THE POLITICAL ECONOMY OF AFRICA’S DEBT

Presentation of the Policy Brief “*Africa’s Debt Landscape : Scope for Sustainability*”

A collaboration between AFRODAD and APRI

Understanding the current Africa debt profile, its drivers and challenges

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RATIONALE BEHIND THE POLICY BRIEF

Observations : Since 2010, public debt has been on the rise in Africa despite debt relief initiatives of the early 2000s

Issue : Fear of debt unsustainability

- Debt restructuring has been difficult
- Lack of coordination between involved actors

Objective: Screenshot of the current debt situation in African countries

- Understanding the drivers of the current debt accumulation
- Understanding its benefits and challenges
- Understanding the effectiveness of available debt relief mechanisms

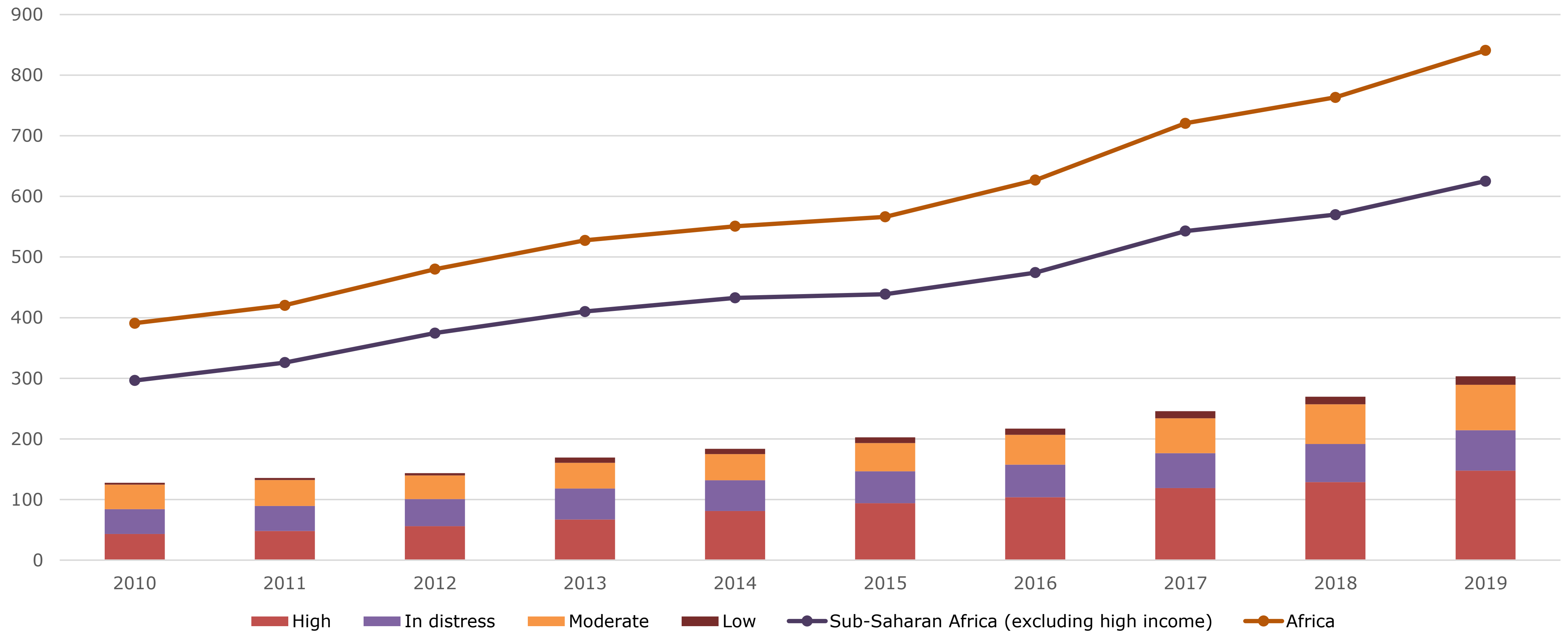
OUTLINE OF THE PRESENTATION

- **Where do we stand ?**
  - 10 years of debt accumulation
  - Emergence of new creditors
  - Proliferation of expensive financial instruments
  - Impact of covid-19 pandemic
- **How did we get there ?**
  - Entering capital markets
  - Global Financial Crisis
  - Financialization agenda
- **What are we doing ?**
  - Covid-19 and inefficient of current debt relief mechanisms
  - Value of unconventional monetary policies
- **What should we do ?**
  - African Borrowing Charter
  - African sovereign debt resolution system
  - Financial stability mechanism

THE CURRENT LANDSCAPE (1/2)

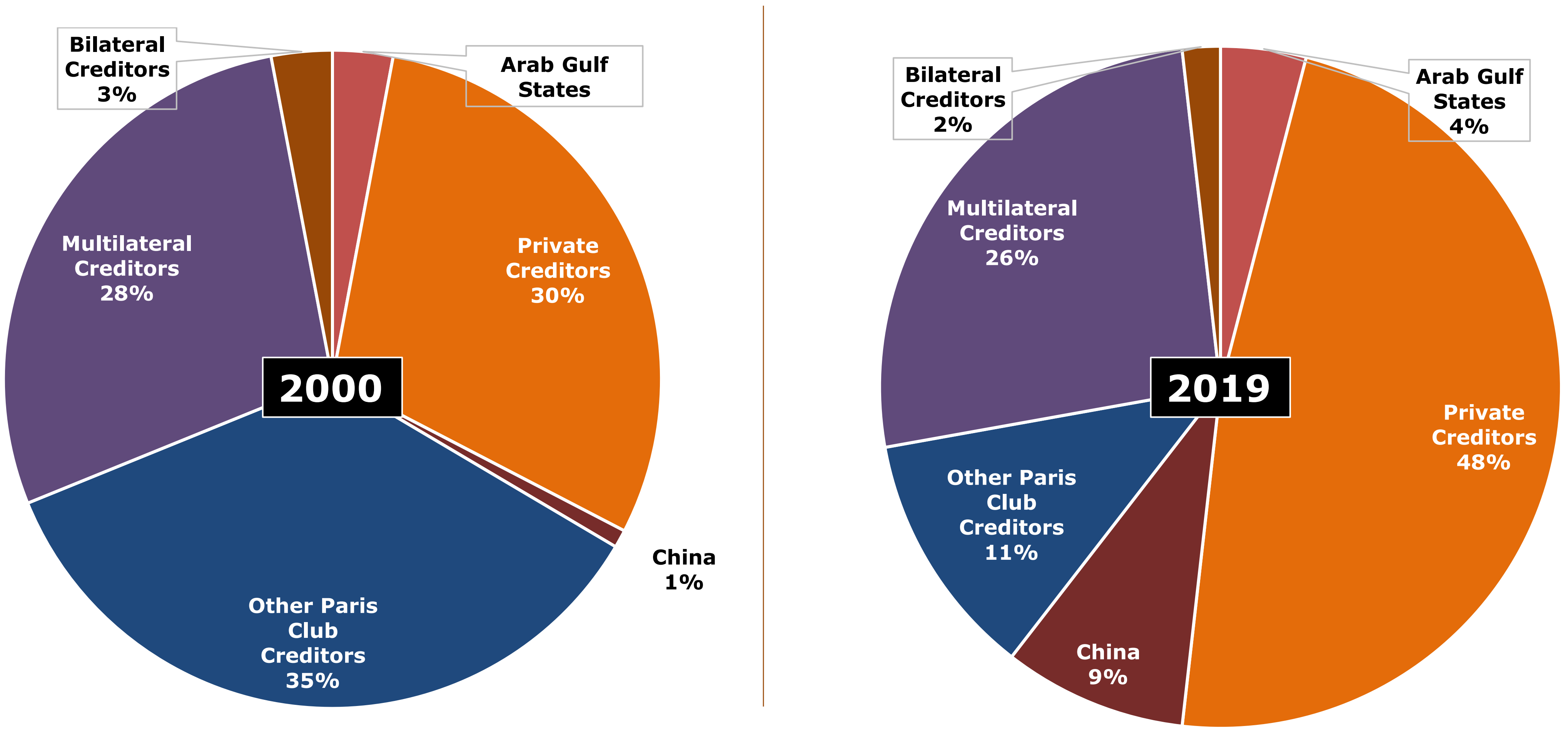
- **Debt levels have increased by nearly 140%** to USD 841 billion over a 10-year period (2009 – 2019)
- **Growth of creditors' shares in African external debt with China and private creditors**, the main creditors although wide variation between countries
  - In 2019, 8 African countries accounted for over 80% of private creditors debt - including South Africa, Egypt, Nigeria, Morocco, and Angola
  - 3 countries accounted for 50% of China's debt – Angola, Ethiopia, and Kenya
  - Concessional loans still hold in the majority of African countries

AFRICA DEBT ACCUMULATION SINCE 2010



Source : Authors calculations with World Bank data

A CHANGING AFRICAN DEBT LANDSCAPE

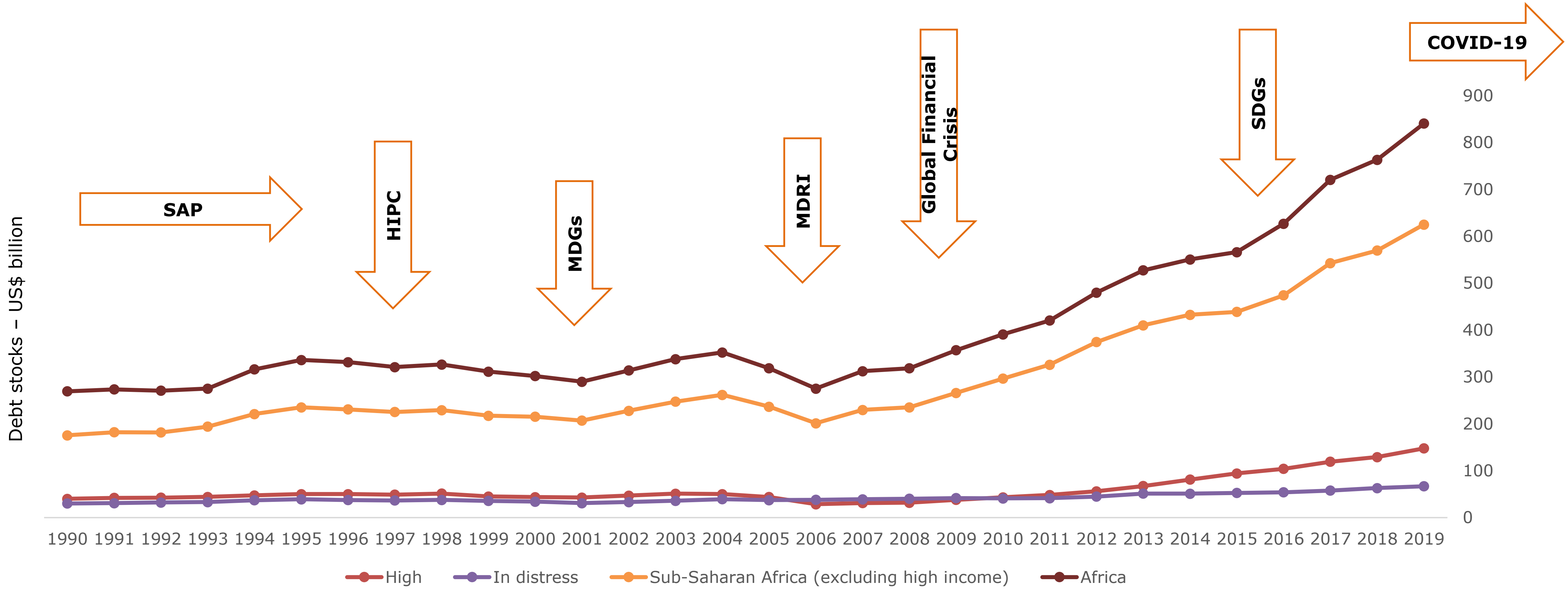


Source : Authors calculations with World Bank data

THE CURRENT LANDSCAPE (2/2)

- **Large amount of debt service owed to private and commercial lenders**
  - 75% of Sub-Saharan African countries’ debt servicing disbursed to bondholders and commercial lenders
  - External debts amount to up to 80% of the Gross National Income for a number of African countries
  - In 2019, Angola spent around 43% of its total revenue servicing its debt, while Ghana spent 39%
- **Fear around debt unsustainability are increasingly palpable**
  - even more so with the economic, fiscal, and social impacts of COVID-19
    - In 2020, first recession in half a century with a GDP decline of up to 2.1%

EVOLUTION OF DEBT SERVICE OWED TO CREDITORS



EXPLAINING THE CURRENT DEBT LANDSCAPE IN AFRICAN COUNTRIES

Several reasons highlighted in the policy brief

- More liquidity and fiscal spaces post-HIPC periods
- Strong desire to move away from aid because of detrimental effects of SAPs and tight conditionalities => pursue alternative financing methods, on capital markets
- The Global Financial Crisis of 2008 further influenced the attractivity of financial markets for African countries
  - High risk premiums for African market
- Promotion of a financialization agenda for infrastructure development in the discourse of Sustainable Development Goals (SDGs)

THE FINANCIALIZATION AGENDA FOR INFRASTRUCTURE DEVELOPMENT

Rationale: Incapacity for states to undertake such huge and costly investments BUT can be mitigated by including the private sector as the profitability of such assets would push for better cost-efficient mechanisms

Example: Public-Private-Partnerships, as an example of the benefits and drawbacks of such instruments.

- PPPs investments between 1990 and 2018 rose to USD 73 billion
- White Elephants : several default case such as the recent one in Zambia
- Dependency relationships between African states, their population and corporations because of the involvement of the private sector into not-for-profit project, usually the delivery of public goods which,
- Preferential treatment to donors' own private-sector firms and the final cost put on citizens

EXISTING DEBT RESTRUCTURING MECHANISMS

- COVID-19 pandemic revealed the ineffectiveness of debt relief mechanisms and absence of quick and efficient restructuring debt mechanism (SDR?, G20 CF, CAC)
- Although such efforts are noteworthy, the absence of a successful sovereign debt resolution system involving all creditors means that the resolutions fall short of supporting recovery for African countries, particularly in light of the evolution of debt profiles.

EXISTING DEBT RESTRUCTURING MECHANISMS

	DSSI	SDR	G20 CF	HIPC	MDRI	CAC	*SVDR*
Type of debt restructuration	Suspension of debt service	Additional liquidity	Negotiation between stakeholders		100% debt relief from IMF, WB and AfDF	Depending on contractual agreement	***Negotiation between stakeholders***
Requirements	73 IDA countries	All members of the IMF	Have borrowed from G20	Two-step process > 39 eligible countries	Have completed HIPC + other conditions > 26 eligible countries	Depending on contractual agreement	***Must respect UN 9 Basic Principles***
Involve private creditors ?	No	-	No	No	No	Usually between private creditors and governments	***Yes***
Current state	Expired - $10.3 billion of debt service suspended	Distributed	Only 3 requests	$76 billion in debt-service relief for 37 countries (31 from Africa)	about US$5 billion	Depending on contractual agreement	***Not yet established***
Coordinated by	The IMF and WB	IMF	G20	The IMF and WB	The IMF and the WB	According to contracting stakeholders	***UN***
Subject to IMF/WB conditionalities ?	No	Allocation – No Rechannelling - Possible	Possible	Yes	Yes	Depending on contractual agreement	***No***
Immunity to downgrades ?	No	-	No	-	-	No	***Yes***

DEBT SERVICE SUSPENSION INITIATIVE (DSSI)

- Temporary suspension of debt service owed to official bilateral creditors and few non-traditional official creditors, including China BUT failed to include private creditors.
- Only covered around 10% of DSSI-eligible countries’ total external debt service for 2020 (extended to December 2021).
- Fears of future credit rating downgrades discouraged many African countries from apply
- Resume in 2022, the debt service accumulated throughout the two-year suspensions resume in conjunction with supplementary loans borrowed during the pandemic

THE SPECIAL DRAWING RIGHTS ALLOCATION

- African countries received $33 billion out of $650billion
- 80 developing countries have been using their SDRs either to purchase foreign currency or for fiscal expenditure
- Creation of the Resilience and Sustainability Trust (RST), which would channel SDRs through the IMF
  - Out the 100 USD million committed by the G20 and G7 of reallocation, nothing has been channelled yet
  - Further neoliberal conditionalities imposed to receive funds

THE G20 COMMON FRAMEWORK BEYOND DSSI

- Initiated by the Paris Club to target debt restructurings on a case-by-case basis should they be requested by any of the 73 countries eligible for DSSI.
- Includes ad hoc participants such as China and other emerging economies.
- Stipulated that private creditors would have to provide comparable relief on the debt owed but unclear how this has to be enforced.
- But so far, only three countries—Chad, Ethiopia, and Zambia—have made. And each case has experienced significant delays.

EMERGING SOLUTIONS…

- African countries restructured their external debt 60 times between 1950 and 2017.
- Still, there is no effective debt restructuring mechanism i.e.
  - guided by the principles of transparency, accountability, and governance, such as those recommended by AFRODAD's African Borrowing Charter
  - Include all creditors, especially private lenders
  - Engage with credit rating agencies

EMERGING SOLUTIONS…

- Time to be creative to think of an African based debt restructuring mechanism that :
  - Includes all creditors especially private creditors
    - If not, liberated funds will be diverted to reimburse private creditors
    - To prevent the by the proliferation of litigation with vulture funds.
  - Guided by the principles of transparency, accountability, and governance such as recommended by the African Borrowing Charter (AFRODAD)
    - which advises that public debt and guarantees should be approved by parliament before signed.
    - Appropriate legal frameworks should be in place
    - and citizens should be well informed so that they can be equipped to monitor the performance of loans

EMERGING SOLUTIONS…

- Need for statutory and human rights based sovereign debt mechanisms to revolutionize international financial architecture
  - In the line of the UNCTAD Sovereign Debt Restructuring Mechanism
  - Whose the 9 Basic Principles on Sovereign Debt Restructuring Processes were adopted in 2015

THANK YOU!