In the long-term there is need to source funds from local investors and capital markets and improve institutions.

Musings of a Regular Citizen Turned Economic Advocate

By Nelly Mwende

Experiencing AfCoDD was the beginning of a new, exciting journey for this regular citizen. She stumbled upon a whole new world she knew little about. Just so we are clear, 'she' refers to me, the one writing this article. Much as my knowledge was limited on matters economics, I realised I lived, breathed, and thought economics in my everyday life.

Fast forward to 25th August 2021, 5 days after I had joined AFRODAD, came the much-acclaimed Inaugural African Conference on Debt and Development (AfCoDD). Maybe I am exaggerating by saying it was the most life - changing moment of my life, but it was life-changing. It changed my way of thinking.

One significant thing I learned is that African governments can and should do better in managing public debt. Debt taken by most African governments is either used to finance mega-infrastructure projects that the citizens do not necessarily need or to service other existing loans or misused in corrupt dealings. More often than not, citizens end up paying dearly for these poor choices, further widening the gap between the poor and the rich.

The need for domestic resource mobilisation was emphasised. I learned that domestic resource mobilisation puts a country at a less vulnerable economic position in case of a crisis like Covid-19.

The fact that African countries were already experiencing debt problems before the pandemic only made it that much worse when the pandemic hit. If African countries were self-reliant and did not heavily rely on debt to finance development, the economic impact caused by Covid-19 would have been way more manageable.

Let's talk about Special Drawing Rights (SDRs) and the unfair allocation to African countries. Out of the $650 billion that was released by the IMF to help countries to recover from the impact of Covid-19, only $33 billion was allocated to Africa. This is like a drop in the ocean considering Africa harbors some of the poorest countries in the world. The 'rich' countries like the USA received a larger allocation of the SDRs. Was this a way to 'flex' the power the global north holds over the rest of the world?

The biggest awakening for this regular citizen is how much sovereign debt affects household debt. Increased sovereign debt means increased household debt. A debt crisis in a country will one way or another affect the citizens as they will have to take on household debt to try and deal with the harsh economic conditions caused by debt crisis. With all these findings, where do they leave this regular citizen?

Forward Looking

After you see and hear what I have seen and heard, there is no way you can remain the same. The financial/economic status of a country could mean the difference between life and death. Money makes the world go round. If we don't care for the economic status of our countries, it means we do not care for the future of generations that will follow after us. I am not just a regular citizen anymore; I am an economic advocate hoping and fighting for a better Africa. Africa has so much potential which can be achieved if everyone were to be involved in speaking up on what matters.

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