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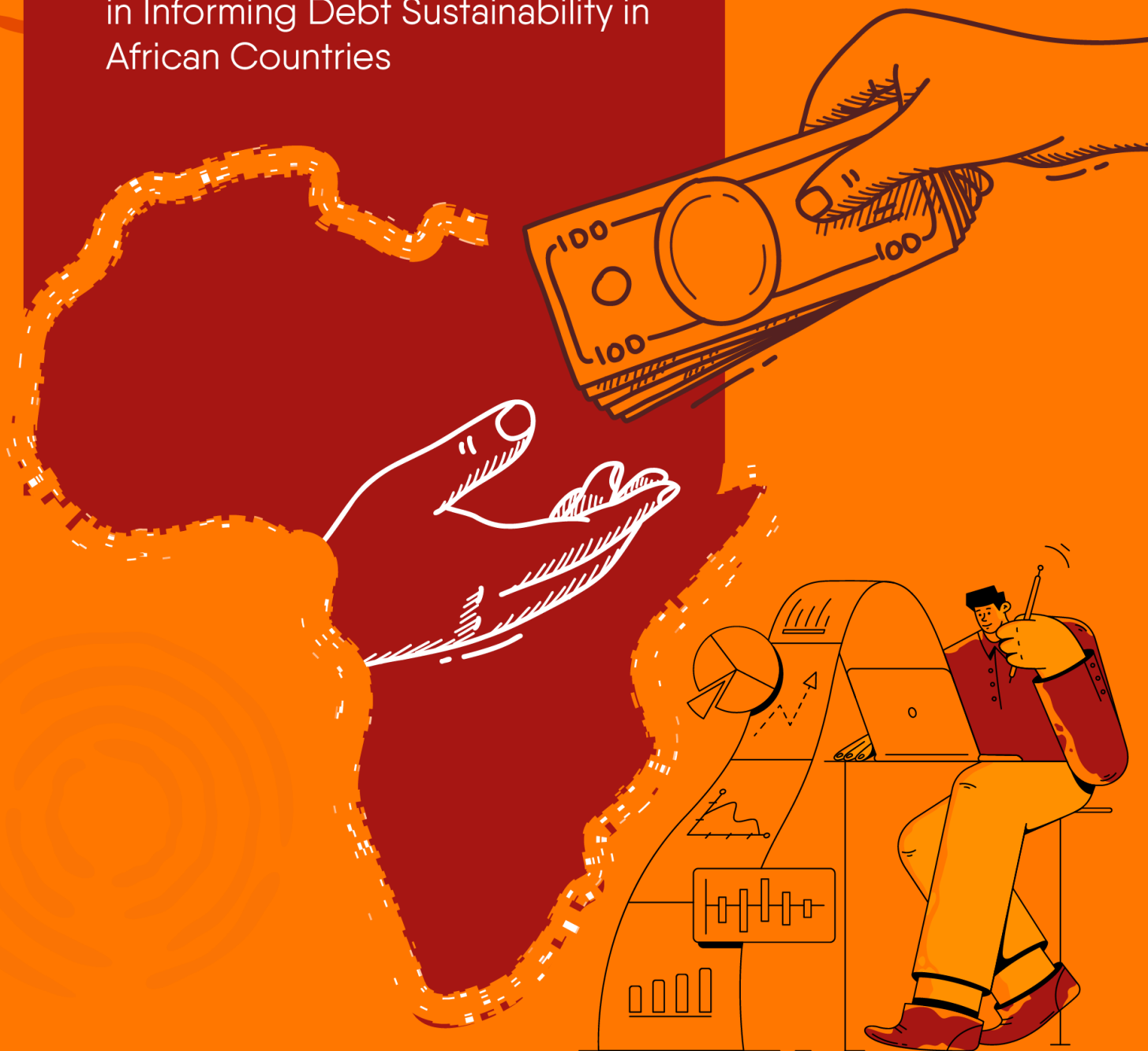
AFRICAN FORUM AND NETWORK ON DEBT AND DEVELOPMENT

A COMPARATIVE ANALYSIS OF AFRICAN REGIONAL ECONOMIC COMMUNITIES

Debt Convergence Criteria and IMF Debt Sustainability Analyses: Their Potential and Effectiveness in Informing Debt Sustainability in African Countries



A Comparative Analysis of African Regional Economic Communities Debt Convergence Criteria and IMF Debt Sustainability Analyses: Their Potential and Effectiveness in Informing Debt Sustainability in African Countries

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Table of Contents

List of Tables

List of Figures

Boxes

List of Abbreviations

AMCP	African Monetary Cooperation Programme
CF	Common Framework
CI	Composite Indicator
DCC	Debt Convergence Criteria
DSA	Debt Sustainability Analysis
DSF	Debt Sustainability Framework
FDI	Foreign Direct Investment
GDP	Gross Domestic Product
NPV	Net Present Value

Acronyms

CEMAC	Central African Economic and Monetary Community
DRC	Democratic Republic of the Congo
EAC	East Africa Community
ECOWAS	Economic Community of West African States
EMU	European Monetary Union
HIPC	Heavily Indebted Poor Countries
IMF	International Monetary Fund
LICs	Low-Income Countries
MDRI	Multilateral Debt Relief Initiative
PV	Present Value
RECs	Regional Economic Communities
SADC	Southern African Development Community
WAEMU	West African Economic and Monetary Union

EXECUTIVE SUMMARY

Executive Summary

Macroeconomic convergence, inspired by the European Monetary Union (EMU), has become a focal point for regional integration in Africa with many Regional Economic Communities (RECs), including SADC, ECOWAS, EAC, CEMAC, and WAEMU adopting convergence programs. These programs set public debt limits as a key criterion to help each region manage debt sustainably. Even with the establishment of these frameworks, maintaining debt within sustainable level is still a major challenge for African countries. Many of these countries face rising debt levels due to a mix of global economic shocks and limited access to international financial markets. This has resulted in higher debt servicing costs, diverting important resources from essential development projects and places further pressure on already constrained fiscal space.

This study sought to examine the persistent debt sustainability challenges faced by member states of African RECs by focusing on the effectiveness of their Debt Convergence Criteria (DCC) in managing debt levels. The primary objective is to assess how well the DCCs, which are intended to provide a structured approach to limiting debt accumulation within RECs, perform in comparison to international frameworks, specifically the Debt Sustainability Framework (DSF) for Low-Income Countries (LICs) established by the IMF and World Bank. Through this comparison, the study aims to determine the extent to which both frameworks, DCC and DSF, contribute to debt sustainability across the member states of African RECs.

This study reviews past and current debt trends within these RECs, with special emphasis on understanding the impact of past debt relief programs like the Heavily Indebted Poor Countries (HIPC) and the Multilateral Debt Relief Initiative (MDRI), in attaining debt sustainability. The study aimed to identify shortcomings in existing debt management frameworks and suggest new, pro-Africa policies to enhance debt sustainability amid the ongoing development challenges.

Public debt in African RECs has experienced considerable variability over time due to historical economic difficulties, international debt relief initiatives, and differing borrowing habits. For the first part of this period, the data show a decline in public debt for most RECs, until mid-1970s. However, this trend was reversed by shocks in the global economy and the implementation of SAPs in the 1980's, which opened the door to more borrowing at a higher level of debt. There was some respite in the 1990s and the early 2000s due, for example, to the HIPC and MDRI, which lowered debt-to-GDP ratios. And despite these efforts, debt levels have soared again in recent years, driven by global economic shocks, structural weaknesses and new borrowing to fund development projects.

Trends in the recent years reveal a concerning rise in public debt across RECs, with some countries exceeding the DCC thresholds set by their respective regional bodies.

Most of these countries already are in debt distress or are at a high risk of entering into debt distress. For example, the SADC and the EAC have seen rising debt levels due to renewed infrastructure borrowing and economic challenges. Similarly, the other RECs have faced increasing debt pressures from new borrowing and the economic impact of the COVID-19 pandemic. Although some RECs like CEMAC have managed to keep debt levels within regional criteria, recent borrowing trends and fluctuating commodity prices pose ongoing challenges.

In this context, comparison of the DCC set by African RECs with the IMF-World Bank DSF gives an indication on how debt management under either approach would turn out effectively and where their limitations lie. Though they essentially share the same objectives of fiscal discipline and debt sustainability, there are sharp contrasts in methodology and application. In contrast, DCC mainly lays fiscal benchmarks against the requirement to make borrowings responsible in view of regional integration and economic stability of member states. But it is highly static, lacks explicit tools of detailed risk analysis. Meanwhile, IMF-World Bank DSF encompasses a whole range of detailed risk analyses such as stress testing, forward-looking projections, country-specific adjustments due to particular factors affecting national economies. Moreover, the DSF assesses external and domestic debt vulnerabilities, taking into consideration institutional strength and broader economic conditions through a composite indicator, which makes the DSF even more adaptable to and responsive with respect to fiscal realities in each country.

The current situation of debt in African RECs reflects the broader challenge related to debt sustainability under conditions of continued economic instabilities along with increased borrowings. Notwithstanding past debt relief initiatives, the rising trend in public debt underlines the imperative for more efficient debt management strategies that assure long-term stability and development on the continent. While the DCCs of the RECs and the IMF's DSF both provide a framework for debt management, neither has fully addressed the complex debt challenges facing Africa. The persistence of public debt vulnerabilities points to gaps in these approaches. Moreover, considering that the DCC under the RECs is not focused on domestic debt, and the role of the IMF in underpinning such structural economic constraints as specific to the African countries, there is certainly a need for something more innovative and customized. While the IMF-World Bank DSF uses enforcement through conditional funding and compliance requirements, which are not exactly provided for under the RECs' DCC initiative, accountability for member states failing to meet the set debt thresholds remains very limited.

Although there might be those that could be failing to comply, no REC has any sanctions placed for countries that fail to fulfill the DCC requirements. Based on the foregoing gaps and limitations of DCC requirements, and to make sovereign debt levels more sustainable considering ongoing development crises, alternative policies in managing the national debt suitable to the unique economic context of the continent are proposed in the study. These range from creating regional integrated financial institutions, such

as the African Monetary Fund (AMF), which would offer coherent debt management support, selective financial assistance, and policy guidance. Other proposals include the strengthening of DCC criteria by the AMF to deal with domestic debt vulnerabilities and leveraging Africa's natural resource wealth through a Pan-African Sovereign Wealth Fund to reduce dependency on external borrowing.

Recognizing the heterogeneity in debt accumulation across various RECs, it is crucial to adopt country-specific policies for debt sustainability that account for each nation's unique economic and financial circumstances. Moreover, the study also recommends that the RECs, at a minimum, design DSFs encompassing other economic variables beyond the debt-to-GDP ratio, like revenue-raising capacity, efficiency in expenditures, natural resource endowments, and the growth prospects of economies. This holistic framework will lead to more accurate identification of a country's status on debt sustainability, tailored appropriate, and effective strategy on debt management in support of economic stability and growth. This would also include flexibility in setting debt ceilings based on fiscal and economic capacities in various countries.

1. Introduction

1.1 Background

Inspired by the success of the European Monetary Union (EMU), the concept of macroeconomic convergence has received significant attention in different regions, particularly in Africa. Macroeconomic convergence is defined as the process by which countries or regions align their economic policies and performance indicators, particularly fiscal, monetary, and real sector variables, to achieve greater economic integration and stability. Macroeconomic convergence is considered as a key step towards attaining monetary and broader regional integration. The EMU adopted specific convergence criteria as prerequisites for joining the Eurozone. Similarly, many Regional Economic Communities (RECs) in Africa[1] have adopted macroeconomic convergence programs into their regional fiscal and monetary cooperation[2]. These programs typically include public debt limits and other fiscal, monetary, and real-sector indicators aimed at promoting stability and integration across the continent. African RECs, such as the Southern African Development Community (SADC), Economic Community of West African States (ECOWAS), East Africa Community (EAC), Central African Economic and Monetary Community (CEMAC), and West African Economic and Monetary Union (WAEMU), have public debt limits as key convergence criteria. SADC has debt limit of 60 percent of GDP, while ECOWAS and WAEMU have debt limits of 70 percent of GDP. The EAC and CEMAC have debt thresholds of 50 percent and 70 percent of GDP respectively in net-present value (NPV) terms.

Debt sustainability remains elusive for most African countries, despite the progress made towards fiscal convergence in various RECs. In the last decade, most African countries have experienced a surge in sovereign debt levels, exacerbated by global economic shocks and limited access to international capital markets. The increase in debt stock has significant implications for growth and development, as high debt servicing costs divert resources from critical development programs. On average, general government revenue as a share of gross domestic product (GDP), excluding grants, declined significantly in the decade before the Coronavirus Disease 2019 (COVID-19) pandemic. This ratio dropped significantly from 23.9 percent in 2010 to 19 percent in 2019, highlighting a widening fiscal deficit as debt servicing costs soared[3]. The persistent fiscal imbalance has prompted most African countries to increasingly resort to domestic borrowing, which presents new challenges for debt sustainability due to shorter maturities and higher interest rates.

The composition of Africa's debt has shifted towards domestic debt, with the share increasing from 35 percent in 2019 to approximately 42 percent in 2021. The S&P Global Africa 2023 Domestic Debt Vulnerability Index ranked Ghana, Egypt, Kenya,

1 See Table A1 in the Appendix for the list of RECs in Africa and Member States

2 Zhang, Jian. "Supporting macroeconomic convergence in African RECs." Regional Integration Policy Paper 001 (2012).

3 African Economic Outlook 2023

Mozambique, and Uganda among the most vulnerable[4]. This vulnerability is heightened further by the depreciation of local currencies against the US dollar, which inflates the value of dollar-denominated external debt. For instance, the external debt for Kenya, which is 67.3 percent dollar-denominated, increased by 11.8 percent from June 2023 as of December 2023, partly because of the depreciation of the Kenyan shilling[5]. Similarly, Ghana external debt stock grew significantly, in part due to the depreciation of the cedi. Additionally, the share of US dollars in public and publicly guaranteed external debt in Africa has expanded. The US dollar-denominated debt stood at 65 percent of Africa's outstanding public and publicly guaranteed debt in 2014. As of 2022, the share increased to 70 percent compared with 14.5 percent for the euro, with other currencies accounting for 15.5 percent. The dominant role of the US dollar highlights the vulnerabilities many African countries face with the strengthening of the US dollar as global financial conditions tighten (AfDB, 2024). When the US dollar strengthens, as seen during periods of global financial tightening, African nations face higher debt servicing costs in local currency terms. This is challenging for economies with limited foreign exchange reserves or depreciating local currencies, as they must allocate more resources to service their dollar-denominated debt, often at the expense of critical social and economic programs. Additionally, a stronger US dollar can lead to capital outflows from African markets, further exacerbating financial pressures[6].

Most African countries benefited from debt relief initiatives such as the Heavily Indebted Poor Countries (HIPC) initiative and the Multilateral Debt Relief Initiative (MDRI). Despite these initiatives, many African countries are currently grappling with unsustainable debt levels. For instance, Cameroon and Zambia benefited from both the HIPC and MDRI initiatives. Nevertheless, these countries continue to face high levels of debt and had to take part in the Debt Service Suspension Initiative (DSSI)[7]. The Debt Sustainability Framework (DSF) by the International Monetary Fund (IMF) and World Bank, while helpful, does not fully address the unique economic dynamics of African nations. For instance, the World Bank suggests that a debt-to-GDP ratio above 77% for an extended period can negatively impact real economic growth, costing a country 0.017 percentage points of yearly real growth for each percentage point above this threshold[8]. However, according to African Economic Outlook 2024, many African countries allocate a significant portion of government revenue towards debt repayment and servicing, leaving little for development. Estimates indicate that Africa's debt service in 2024 will hit US$ 74 billion on account of high global interest rates[9].

The African Monetary Cooperation Programme was also created to enhance monetary cooperation and macroeconomic convergence among African countries by

4 https://www.spglobal.com/research/articles/231101-african-domestic-debt-reassessing-vulnerabilities-amid-higher-for-longer-interest-rates-12900489

5 National Treasury Kenya, Monthly Debt Bulleting, December 2023

6 https://imf.org/en/Blogs/Articles/2023/05/15/african-currencies-are-under-pressure-amid-higher-for-longer-us-interest-rates

7 https://library.fes.de/pdf-files/bueros/fes-ua/19364.pdf

8 Caner, Mehmet, Thomas J. Grennes, and Friederike Fritzi N. Köhler-Geib. "Finding the Tipping Point—When Sovereign Debt Turns Bad." SSRN 1612407, (2010). https://ssrn.com/abstract=1612407.

9 African Economic Outlook 2024

harmonizing their economic policies in order to achieve stability and integration. This is closely related to the convergence criteria developed by the African RECs, which aim at standardizing fiscal and monetary policies, including thresholds related to public debt. Convergence criteria established by such RECs as SADC, ECOWAS, EAC, CEMAC, and WAEMU to deal with the debt crisis among member states remain indeterminate[10]. In most cases, the set criteria by these RECs do not reflect the economic realities of member states. This is especially the case for the EAC, whose member states have different economic capacities and fiscal challenges. For example, Kenya and Uganda have high infrastructure demands, which the debt limit is too small for. This makes it hard for these countries to be within the set debt thresholds while at the same time meeting their development needs. In the same vein, in the case of ECOWAS, Nigeria and Ghana are resource-intensive economies whose revenues are volatile due to the volatility of commodity exports, hence making it difficult to meet the 3 percent fiscal deficit threshold. Further, the discrepancies in the debt thresholds established by the RECs and the anchor IMF/World Bank debt programs raise some concerns about their appropriateness for hitting the desired sustainable debt levels and their support for long-term economic objectives. While these are done through AMCP and regional convergence criteria that ensure higher economic integration and prevent debt distress, they have not been able to adapt to evolving debt challenges in Africa; hence, the observed deterioration in debt conditions in many member countries. This calls into question the capacity of these frameworks to manage debt sustainability effectively, which underpins the necessity of exploring alternative debt sustainability approaches such as Debt Sustainability Analyses (DSA) that may offer a more realistic and responsive pathway for African countries.

This report seeks to examine the effectiveness of the RECs Debt Convergence Criteria (DCC) and IMF's DSF in enhancing debt sustainability by analysing past and current debt trends among the RECs in Africa and evaluating the extent to which these trends adhere to the regional DCC and DSF. This study seeks to identify gaps in the RECs DCC and the IMF/WB debt anchor programme by analysing the DCC as, a DSF and examining previous debt relief initiatives. The aim is to propose alternative policy recommendations that are pro-Africa and support debt sustainability by considering numerous development challenges.

In light of the mounting debt challenges facing many African countries, it is critical to strengthen debt management practices and macroeconomic convergence. Macroeconomic convergence programs among various RECs in Africa, play a key role in promoting regional integration and sustainable growth. Convergence programs aim to limit excessive debt accumulation by aligning fiscal and monetary policies, and ensuring member states comply with debt limits and other economic criteria. However, the rising debt vulnerabilities and the weaknesses of existing frameworks, such as the DSF by the IMF and the RECs DCC, underscores the pressing need for reliable and more tailored policy responses. This research underscores the significance of

10 Pambu, William Pambu. "Understanding the Optimum Thresholds for the Macroeconomic Convergence Criteria in Africa's Regional Economic Communities: Evidence from SADC, COMESA and ECCAS." Modern Economy 14, no. 9 (2023): 1164-1178.

sustainable debt strategies and macroeconomic convergence as tools to promote economic resilience in Africa. The study not only evaluates the current debt landscape but also seeks to propose practical, pro-African alternatives that better address the continent's unique challenges, ensuring future debt sustainability and progress toward regional integration.

This study aims to: (i) Evaluate current debt trends in selected African RECs and provide reasons why it's a worrying trend amid the current usage of DSF by the World Bank and IMF, (ii) Assess the RECs Debt Convergence Criterion vis-à-vis the IMF/WB debt anchor programmes in Africa, (iii) Examine past debt initiative programmes that have been implemented in response to debt overhang in each REC, (iv) Provide instances in selected countries and assess whether they positively impacted on Africa development goals and (v) Propose alternative(s) policy recommendations to the convergence criterion amid multiple development crisis in Africa

1.2 Methodology

This report primarily relied on desk research by reviewing relevant publications on public debt, including convergence criteria, DSA, and past debt relief initiatives. Country specific annual data on public debt was obtained mainly from the IMF and the World Bank databases. To obtain the annual series on public debt series for each REC, data was averaged for each of the member states within the RECs.

The country case studies was selected based on a range of criteria, including current debt levels, fiscal management practices, and their participation in past debt relief programs. To provide a robust comparative analysis, countries were chosen not only to represent a spectrum of debt sustainability outcomes, ranging from those that have achieved relative debt stability to those that continue to grapple with significant debt challenges, but also to ensure regional representation across RECs. This involved selecting at least one country from each REC, thereby covering diverse economic and regulatory frameworks. As such, the study selected countries like Botswana and Tanzania, which represent more conservative borrowing approaches, alongside nations facing considerable debt challenges, such as Zambia and Ghana. This approach ensures a comprehensive understanding of the diverse factors determining debt dynamics across different African countries and assess the effectiveness of debt relief efforts across varying economic landscapes.

The rest of the report is structured as follows: Section 2 describes public debt trend among the five major RECs in Africa over the period 1973-2023. It analyses the public debt trend as a percentage of GDP for each of the five RECs, examining how they have adhered to or violated their respective debt thresholds. Section 3 analyses the DCC of the RECs as a DSA framework in comparison to the IMF-WB DSF. Section 4 examines past debt relief programs that have previously been employed to address debt overhang challenges in the RECs. Select country experiences with public debt are discussed in section 5. It focuses on countries that have had recent debt management challenges

and select best practise experiences in terms of debt management. Finally, section 6 concludes the report by discussing alternative policy options for debt management in light of the growing debt crisis and development challenges in Africa.

PUBLIC DEBT TRENDS ACROSS VARIOUS RECS

2. Public Debt Trends across various RECs

2.1 SADC

The trends in SADC public debt have been erratic, from a decline resulting from limited borrowing and international aid, to an increase in economic shocks, structural adjustment programs, and renewed borrowing for infrastructure and economic recovery. Public debt had been on an upward trend during the period of the mid-1970s up to the early 2000s. The trend of public debt from the early 2000s to 2010 was declining, after which it again showed an upward trend from 2011 and continued until 2023. Public debt-to-GDP was low during the 1970s due to limited borrowing capacity and dependence on foreign aid and grants. (Figure 1). At the same time investments in infrastructure, education, and health were quite low and primarily funded through international aid rather than domestic borrowing. The mid-1970s to 1990 period was rocked by economic shocks like global oil crises, commodity price fluctuations, and droughts raising the public debt in member states that had to borrow to manage deficits and stabilize their economies. It is also during this period that the IMF and World Bank recommended adoption of Structural Adjustment Programs (SAPs) highly characterised by economic reforms in SADC member states[11] that made the region more attractive to international lenders and investors facilitating increased borrowing that significantly impacting debt-to-GDP ratios.

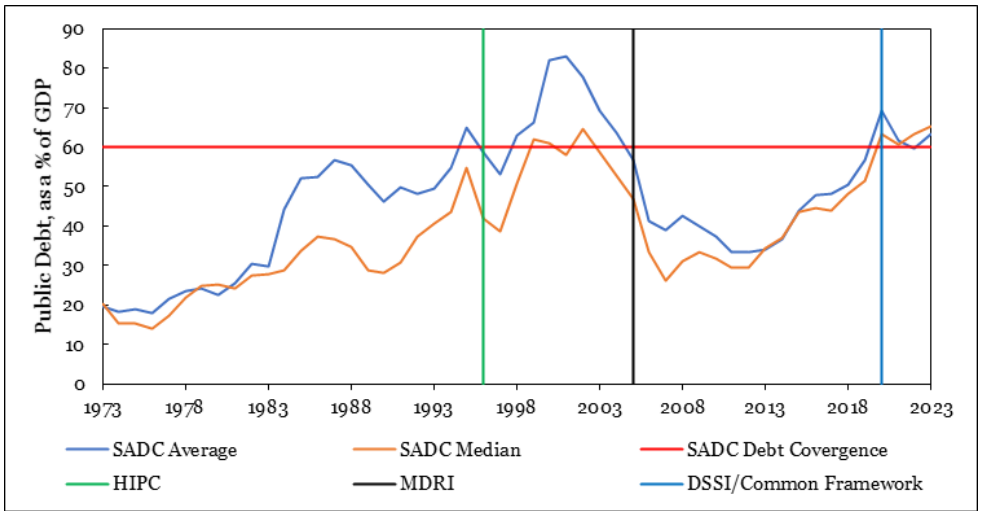


Figure 1: Public debt trends in SADC region, (% of GDP)
Data Source: IMF Debt Statistics, WEO April 2024 Statistics, A World of Debt 2024 Data

The declining debt trend observed between early 2000s to 2010 was driven by implementation of debt relief programmes and improved economic growth performance in the region. The HIPC and MDRI initiatives for instance, provided significant debt relief resulting to reduced debt to GDP ratios in this period. Beyond 2010, there were renewed borrowing and debt sustainability concerns stemming from renewed borrowing for infrastructure development, especially from China and other

11 See Figure 2 for SADC member states

emerging private lenders, global economic slowdowns and falling commodity prices, and the COVID-19 pandemic severely affected SADC economies with countries like Mozambique and Zambia facing significant debt distress.

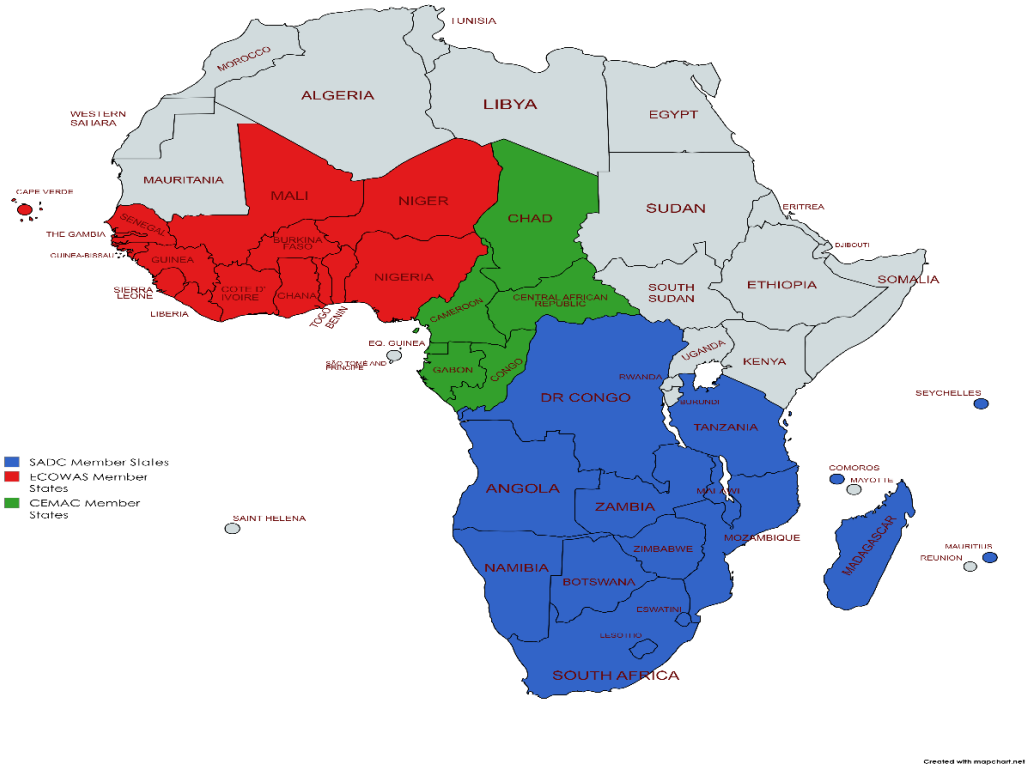


Figure 2: SADC, ECOWAS and CEMAC member states
Source: Authors

It is important to note that the debt trends observed within the region differed from country to country as shown by the variations in the mean and median series. Public debt during the 1980s resulted from unsustainable debt levels in Madagascar and Lesotho emanating from inefficient use of borrowed funds and poor economic performance. Public debt variations during the 1990s to early 2000s period was because of high debt in Democratic Republic of the Congo (DRC), Madagascar, Mozambique, Seychelles and Zambia. The increasing share of private credit has been a major cause of increasing debt levels for the SADC region resulting to debt distress to at four countries within the region i.e. Malawi, Mozambique, Zambia and Zimbabwe

2.2 ECOWAS

Public debt in the ECOWAS region has followed an upward trajectory since 1973 up to early 2000s (Figure 3). The trajectory was however disrupted between 2003-2012 where public debt declined and was within the regional debt threshold level of 70 per cent as a share of GDP in the 2007-2023 period. Although the region has maintained the debt level below the regional threshold, public debt has however been on an increasing trend since 2010. In the transition to independence, most economies of ECOWAS were largely agrarian and highly dependent on commodity exports (such as cocoa, coffee, and oil). Favourable commodity prices were key in maintaining debt

levels below the regional threshold in the 1960s and early 1990s. In the same period, global economic challenges, including oil crises, declining commodity prices, and droughts affecting agricultural output led to increased borrowing to finance deficits and stabilize economies. In addition, many ECOWAS countries adopted SAPs in the 1980s which involved significant borrowing that led to increased public debt levels as countries sought to implement economic reforms. By early 1990s, many ECOWAS countries had accumulated substantial public debt due to continued borrowing and high-interest rates. Economic reforms under SAPs continued, but with mixed results in terms of economic growth and debt sustainability. Debt relief under HIPC and MDRI provided fiscal space for economic growth and development, facilitating debt decline in the 2003-2010 period.

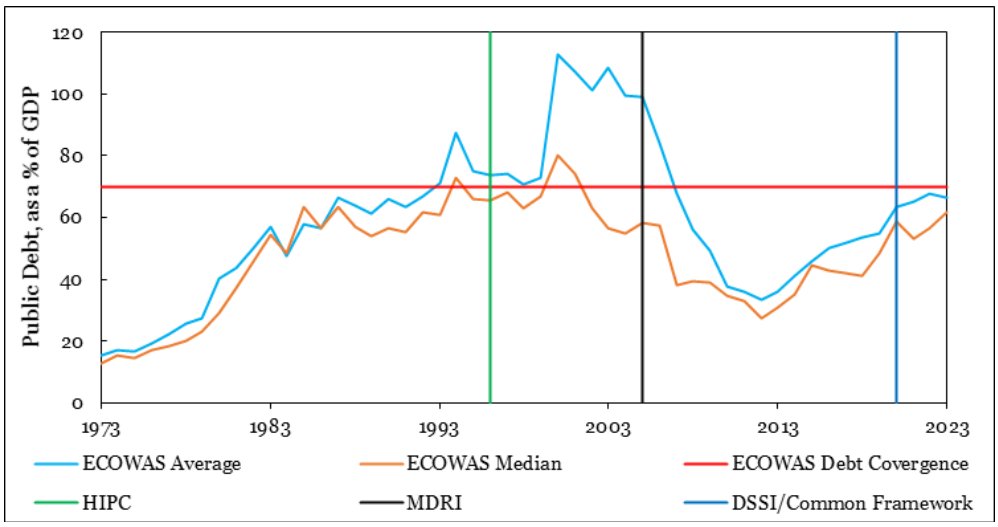


Figure 3: Public debt trends in ECOWAS region, (% of GDP)
Data Source: IMF Debt Statistics, WEO April 2024 Statistics, A World of Debt 2024 Data

Despite debt relief, many countries engaged in new borrowing, often from unconventional sources like China, to finance infrastructure and other development projects. From late 2010s to 2023, rising debt levels prompted concerns about debt sustainability, with some countries experiencing significant debt burdens. The COVID-19 pandemic led to economic contractions, reduced export revenues, and increased fiscal pressures with governments borrowing more to support health systems and economic recovery. Despite the public debt to GDP ratio being within the convergence criterion in ECOWAS, a country like Ghana is in debt distress while Gambia, Guinea Bissau and Sierra Leone are facing high risks of debt distress. This country trend has been linked to heavily reliance on external debt, shift to commercial loans and Eurobonds and rising global interest costs

2.3 EAC

Public debt in the EAC region has followed an upward trajectory since 1973 up to the early 2000s (Figure 4). This trajectory was however disrupted between 2004 and 2012 when public debt declined. Public debt has however been increasing in

the 2012-2023 period. In the 1970s phase, member states[12] of EAC were marked by moderate borrowing that was primarily to build infrastructure and support newly formed independent economies, keeping the debt ratio low. In the 1970s however, the debt level steadily increased driven by the oil crises and other global shocks that culminated to high import bills, and declining export revenues in the backdrop of undertaking large scale development projects.

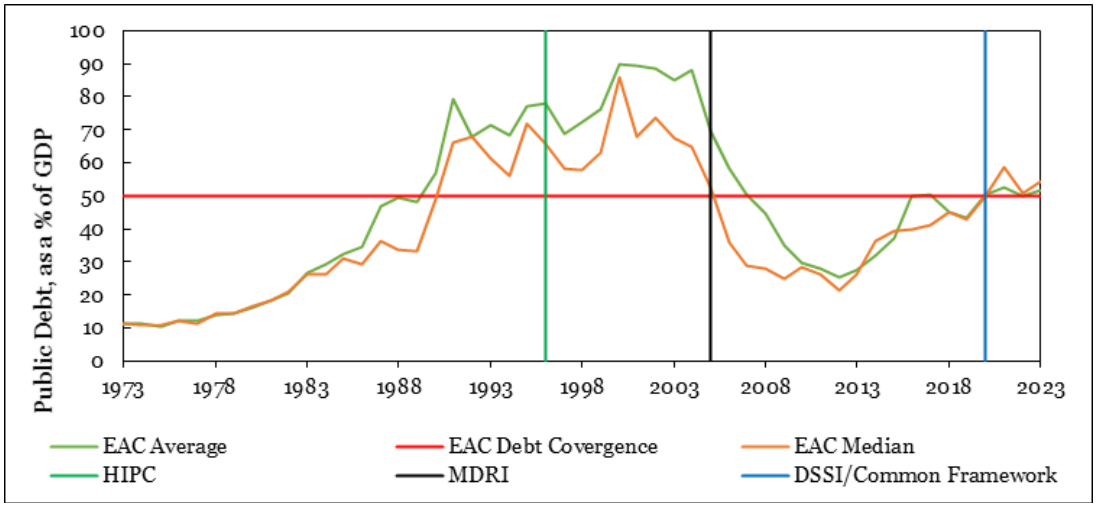


Figure 4: Public debt trends in EAC region, (% of GDP)
Data Source: IMF Debt Statistics, WEO April 2024 Statistics, A World of Debt 2024 Data

The growing debt levels in the 1980s was sustained by a combination of factors including high borrowing costs, falling commodity prices, and economic mismanagement. The implementation of SAPs exacerbated the debt situation by facilitating increased borrowing for economic reforms during this period. Debt relief initiatives in the 1990s were not fully effective in curtailing the increasing debt trend in the EAC, in fact, debt levels surpassed the regional threshold. The effect of MDRI on reducing debt stocks through debt relief together with enhanced economic growth and fiscal stability during the period 2004-2012, enabled a reduction in debt ratio to below the regional limits. Nevertheless, new borrowing exceeded 2012 by far, most from non-traditional lenders such as China and private lenders promoting a debt increase over the regional debt convergence threshold in 2023.

In the EAC region, intercountry debt variations became prominent in the 1980s with Burundi recording high public debt as major driver arising from political instability and ethnic conflicts. The 1990s debt variations were because of increasing debt levels in Rwanda and Uganda following the Rwandan Genocide and unfavourable global prices of coffee and tea. The variations in debt levels in the 2000s emanated from high debt levels in DRC, Burundi and Rwanda, with debt in the 2010s remaining within the regional debt threshold of 50 per cent as a share of GDP. The Covid-19 pandemic however saw more East African economies plunge into increasing debt, with debt levels in Burundi, Kenya and Rwanda exceeding the EAC's convergence criterion. Somalia for instance,

12 See Figure 5 for EAC member states.

is in high debt distress while countries like Burundi, Kenya and South Sudan continue to face high risks of debt distress in the region.

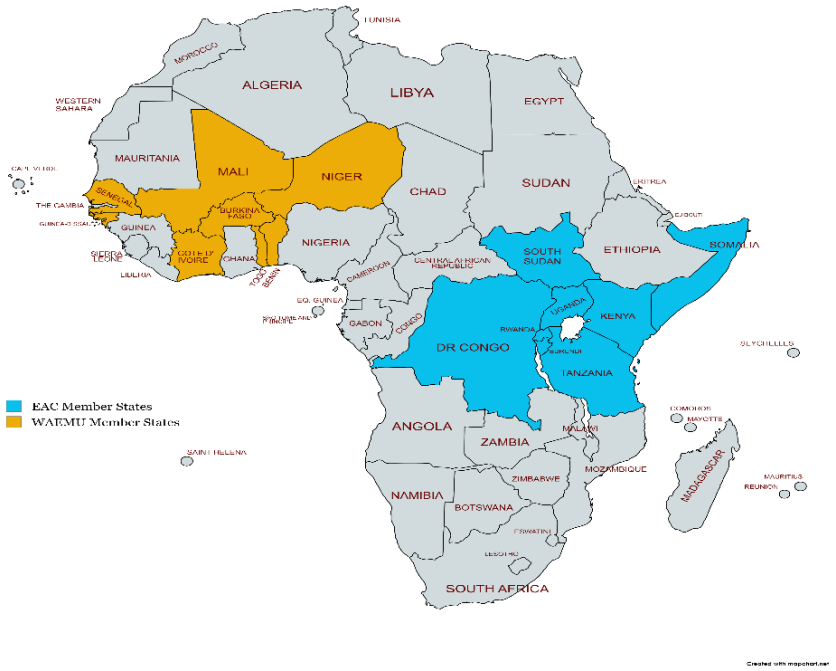


Figure 5: EAC and WAEMU member states
Source: Authors

2.4 CEMAC

Public debt in CEMAC was on an increasing trend since between 1973 and 1994 and was characterized by fluctuations (Figure 6). In between 1994 and 1997 however, debt decreased before rising again in the 1997-2001 period. The declining trend was once again observed in the 2001-2012 era before it started increasing in the 2012-2023. Borrowing trends in mid-1970s point to modest debt levels focused on building infrastructure and basic services. Sources of debt were restricted to former colonial powers, multilateral institutions and bilateral agreements. In the late 1970s CEMAC economies diversified their economies with the oil rich countries such as Gabon and Equatorial Guinea receiving significant inflows of oil export revenue. Increased commodity prices resulted in greater borrowing and so an upward debt trajectory. In the 1980s period, the high debt level was imminent in the region debt, with many countries pursuing economic reforms, austerity measures, and privatizations to receive financial assistance.

In the 1990s, countries in CEMAC continued to implement reforms to stabilize their

economies and manage their debt levels, facilitating a debt decrease between 1994 and 1997. This was however not sustained following enactment of SAPs which facilitated increased borrowing that significantly impacted debt to GDP ratios significantly in the 1997-2001 period. In 2000-2010, many CEMAC countries reached the completion point under the HIPC initiative and received significant debt relief, leading to improved fiscal stability and declining debt levels. With renewed borrowing from traditional and non-traditional lenders, including China to facilitate infrastructural development; and fiscal pressures and increasing debt levels from fluctuating oil prices the debt trends in the 2010-2023 period resumed the rising trajectory. However, debt levels for CEMAC currently are within the regional debt convergence criteria.

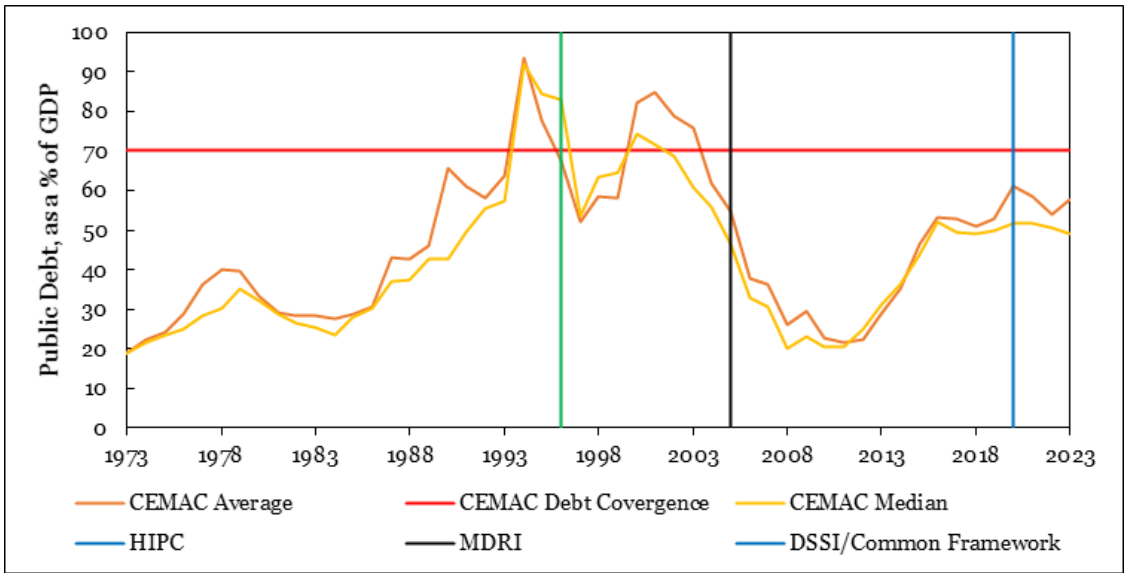


Figure 6: Public debt trends in CEMAC region, (% of GDP)
Data Source: IMF Debt Statistics, WEO April 2024 Statistics, A World of Debt 2024 Data

Public debt variations observed in the late 1970s were driven by high debt levels in Gabon, a trend that was observed in the same country during the 1980s explained by heavy reliance on oil exports whose fluctuations in global prices had a significant impact on government revenues. During the 1990s, more economies in the region plunged into high debt including Cameroon, Central African Republic, Chad, Equatorial Guinea, Gabon and Republic of Congo. This trend remained persistent into the 2000s, a development explained by fluctuations in commodity prices that adversely affected revenue generation. Debt levels beyond 2010 remained sustainable with minimal variations observed until the COVID- 19 era that fuelled growth in debt levels in Gabon and Republic of Congo. The debt risks status in the region puts Cameroon, Central African Republic, and Chad on a high risk of debt (Table A2).

2.5 WAEMU

Public debt in WAEMU was on an increasing trend from 1973 to 1994. However, in between 1994 and 1999, debt decreased before rising again in the 1999-2000 period. The declining trend was once again observed in the 2000-2012 era before increasing in the period 2012-2023 (Figure 7). Early debt incurred in the 1970s was focused on establishment of foundational economic and social infrastructure to support newly independent states. The 1970s were characterized by efforts aimed to diversify economies, with some benefiting from high prices of export commodities like cocoa, coffee, and cotton. The 1973 oil price shock led to increased borrowing to manage the economic impact and invest in development projects, increasing external debt levels in the 1970s. Sharp growth of debt in the 1980s was attributed to the global economic downturn and declining commodity prices, resulting in increased debt burdens; and financial assistance offered for implementation of SAPs. In 1988 the debt level exceeded the regional debt threshold while the debt momentum was still high until 1994.

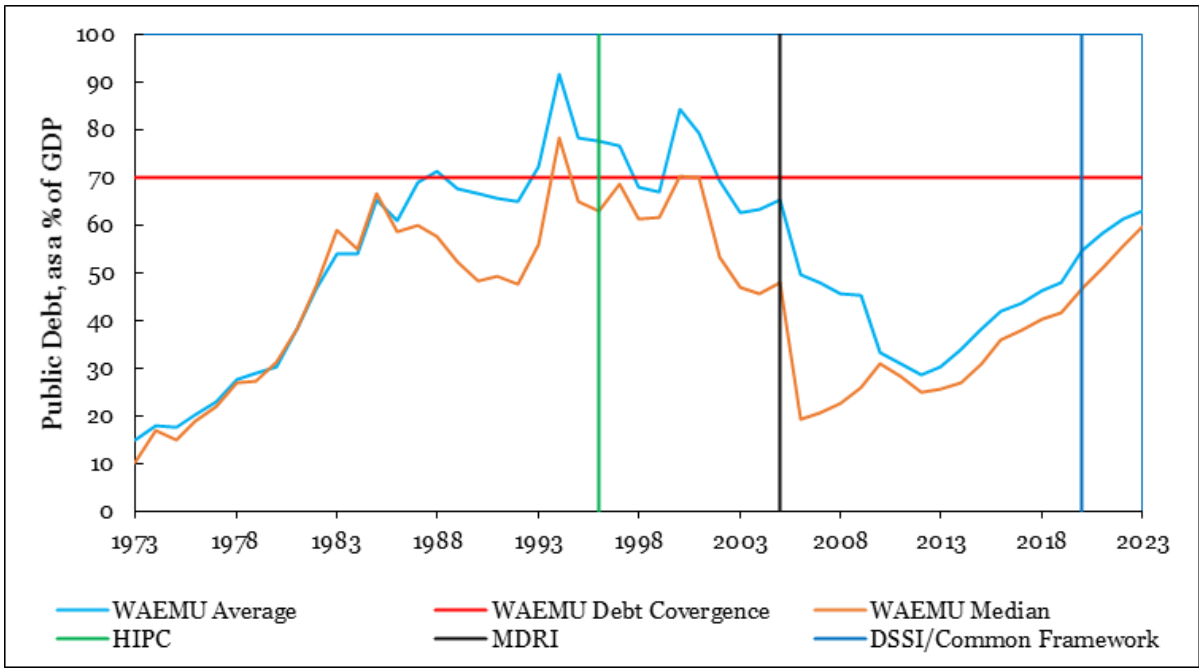


Figure 7: Public debt trends in WAEMU region, (% of GDP)
Data Source: IMF Debt Statistics, WEO April 2024 Statistics, A World of Debt 2024 Data

The declining debt trend observed in the 1994-2012 period is linked to significant debt relief and improving fiscal stability emanating from adoption and implementation of the HIPC initiative and economic growth, driven by improved governance, investment in infrastructure, and favourable commodity prices. The rising debt trend in the 2012-2023 period is associated with fluctuations in prices of oil and agricultural products, new borrowing plans to finance infrastructure and manage economic downturns, and economic contractions emanating from COVID-19 pandemic.

In the WAEMU region inter country debt variations started out in the 1970s with high debt in Mali at the forefront of the variations. In the late 1980s debt levels became

increasingly unsustainability in Cote d'Ivoire, Guinea Bissau, and Mali as a result of external economic shocks from fluctuations in cocoa and coffee commodity prices which significantly reduced export revenues and foreign exchange earnings, a trend that lasted into the 1990s and early 2000s sustaining the debt variations. Guinea Bissau's debt however, remained very high throughout the 2000s emanating from civil conflict and political instability that disrupted economic activities and infrastructure driving the significant variations in this period. The lower variations in the 2000s were because of low debt levels in the region until the COVID-19 era when Senegal and Guinea Bissau debt levels surpassed the regional's convergence criteria of 70 per cent debt as a share of GDP.

2.6 Debt Dynamics across Africa's RECs

The trends in interest payments as a percentage of GDP across the all the RECs reveal an increasing debt service burden over the years (Table 1). This growth has been linked to changes in debt composition, interest rates, and exchange rates.

Year	Public Debt Interest Payment % of GDP				
	WAEMU	CEMAC	EAC	ECOWAS	SADC
2010	0.03	0.03	0.05	0.06	0.06
2011	0.06	0.03	0.05	0.07	0.05
2012	0.04	0.03	0.06	0.06	0.05
2013	0.04	0.03	0.06	0.06	0.06
2014	0.04	0.03	0.07	0.07	0.06
2015	0.06	0.06	0.07	0.08	0.07
2016	0.07	0.08	0.08	0.10	0.08
2017	0.07	0.07	0.09	0.10	0.09
2018	0.08	0.07	0.10	0.11	0.10
2019	0.08	0.06	0.11	0.11	0.11
2020	0.10	0.08	0.12	0.14	0.11
2021	0.10	0.08	0.12	0.14	0.11
2022	0.11	0.06	0.12	0.14	0.11
2023	0.13	0.07	0.13	0.15	0.12

Table 1: Interest Payments trends across RECs in Africa, 2010-2023
Source: UNCTAD World of Debt 2024

The data on interest payments as a percentage of revenue from 2010 to 2023 across the RECs similarly exhibits a clear upward trend, with significant increases in the burden of interest payments relative to government revenue (Table 2). This trend reflects the impact of debt composition, interest rates, and exchange rate fluctuations.

Year	Public Debt Interest Payment % of Revenue				
	WAEMU	CEMAC	EAC	ECOWAS	SADC
2010	5.4	35.2	5.9	11.6	81.8
2011	8.6	38.6	6.3	14.5	66.0
2012	6.9	36.0	8.3	15.4	73.6
2013	7.0	47.0	10.0	17.9	85.6
2014	8.2	52.4	11.7	19.3	67.2
2015	9.4	43.0	11.3	20.3	73.3
2016	10.9	45.7	12.8	22.3	83.5
2017	12.2	50.2	14.7	24.0	93.3
2018	15.0	57.3	17.2	28.1	103.0
2019	16.1	56.0	19.5	29.0	97.5
2020	19.4	72.1	20.8	32.8	86.6
2021	22.6	74.7	23.8	37.3	98.2
2022	22.4	72.3	26.6	38.1	104.8
2023	28.9	77.4	28.9	36.7	117.4

Table 2: Interest payment, % of revenue, 2010-2023
Source: UNCTAD World of Debt 2024

Interest payments, by and large, were low, both as a share of GDP and as a share of revenue, during this period of 2010 to 2014, though they show a marginal increase in EAC and ECOWAS. WAEMU, CEMAC, and SADC had stable interest payments; these interest payments were kept low in the interest to GDP ratios. This is mostly because of relatively favourable interest rates globally in the 2010-2014 periods, while, in some instances, some of the RECs relied mainly on concession loans with even lower rates; in addition to that, some exchange rates had become stable so as not to hike interest rates paid when translated back in local currencies to service those in foreign denomination. Gradual rises in the said interest were represented by a slight increment in interest-to-revenue ratios that were evident of the emergence of government tendency to become depending more and more on borrowings, particularly with the ambitious move to finance infrastructural investment.

In the 2015-2019 period however, there was a notable increase in interest payments across all the RECs. WAEMU, CEMAC, and ECOWAS had steady increases, with SADC and EAC reaching 0.07 per cent to 0.11 per cent by 2019. The period was characterized by increases in external borrowing emanating from a shift towards non-concessional and commercial loans, and international bonds. These funding avenues were associated with higher interest rates and shorter maturities compared to concessional financing. Increased public infrastructure investment also led to rising debt levels in the wake of currency depreciation which facilitated payments in stronger foreign currencies contributing to higher debt servicing costs for external debt.

The COVID-19 pandemic had a significant impact, particularly in 2020, on the debt ratios evidenced by countries facing revenue shortfalls and increased borrowing to finance public health and economic recovery efforts. Interest payments relative to GDP surged across all regions; WAEMU and ECOWAS, for instance, saw an increase from around 0.10-0.11 per cent of GDP in 2019 to 0.14-0.15 per cent by 2023. Similarly, SADC witnessed a gradual increase to 0.12 per cent by 2023. The SADC region's debt to revenue ratio for instance reached 117.4 per cent by 2023 indicating that interest payments had exceeded the annual revenue collected. With this dynamic, economies run a risk of losing revenue generated in financing debt obligation thus hindering national development. Interest rates on new debt issuances remained relatively high due to increased risk perceptions in the global market, and exchange rate depreciation in many African countries further increased the cost of servicing foreign debt.

The trends in the interest payment ratios across the RECs reflects the increased debt servicing burden due to higher-cost borrowing, high interest rates and exchange rate pressures. This makes the RECs and African region more vulnerable to global financial conditions.

DEBT CONVERGENCE CRITERION OF AFRICAN RECS AND THE IMF/WB DEBT SUSTAINABILITY FRAMEWORK

3. Debt Convergence Criterion of African RECs and the IMF/WB Debt Sustainability Framework

3.1 Debt Convergence Criterion of African RECs

Over the past few decades, macroeconomic convergence has become the prerequisite for macroeconomic stability and integration among African RECs. DCC, one of the most important initiatives of this convergence agenda, are parts of the wider macroeconomic policies designed to allow member states strive towards sustainable levels of public debt. This framework is intended to harmonize fiscal policies in line with the rules and maintain debt levels that are sustainable and ensure long-term economic stability for member states.

Arguments in favour of fiscal convergence programs in currency areas can be grouped in two broad groups. First, fiscal convergence programs in currency areas are outcomes generated to secure the stability of the entire currency union in cases where a country has volatile and unsustainable public finances[13]. For example, the degree of concern is particularly high in African currency unions (e.g. WAEMU, CEMAC). In such regions, due to the existence of shared currencies, the fiscal policies of one country can directly spillover across the entire union as the case was with Europe's Euro Area, where Greece's fiscal crisis hindered growth and convergence within the EU[14]. Second, implementing fiscal policy rules in a monetary zone is supposed to strengthen the credibility of fiscal and monetary policies. This convergence fosters coordination and consistency among member states, allowing for more effective monetary union and aiding officials in maintaining price stability and safeguarding the value of the common currency. Fiscal convergence is considered helpful for the independent functioning of regional central banks, because stable fiscal policies mean that national fiscal practices are not going to lead to central banks having to intervene to offset inflation or currency depreciation brought on by unsustainable national fiscal practices.

The debt convergence criteria have various indicators, including public debt-to-GDP ratios, fiscal deficits, and inflation rates. These indicators are employed to analyse the fiscal and debt sustainability of member states. The IMF and World Bank DSA framework employs similar indicators to assess a country's ability to service its debt without compromising economic growth and development. The RECs convergence criteria in Africa follow the broader IMF/WB DSA framework but in their specificity to particular country contexts and regional needs. For instance, the EAC has established its own debt-to-GDP ratios and fiscal deficit thresholds according to the specific fiscal space and growth potential, as well as the structural economic problems, facing its member countries. On the contrary, the IMF and World Bank employ a global approach for assessing debt sustainability which is relevant for developing and emerging markets. Their framework seeks to provide a general approach to assessing debt sustainability

13 Tapsoba, Sampawende J-A., Daouda Sembene, Vigninou Gammadigbe, and Ismaël Issifou. "Fiscal convergence in africa." Journal of Economic Integration 34, no. 2 (2019): 214-235.

14 Wyplosz, CH. "Europe's Quest for Fiscal Discipline. [Economic Paper, No. 498.]." European Economy, (2013).

while at the same time focusing on endogenous and exogenous benchmarks that may not always be relevant for particular countries or regions.

The main DSA-related indicators employed by the major African RECs and the IMF-WB DSA indicators are presented in Table 3. This table highlights the convergence criteria for each REC based on public debt-to-GDP ratio, fiscal deficit, and inflation. From the table, RECs such as SADC, ECOWAS and WAEMU use public debt-to-GDP in nominal terms and while EAC and CEMAC apply the NPV terms. For nominal debt-to-GDP ratio, Time value of money is not considered. This is, in any event, an easier, more direct approach since it allows countries to record their debt in absolute terms in relation to their GDP. But it has its shortcomings, especially in other countries, with other debt structures and interest rates. For example, a country with a greater proportion of short term or high interest debt may look sustainable on a nominal debt threshold basis, but face very little ability to service that debt. This may cause debt burden to be underestimated in instances of high future expenditure linked with the debt, potentially risking fiscal stability within the region.

Alternatively, NPV methodology factors in the time value of money through the present value of future debt service payments, adjusting for concessionality, interest rates, and debt maturity. This measure is especially important for low income countries (LICs) where concessional financing with relatively low interest rates may dominate. NPV-based thresholds focus on a more realistic measure of debt sustainability, as it better reflects the actual economic burden of a country's debt in present value terms, which can be used to compute the average value to get the EAC and CEMAC. Concessional loans from international organizations would, for example, look less burdensome under an NPV-based measure because of their lower cost of servicing this type of debt over time compared to higher-interest commercial debt.

Table 2 in the Appendix presents the status adherence by member states of various RECs to respective convergence criteria as of 2023.

Indicator	SADC	ECOWAS	EAC	CEMAC	WAEMU	IMF/WB-DSA
Public debt to GDP	≤60%	≤70%	≤50%-NPV	≤70%-NPV	≤70%	55%-70% for LICs
Fiscal deficit-incl grants (% of GDP)	≤3%	≤3%	≤3%	≤3%	≥0	≤3%
Inflation rate	≤5%	≤5%	<8%	≤3%	≤3%	≤3%

Table 3: Debt Convergence Criteria of the RECs in Africa
Source: Authors based on information from websites of RECs

There are several strengths associated with respect to REC's DCC in promoting debt sustainability in Africa. These advantages arise from the ability of RECs to customize the debt sustainability frameworks to regional settings. Some key strengths are:

(i) Context-Specific Flexibility

The debt and fiscal benchmarks that RECs such as the EAC and WAEMU have established are not rigid, one-size-fits-all frameworks often associated with the IMF and World Bank but rather benchmarks adapted to reflect peculiar circumstances of their member states. This flexibility allows member states to adhere to debt guidelines that take into account their specific developmental needs and economic challenges. For example, WAEMU's 70% debt-to-GDP ratio and EAC's 50% debt-to-GDP target consider factors like the need for infrastructure investment and limited fiscal capacity. In using these context-sensitive criteria, these frameworks aim at promoting sustainable borrowing while still enabling essential investment that would encourage long-term growth.

(ii) Promotion of Regional Stability and Economic Integration

RECs DCC frameworks are designed to harmonize fiscal policies across countries within a region, which enhances policy alignment and economic stability. For example, WAEMU's convergence criteria on fiscal deficits, inflation, and debt limits help to stabilize the monetary union by preventing any single member state's fiscal mismanagement from jeopardizing regional stability. This shared commitment to fiscal responsibility supports regional economic integration by creating a more stable and predictable economic environment conducive to trade, investment, and cross-border economic activities.

(iii) Complementarity with IMF/World Bank Standards

Although the DCC frameworks of the RECs have been adapted to suit regional contexts, they tend to be consistent with the general standards set out by the IMF and World Bank. This makes consistency in debt assessment among different frameworks less problematic, hence creating an easy atmosphere for African countries to meet the regional benchmark within the same thought of meeting the international expectations.

This has particularly been important in cases where the standards of RECs act as a reference in negotiations with creditors outside the region. In harmonizing regional and international approaches, African countries increase their scope for gaining international financing while adhering to debt sustainability behavior which is more applicable to their contexts.

Despite these strengths, the RECs DCC have some challenges including:

(i) Diverse Economic Structures

Compared to other developing regions of the world, African countries have been quite diversified in terms of their economic structures, stages of development, resource endowments, and fiscal capacities. Therefore, this diversity mediates against applying a convergence criterion uniformly across countries, since economic conditions and realities vary widely across the continent.

(ii) Inconsistent Implementation and Compliance

One of the major dilemmas with these frameworks indeed has to do with dealing with inconsistency in a manner that application and adherence look different across nations. Most emerging countries cannot afford to give the required debt-to-GDP ratios due to economic predispositions and budgetary targets associated with fiscal inadequacies, besides political pressures inherent in their systems, which is bound to weaken the feasibility of convergence models as a whole.

(iii) External Shocks and Vulnerability

African economies are vulnerable to external shocks-for instance, fluctuations of commodity prices, financial crises at the global level, and pandemics such as COVID-19. The aftermath of these shocks is likely to increase debt levels and deteriorate fiscal health significantly, making it hard to meet the predefined convergence criteria.

3.2 The IMF-World Bank Debt Sustainability Framework

The IMF-WB DSF, created in 2005, is a tool intended to gauge the current level of debt of a country and its future debt servicing capacity. The main goal is to make countries capable of meeting their current and future debt obligations without recourse to excessive adjustments that may risk economic growth (See Box 1: The Political Economy of the IMF-World Bank DSF). The framework sets up the global threshold within which the sustainability of debt is tested. It further applies the use of country threshold that was specifically built for LICs. For example, the public debt-to-GDP ratio threshold at NPV terms has a range for LICs that varies between 55% to 70%, depending on the country conditions or country-specific risk profile under consideration. The IMF-WB framework was reviewed earlier in 2006, 2009, and 2012. The 2012 review introduced a number of important features including the incorporation of more country-specific data and an increased focus on vulnerabilities associated with domestic debt.

In 2017, another review of the framework was approved, introducing reforms to ensure the DSF remains suitable for the evolving financing landscape facing LICs and to enhance insights into debt vulnerabilities. The 2017 comprehensive review led to the following components for DSA conducted under the DSF:

(i) A composite indicator assessing a country's debt-carrying capacity, incorporating country-specific and global factors, including institutional strength as measured by the World Bank's CPIA score;

(ii) Realism tools to scrutinize baseline projections more closely; a standardized forward-looking analysis of debt and debt service dynamics under a baseline scenario and potential shocks, calibrated to reflect country-specific experiences;

(iii) Newly introduced tailored stress tests to better evaluate risks from contingent liabilities, natural disasters, volatile commodity prices, and market-financing shocks;

(iv) Modules providing a richer characterization of debt vulnerabilities, including those from domestic debt and market financing, offering better discrimination across countries within the moderate risk category.

In line with the review of the IMF-WB DSA framework, the macroeconomic convergence criteria for the RECs have similarly been revised, given the evolving economic conditions and regional integration ambitions, but also as a need to address specific fiscal and debt sustainability challenges faced by the member countries. Indeed, the revisions have targeted the achievement of realistic targets that consider peculiar economic structures and vulnerabilities in every region, such as commodity price shocks, inflation control, and fiscal discipline. External shocks have also compelled a number of RECs to review their criteria in response to exogenous shocks, including global financial crises and economic slowdowns that have resulted in an increase in debt and undermined fiscal sustainability across their membership. Table 4 summarizes the changes in macroeconomic convergence criteria across the RECs, indicating the targets that have been altered.

Box 1: The Political Economy of the IMF DSA Framework

The DSA framework is designed to help countries manage their debt levels by assessing their ability to repay debts without compromising economic growth. This framework guide borrowing decisions and ensure that countries do not accumulate unsustainable debt. Major stakeholders, especially the IMF and World Bank, wield immense influence over the criteria and thresholds applied in these frameworks. Their policies often reflect the interests of major donor countries and international financial markets.

Oftentimes, the DSF is related to the IMF and World Bank lending programs, wherein several strict conditions should be met before countries receive financial assistance. These conditions can include fiscal austerity measures, structural reforms, and adherence to specific debt thresholds. The debt thresholds set by the IMF's DSF/DSA can be more stringent than those set by African RECs. This can create a divergence between the debt limits imposed by the IMF and those set by regional bodies, complicating efforts to achieve debt convergence.

The IMF is governed by a system where major shareholders, like the United States, the European Union, and other G7 countries, have significant influence over its policies and frameworks. These influential members often prioritize fiscal discipline and debt sustainability, especially when lending to LICs in Africa. This may, in turn, exert pressure on African countries to implement stern debt criteria consistent with fiscal conservatism that these most powerful IMF shareholders may prefer. Geopolitical interest is another perspective that could affect IMF lending decisions as well as policy advice. For example, the IMF could seek stability within a region, which is of great strategic concern for its major shareholders, which can then influence the way DSA implementation is carried out.

The need to comply with both IMF/World Bank criteria and regional DCC can lead to policy conflicts. Countries may struggle to balance the requirements of international financial institutions with regional integration goals. The IMF's DSA framework comes with stringent conditions and requirements that countries must meet to access financial assistance. This creates a strong incentive for compliance. Many African countries rely on IMF loans to manage their debt and finance development projects. The need for these funds makes them more likely to comply with the IMF's DSA criteria, even if it means implementing tough fiscal measures. For example, when a country shows signs of debt distress, the IMF may advise austerity measures, such as fiscal consolidation and cuts in public spending, to ensure debt repayment. While such measures are intended to ensure debt sustainability, they often reflect the interests of creditor countries and financial institutions that seek repayment over the borrowing country's immediate economic stability and development. This misalignment can hinder the achievement of true debt sustainability among RECs in Africa

REC	Revisions to Macroeconomic Convergence Criteria
SADC	CHECK-CIRCLE Memorandum of Understanding (MoU) establishing macroeconomic convergence signed in 2002. CHECK-CIRCLE The MoU has provisions for revising the macroeconomic convergence. CHECK-CIRCLE The criteria became operational in 2004 and has not undergone any revisions
ECOWAS	CHECK-CIRCLE Revisions to criteria undertaken in 2012 and 2015. Highlights from 2015 revision include: CHECK-CIRCLE Number of criteria rationalized from eleven to six, four primary and two secondary. CHECK-CIRCLE Fiscal deficit revised from 4% (excluding grants) to 3% (including grants) CHECK-CIRCLE Inflation target changed from a maximum of 5% to less than 10% (single digit) CHECK-CIRCLE Target for external reserves changed from 6 months of import cover to 3 months
EAC	CHECK-CIRCLE In 2007, the original convergence criteria was revised and adopted to support regional integration and facilitate the goal of a single currency. CHECK-CIRCLE In 2013, revisions were introduced to improve fiscal discipline, emphasizing the need for low debt-to-GDP ratios and controlled inflation as part of the EAC Monetary Union Protocol. The 2013 revisions led to setting of: CHECK-CIRCLE Headline inflation of less than 8%. CHECK-CIRCLE Fiscal deficit (including grants) ceiling of 3% of GDP. CHECK-CIRCLE Gross public debt of 50% of GDP in NPVs terms. CHECK-CIRCLE Reserves to 4.5 months of import cover CHECK-CIRCLE The revisions were aimed at supporting the establishment of the East African Monetary Union and ensuring consistency of policies under the monetary union[15]. CHECK-CIRCLE 2017-Criteria were refined to address the divergent fiscal conditions among member states and to allow for more sustainable debt accumulation.
CEMAC	CHECK-CIRCLE Convergence framework originally adopted in 1994. CHECK-CIRCLE CEMAC's convergence criteria was refined in 2001, further augmented in 2008, and further revised in 2015[16]. CHECK-CIRCLE The revised framework in 2015 became effective in January 2017, includes. CHECK-CIRCLE A new fiscal rule based on a three-year average overall budget deficit. CHECK-CIRCLE A public deficit ceiling, 70% of GDP, reinforced with a debt brake. CHECK-CIRCLE A revised inflation criterion, at 3% and CHECK-CIRCLE Additional secondary criteria
WAEMU	CHECK-CIRCLE A revised framework was adopted in 2015 due to weak compliance with the convergence program that was formalized in 1999[17]. CHECK-CIRCLE The indicators adopted in 2015 are: CHECK-CIRCLE Fiscal balance (including grants) set at -3% of GDP from a zero or positive balance in the previous criteria. CHECK-CIRCLE Consumer price inflation per year at less than or equal to 3% CHECK-CIRCLE Public debt at a maximum of 70% of GDP

Table 4: Revisions to African macroeconomic convergence criteria

15 Ltaifa, Nabil Ben, Masafumi Yabara, and Oral Williams. "Economic convergence to support the East african monetary union." The Quest for Regional Integration in the East African Community (2014): 39-60.

16 Fiess, N., P. Aguera, E. Kouevi, N. Bayraktar, C. Calderon, L. Jensen, J. Gaskell et al. "Deepening Regional Integration to Advance Growth and Prosperity." World Bank Report. (2018).

17 David, Mr Antonio, Alexandre Nguyen-Duong, and Hoda Selim. Strengthening the WAEMU Regional Fiscal Framework. International Monetary Fund, 2022.

The DSF employs different indicators to assess debt sustainability, such as the debt-to-GDP ratio, present value of debt-to-exports ratio, debt service-to-revenue ratio, and the debt service-to-exports ratio (Table 5). Public debt-to-GDP ratio and present value of debt-to-exports ratio are known as solvency indicators while debt service-to-revenue ratio, and the debt service-to-exports ratio are known as liquidity indicators[18]. The DSF framework includes baseline forecasts based on current policies and stress tests to evaluate the impact of adverse economic shocks. The framework sets specific thresholds and benchmarks, differentiated for countries based on their institutional and policy capacity, to determine the risk of debt distress. It includes both fiscal and external DSF, evaluating both domestic and external debt components. The countries are classified into different risk categories (low, moderate, high, or in debt distress) based on their likelihood of debt distress under baseline and stress test scenarios (see Box 2 on Mozambique's journey into debt distress). The risk status of member states based on IMF's assessment in September 2024 is presented in Table A1 in the Appendix.

Debt sustainability thresholds depend on a country's debt-carrying capacity, which is evaluated using a Composite Indicator (CI). The CI incorporates measures of institutional and policy quality as well as macroeconomic performance indicators. Based on the CI ranking, countries are classified into three categories: strong (CI > 3.05), medium (2.69 ≤ CI ≤ 3.05), and weak (CI < 2.69).

	CI Score	PV of external debt (% of)		External debt service (% of)		PV of total public debt (% of)
Classification		GDP	Exports	Exports	Revenue	GDP
Weak	CI<2.69	30	140	10	14	35
Medium	2.69≤CI≤3.05	40	180	15	18	55
Strong	CI>3.05	55	240	21	23	70

Table 5: Debt burden thresholds and benchmarks under the DSF
Source: IMF (2018)

This classification assumes that countries with better policies, institutions, and macroeconomic prospects can sustain higher debt levels. The thresholds are assessed in relation to GDP, exports, and revenue, with higher thresholds assigned to stronger performers. Debt burden indicators are compared to these thresholds over the projection period to assess debt sustainability. The risk of public debt distress is categorized into four ratings: 'low risk,' 'moderate risk,' 'high risk,' and 'in debt distress' (Table 5). A country is considered to be in debt distress if it cannot meet its financial obligations and requires debt restructuring.
The DSF has notable strengths:

18 See Box 2 which analyses the DSF Indicators

(i) Comprehensive Debt Analysis for Informed Decision-Making

The DSF offers detailed assessments of both external and public sector debt, considering multiple economic variables and potential stress scenarios. This in-depth analysis is crucial for policymakers in understanding the broader debt landscape and making data-driven decisions that ensure debt stability.

(ii) Proactive Debt Management and Early Warning System for Debt Crises

The DSF uses baseline projections, stress tests, and risk ratings to enable policymakers to anticipate potential debt distress. These tools act as an early warning system, allowing governments and creditors to intervene before issues escalate into crises. By identifying risks early, policymakers can formulate timely fiscal and structural reforms, ensuring long-term fiscal stability and avoiding debt crises through better negotiation and management strategies.

Box 2: Analysis of the DSF Indicators

1. Public Debt-to-GDP Ratio

Public debt-to-GDP ratio is commonly used to assess debt sustainability relative to the size of an economy. However, it does not account for the structure of debt, whether domestic or external, and can overestimate debt stress in countries with high inflation or growth potential Further, it would be assumed that national income increase would directly lead to a proportionate increase in tax revenue, hence servicing the country's debt through taxes into the national income. However, Amegashie (2023), opines that this assumption in most cases does not hold in LICs due to inefficiency in tax administration, corruption, significant informal sectors as well as widespread tax exemptions. The weak nexus between revenue and GDP in LICs suggests that a rise in GDP might not result in higher government revenue, which again makes the debt-to-GDP ratio quite an unreliable indicator of debt sustainability. In its place, focus on actual government revenues, the evolution of debt stock, and future debt servicing costs provides a more accurate picture of a country's ability to manage its debt. Thus, while GDP growth is important for revenue generation, the direct use of debt-to-GDP ratios oversimplifies the complex fiscal dynamics in LICs.

In addition, the use of the debt-to-GDP ratio in LICs with weak institutions can lead to irresponsible fiscal management and create perverse incentives. This ratio can, therefore, be manipulated through understating debt stock by off-budget operations or inflating GDP, as was in the case of Ghana. Reliance on the debt-to-GDP ratio may therefore mask the correct level of the country's challenges in debt, making it less capable of predicting debt distress.

Another limitation with this indicator is that the debt-to-GDP ratio, unlike other indicators such as debt service-to-revenue that compare two flow variables, compares a flow variable with a stock variable, GDP with debt. This could yield misleading conclusions regarding a country's burden of debt, since the stock of debt does not need to be repaid immediately but serviced gradually. For instance, some of the most advanced countries, like Japan and the USA, have debt-to-GDP ratios well over 200% and 110%, respectively, and can still borrow very cheaply. Debt sustainability should be more about debt affordability, proxied through debt service costs, rather than through the hypothetical burden implied by the debt-to-GDP ratio. Long-term debt sustainability is a matter of a country's ability to meet future

debt obligations-that is, solvency-and to remain liquid in the short term.

2. Present Value of Debt-to-Exports

The present value of debt-to-exports ratio is forward-looking in considering concessionality and, therefore, more refined than nominal ratios. However, it may obscure real debt problems in countries where export revenues are highly volatile. In the same vein, the present value of debt-to-revenue ratio focuses on the fiscal capacity of the government to meet its debt obligations but may also be distorted by revenue volatility, especially in commodity-dependent economies.

3. Debt Service-to-Exports Ratio

The debt service-to-exports ratio indicates the ability to earn foreign exchange through exports for debt servicing. Although this is good for countries whose economies depend on external debt, the ratio has its shortcomings, especially in economies that have a low export base or where export earnings are very volatile. This is the case, for example, in most of the Member States of the African RECs, which have narrow export bases. This makes their export earnings highly volatile and susceptible to global price fluctuations. Therefore, the volatility may distort the debt-service-to-exports ratio hence not a reliable measure of debt sustainability.

4. Debt Service-to-Revenue Ratio

It reflects the capacity of the government to payable debt by internal revenue, therefore providing an overview of fiscal flexibility. However, it does not account for external risk factors like changes in foreign exchange and also omits accounting for countries having underreported revenues attributable to large informal sectors. Moreover, the current fiscal situation without considering long-term fiscal sustainability

Box 3: Mozambique's Journey into Debt Distress

n the early 2000s, Mozambique experienced high economic growth on account of foreign direct investment (FDI) and international aid. The country pursued macroeconomic reforms that resulted in growth of the economy, averaging around 7.7% annually between 2000 to 2016. Things took a turn for the worse in 2013 and 2014 when Mozambique took on secret loans in excess of $2 billion, or 12% of GDP, for the financing of state-owned enterprises toward projects like tuna fishing and maritime security. The government guaranteed these loans but did not disclose to the public or IMF, violating Mozambique's agreements with international lenders (World Bank, 2022). Prior to 2012, under the IMF's DSF, Mozambique was assessed as a low-risk country. The debt-to-GDP ratio was relatively stable, and debt indicators like the present value of debt-to-exports and debt service-to-revenue were within acceptable thresholds for LICs (IMF, 2012). However, a 2013 DSA updates of the May 2012 joint IMF/IDA DSA moved Mozambique from low to moderate risk of debt distress due to lower discount rate, and a significant increase in debt contracted in the previous two years linked to an ambitious public investment program aimed at narrowing the infrastructure deficit. This resulted in a breach of PV of debt to GDP ratio, PV of debt to export ratio and debt service-to-revenue ratio under FDI shock scenario (IMF and IDA, 2013).

In 2016, the hidden loans were exposed, leading to a severe economic crisis. The IMF and other international donors suspended financial aid, causing a loss of confidence among investors. Mozambique's currency, the metical, depreciated sharply, and inflation surged to 17.4% by the end of 2016. The country's GDP growth rate halved, and fiscal space narrowed significantly as foreign aid and FDI dried up. By 2018, Mozambique's external public debt had ballooned to 104% of GDP, up from 61% in 2016. The debt service burden became unsustainable, leading to Mozambique defaulting on its debt payments. Credit rating agencies downgraded the country's sovereign debt to selective or restricted default.

The IMF's DSF for Mozambique initially classified the country at moderate risk of debt distress. However, the hidden loans scandal and subsequent economic shocks led to a rapid deterioration in debt indicators. Consequently, the 2018 DSF analysis showed that Mozambique breached all the critical thresholds for the five external debt indicators under the baseline scenario, pushing the country into debt distress (IMF, 2018b). In 2019, Mozambique's CI score was 2.64, indicating that the country's debt-carrying capacity was weak and in debt distress. As of December 2022, Mozambique was classified as in high risk of debt distress and remains in this state as per the latest DSA of July 2024.

(iii) Informs Financing Decisions for LICs and Creditors

The DSF provides a framework that guides countries and donors on how to finance development needs with limited future debt accumulation. The DSF aligns LIC financing requirements with their current and future repayment capacities, taking into account country-specific contexts. The DSF is also widely used by donors and lenders to inform financing strategies. Since 2005, for instance, the IDA has utilized DSA risk ratings to allocate grants and loans to LICs.

(iv) Standardized Approach for Cross-Country Comparisons

The framework provides the standard approach, thus providing cross-country comparison and a coherent basis for debt sustainability assessments. This would mean all countries aligned under one frame, therefore allowing comparisons between countries and through time.

(v) Promotes Transparency

The accuracy of a DSA is closely intertwined with the underlying macroeconomic framework. Transparency is crucial in order to provide an understanding to users about the assumptions underpinning the projections and their realism. DSAs should present the main assumptions driving debt projections and risk ratings such that these can be adjusted over time. Even when assumptions are explicitly stated, however, the complexity underlying them may sometimes remain obscured .

(vi) Guiding Fiscal Reforms and Financing Strategies

DSF supports this role of the policymakers through specific advice on fiscal adjustments and structural reform, supported by tailored insights in financing strategy, playing a critical role in keeping public debt burdens manageable as development and growth get supported.

Whereas the DSF has a great number of outstanding strengths, it suffers from numerous inherent form weaknesses that render it rather ineffective for application in the cases of persistent debt crises in Africa:

(i) One-Size-Fits-All Approach

The uniform approach to debt assessment, as practiced by the DSF, often fails to take into consideration the varied economic structures, fiscal capacity, and vulnerabilities typical in a specific African country. The approach, therefore, renders many of the

findings and conclusions on the sustainability of national debts misaligned and sometimes misleading. An example can be derived from Ghana, whose economy is largely dependent on oil exportation. Thus, at the time, with dependency on oil, there was a real impact from oil price fluctuations not captured by the DSF estimates that added significantly to its increasing debt burden.

(ii) Underestimation of Debt Risks

The DSF might also underestimate African countries' debt vulnerabilities, in particular those relating to contingent liabilities and hidden debt. In most cases, the risks of off-balance-sheet items-such as the debt of state-owned enterprises or guaranteed loans-are only partly captured by the DSF analysis, although they could substantially increase the level of debt if they materialize. For example, in 2016, Mozambique revealed over $1 billion in secret debt from state-owned enterprises, which became the root of a huge debt crisis. This hidden debt led to an economic crisis, and the DSF had not forecast or provided for such contingent liabilities.

(iii) Omission of Key Debt Indicators

The DSF does not capture one of the key drivers of debt distress, namely unsustainable public finances. It does not include key indicators of the dynamics of public debt, such as primary fiscal deficits and the interest rate-growth differential. Besides, market signals related to default and devaluation risks-such as Eurobond spreads, local debt interest rates in excess of inflation targets, and credit ratings-are not part of the model. These are worrying omissions, given the rising reliance of LICs on market debt

(iv) Neglect of Development Needs in Debt Sustainability Analysis

What this fails to address is the fundamental conflict between debt sustainability and the dire development needs of LICs to invest in infrastructures and human capital. Indeed, for many African countries, such investment will be crucial for pursuing economic growth, job creation for their fast-growing youth, and reductions in instability that insecurity and mass migration often present. The narrow focus of the framework on debt ratios does not provide a balance between this urgent need for development and the importance of maintaining sustainable debt levels.

(v) Inconsistent Application of Present Value of Debt

The DSF's approach to the present value of debt is inconsistently applied, with four out of the five debt distress indicators pertaining to public and publicly-guaranteed external debt and its present value calculated at a discount rate of 5 percent. In other words, only concessional external debt is discounted in this rather arbitrary rate; the market debt in the form of Eurobonds and the domestic debt retain face values due to the historically high interest rates for respective securities. At a current juncture where one can have instruments that are so wide-ranging-between concessional loans to purely commercial, home market debts, to the Eurobond-in this direction, nominal values for debt burden combined with their weighted average rates can provide better

and truer view of sustainability for debt burdens. Box 4 is an illustration of the limitations of the use of PV in DSA.

Box 4: Ghana's Debt Crisis: A Case Study of the Limitations of the LIC DSF

In 2016, Ghana was already on an unsustainable path of public debt, reaching a debt-to-GDP ratio of 78% while sustaining high borrowing costs. While the efforts to reduce the deficit were significant, they had not been enough to make the situation sustainable. Market signals, such as high yields on Eurobonds, indicated quite clearly that the country was in distress, but the LIC DSF missed those signals since it primarily relied on external debt and generalized thresholds rather than the overall fiscal challenge. Indeed, while Ghana's debt situation was deteriorating, the DSF still rated the country's debt as sustainable, consequently failing to spot essential issues in the context of poor public spending decisions and effective use of the borrowed resources. Contributing to the many factors that finally led Ghana to default on its sovereign debt in December 2022 were the protracted fiscal weaknesses which the DSF had overlooked. The case mentioned just now ascertains that an approach of PV, used within the framework of the DSF, fails to capture the imminent signs of an outburst of a debt crisis in the African context due to varied and complex economic reasons.

(vi) Inadequate Response to Shocks

While the DSF already performs stress tests, which is helpful to some extent, it too often cannot fully capture the frequency or intensity of certain external shocks-perennial in many African economies-such as commodity price fluctuations, natural catastrophes, or political tensions. This weakness has, to some extent, reduced the usefulness of this framework in pinpointing and, more strongly, predicting those scenarios that are specifically African and prone to debt crises. For example, Zambia had to bear such external shocks as a fall in copper prices-a country's main export-and the effects of the COVID-19 pandemic. In its stress tests, the DSF did not adequately account for these shocks, resulting to Zambia's debt default in 2020. The fiscal space was narrower compared to what the DSF projections had indicated, adding to the distress.

(vii) Over-Reliance on Baseline Projections

The DSF strongly relies on baseline projections, which in most cases are produced under very optimistic assumptions with respect to growth, fiscal performance, and financing conditions. In African countries, the economies being usually quite unstable, these projections tend to be overly optimistic, which again leads to misguided debt sustainability analysis and delayed policy action.

(viii) Focus on External Debt

The DSF has traditionally placed a heavier focus on external debt, potentially underestimating the risks posed by domestic debt. Domestic debt has, nonetheless, acquired a significant element of the overall public debt in African countries. It does not also fully capture the challenge imposed by a domestic debt market, which is characterized by high interest rates and shorter maturities. For example, Kenya has been increasingly relying on domestic borrowing to finance its budget, hence pressuring domestic interest rates and increasing the cost of borrowing. However, the DSF is still

more biased toward external debt that could tend to underestimate the high domestic debt burden Kenya is facing and threatens overall debt sustainability.

(ix) Limited Scope for Private Sector Involvement

Although the DSF does give some parameters on debt risks, on the role of private creditors, it has not done much, particularly in African countries which are increasingly facing international bond markets. This has left gaps in addressing the risks associated with non-concessional financing and new private sector creditors that are becoming key sources of African debt. For instance, events in Angola and Zambia have shown how the build-up of private sector debt-particularly through Eurobond issuances-presents a serious risk. Because the DSF does not take the role of private creditors into account, the surging costs of servicing private sector debt in both countries have been contributing factors to their respective recent debt crises.

(x) Inadequate Metrics for Low-Income Countries

The DSA framework differentiates between countries on the basis of their income levels. For low-income countries, the DSA relies on measures such as debt-to-GDP, debt service-to-exports, and debt service-to-revenue. However, these measures are not consistently applied to high-income countries and are often weakly evidenced. The emphasis on export-to-GDP ratios may lead to the perpetuation of a development model based on natural resource exports and the importation of finished goods, thereby making African countries susceptible to trade shocks, liquidity crises, and macroeconomic instability[19].

(xi) Failure to Account for Africa's Natural Capital and Climate-Related Risks

The current DSF framework does not factor in the large economic potential locked up in Africa's natural capital-a key source of long-term resources. The DSF, therefore, underestimates the capacity of African countries to achieve debt sustainability in the medium to long term, since it does not account for future potential resources such as natural assets. Including natural capital in debt assessments would give a more accurate picture of future economic prospects and fiscal resilience of a country, thus helping to formulate better policies for sustainable debt management.

Besides, the non-inclusion of climate-related risks by the DSF presents another critical gap in the debt sustainability evaluation for Africa. The continent is highly vulnerable to climate shocks, such as droughts, floods, and desertification, which directly threaten economic productivity and fiscal stability[20]. Ignoring these risks leads to an incomplete picture of a country's solvency and resilience, as climate events can substantially disrupt economic activity and increase the debt burden. Therefore, integrating climate resilience with natural capital into the DSF would provide a more realistic and complete assessment of debt sustainability for African countries [21].

19 Breaking the Bias: Rethinking Debt Sustainability for Africa's Future

20 AFRODAD, Analysis of the Debt Management Policies of International Financial Institutions and Multilateral Groups Amid Multiple Crisis: Their Potential and Alternative Policies to Address Current Debt Challenges, Policy Brief Paper, (2023a).

21 AFRODAD. Debt Restructuring under the G20 Common Framework and Alternative Policy Solutions. (2024)

3.3 The RECs' Debt Convergence Criterion vs the IMF-World Bank DSF

The convergence criteria set by the RECs go a long way in enforcing fiscal discipline and economic stability among the member states. As much as that may sound, debt sustainability remains one of the critical challenges facing most African countries despite those efforts. The increase in the public debt level occasioned by global economic shocks, tight global financial conditions, and domestic financial crises calls for more effective debt management strategies. A comparison done between the DCC of the RECs and the IMF-WB DSF stipulates that strong congruence exists on the objectives, maintaining fiscal and debt sustainability. The effectiveness in attaining its purpose of debt sustainability on the African continent would depend largely upon the adherence of member states to stipulated benchmarks that have been crafted, coupled with the implementation of good fiscal policy. While DCCs in African RECs epitomize fiscal discipline and regional integration, they have been rather more constrained than the IMF-WB DSF on various aspects.

First, the DCC lacks a thorough risk analysis, since it focuses on nominal debt levels and basic fiscal indicators, whereas the DSF embodies detailed risk assessments, including stress tests and analyses for specific vulnerabilities that are tailored to particular situations, such as natural disasters or commodity price shocks. Second, the DCC of the RECs does not incorporate country-specific adjustments, using uniform thresholds across member states irrespective of individual country conditions. But the DSF uses a composite indicator that adjusts thresholds for country-specific factors, hence providing a more tailored assessment. While the DCC analysis is rather static, mostly focused on the current debt ratios with limited forward-looking stress tests, the DSF puts forward-looking assessment, based on baseline projections and potential shocks for the future debt sustainability. Fourth, the RECs' DCCs pay limited attention to domestic debt vulnerabilities. By contrast, the DSF provides a complete analysis of both external and domestic debt and underlines potential risks from domestic borrowing. Fifth, the RECs' DCCs do not systematically incorporate assessments of institutional strength and broader economic conditions. The DSF integrates these factors through the composite indicator, offering a more detailed understanding of a country's debt-carrying capacity. Lastly, African RECs generally lack enforcement mechanisms for penalizing non-compliant member states[22].

It is essential to recognize that compliance with these debt limits and convergence criteria differs across countries (See Table A2). Although non-compliance with DCCs may be noted in regional reports or discussions, there are rarely punitive measures for failing to adhere to debt thresholds. There is no punitive measure or direct financial consequence if a country does not meet DCC requirements, as the RECs lack both the political authority and financial leverage to impose penalties. This contrasts very strongly with the ability of the IMF to withhold funds and to impose conditions. Non-compliance with debt sustainability requirements of the DSA results in a more limited

22 AFRODAD. The Legal Foundations of the African Public Debt. (2023b).

access to IMF financing. The IMF can withhold funding, place additional conditions, or even suspend programs if it considers a country's debt profile to be unsustainable within the DSA framework.

With all their strengths, it is a wonder these two frameworks, the RECs' DCC and the IMF-World Bank's DSA for LICs, have existed for years without the fizzling out of public debt vulnerabilities in African nations. This framework is assisting in identifying risks to debt and guiding fiscal policies; they have their limiting factors in cognizance to specific structural and economic challenges that worsen the prevailing debt vulnerabilities in Africa. As such, it would be timely to consider new approaches that are tailored to the unique economic landscapes of African countries.

PAST DEBT INITIATIVE PROGRAMMES IN THE REGIONAL ECONOMIC COMMUNITIES

4. Past Debt Initiative Programmes in the Regional Economic Communities

4.1 Heavily Indebted Poor Countries

The IMF and World Bank introduced the HIPC Initiative in 1996 to ensure that no poor country faces an unmanageable debt burden. To qualify, countries had to meet specific criteria, commit to poverty reduction policies, and demonstrate consistent positive performance over time[23]. Many African countries, including Côte d'Ivoire, Tanzania, Ghana, Senegal and Togo, managed to reduce their excessive debt service burdens through the debt relief under the HIPC and the MDRI initiatives. There was strong participation of multilateral institutions and Paris Club creditors in these initiatives[24].

The HIPC Initiative had, therefore, brought significant comprehensive debt relief to several SADC member states and facilitated economic reforms in those countries. Countries such as Tanzania, Zambia, Malawi, Madagascar, and the DRC, among others, were recipients of huge amounts of debt relief from the HIPC Initiative, thus getting a chance to have their economies stabilized while redirecting such resources toward very essential sectors such as health, education, and infrastructure development (Table 5). For example, Tanzania that benefited from debt relief was able to improve public expenditure management and direct more resources towards the social sectors. However, despite the debt relief, the structural economic weaknesses of these countries were not overcome through the HIPC Initiative. Other factors such as the Global Financial Crisis, commodity price volatility, and high dependency on external financing have led to a surge in debt levels. For instance, Mozambique is a beneficiary but made very minimal gains from the initiative, with the country's case being worsened by a hidden debt scandal in 2016. From 2016, Mozambique had been experiencing debt distress, with the debt-to-GDP ratio rising to about 120 percent in 2020[25].

In ECOWAS, countries like Ghana and Sierra Leone, despite benefiting from HIPC, still face significant debt challenges. Ghana, for example, has seen its public debt rise sharply, reaching 92.4% of GDP by 2022, due to factors such as fiscal expansion to control the COVID-19 pandemic, financial sector clean-ups and energy sector bailouts[26]. Similarly, Sierra Leone continues to grapple with high debt levels and economic instability, exacerbated by external shocks and domestic fiscal challenges. In 2022, Sierra Leone's public debt as a ration of GDP stood at 98.8%.

In the EAC, HIPC beneficiaries like Uganda, Tanzania, and Rwanda saw debt relief efforts encouraging investment in poverty reduction programs and essential services. However, Kenya, a non-beneficiary of the HIPC Initiative, saw its debt to GDP increase

23 IMF. World Economic Outlook: A Rocky Recovery. April 2023. (2023a)

24 IMF. Heavily Indebted Poor Countries (HIPC) Initiative and Multilateral Debt Relief Initiative (MDRI)–Statistical Update. IMF Policy Paper, (2019).

25 World Bank. "Republic of Mozambique: Systematic Country Diagnostic." 2021.

26 African Economic Outlook 2024

70.2% in 2023 from 66.7% in 2022 to driven by large-scale investment in infrastructure and external borrowing. Concerns have since been raised about debt sustainability due to the current high debt levels.

The member states of CEMAC that benefited from the HIPC program include Cameroon, Chad, Central African Republic and Republic of Congo. Cameroon, for instance, completed the HIPC process in 2006, leading to substantial reductions in its debt-to-GDP ratio and enabling increased budget allocations for social development. In the CEMAC countries, however, such efforts have been hindered by various factors including external shocks and fiscal mismanagement that have derailed efforts to achieve debt sustainability. These challenges underpin the imperative for robust frameworks for debt management and fiscal policy in RECs to remain sound in the medium term.

In the WAEMU region, this has benefited multiple member states through various debt relief initiatives, noticeably under the Heavily Indebted Poor Countries. Major countries in that region Senegal, Burkina Faso, and Cote d'Ivoire- have realized the full cycle of HIPC, thereby going through serious declines in respective country debt burdens, with an uptick in the ability to use these resources in improved public spending in core sectors like education and health. However, despite these successes, some WAEMU countries, such as Senegal and Togo, have not yet fully attained debt sustainability because of challenges like low revenue mobilization and vulnerability to external economic shocks. The regional experience thus underlines the need for continued international support and effective strategies in debt management as a prelude to long-term economic stability and growth.

Initiative	SADC	ECOWAS	EAC	CEMAC	WAEMU
HIPC	DR Congo Madagascar Malawi Mozambique Tanzania Zambia	Benin Burkina Faso Côte d'Ivoire Gambia Ghana Guinea Guinea-Bissau Liberia Mali Niger Senegal Sierra Leone Togo	Burundi Rwanda Tanzania Uganda DR Congo	Cameroon Central African Republic Chad Republic of Congo Guinea	Benin Burkina Faso Côte d'Ivoire Guinea-Bissau Mali Niger Senegal Togo
MDRI	Madagascar Mozambique Tanzania Zambia	Benin Burkina Faso Ghana Mali Niger Senegal	Rwanda Tanzania Uganda		Benin Burkina Faso Mali Niger Senegal
DSSI	Angola DR Congo Lesotho Madagascar Malawi Mozambique Zambia	Burkina Faso Côte d'Ivoire Gambia Guinea Guinea-Bissau Mauritania Niger Senegal Sierra Leone Togo	Burundi Kenya Tanzania Uganda DR Congo	Cameroon Central African Republic Chad Guinea Republic of Congo	Burkina Faso Côte d'Ivoire Mali Niger Senegal Togo
Common Framework	Zambia				

Table 5: Previous Debt Relief Initiatives and Beneficiaries in each REC

4.2 Multilateral Debt Relief Initiative

The MDRI, is a scheme that became applicable in 2005 out of the expanded indebtedness of poor nations with the outright cancellation of their 100% debts due to the IMF, the International Development Association, and the African Development Fund. MDRI was therefore complementary to, or an augmentation of, progress already made towards the HIPC.

For example, under SADC, some major beneficiaries of the MDRI included Madagascar, Tanzania, Mozambique, and Zambia, whose debt burdens were dramatically reduced. Despite this, Mozambique has continued to experience debt distress partly due to subsequent borrowing and economic instability. Under the case of ECOWAS, Ghana and Senegal were notable beneficiaries of the MDRI. As a result, the countries received a huge debt relief that gave them fiscal space to invest in essential services and development projects. However, a combination of fiscal mismanagement and accumulation of new debts has seen them create new debt vulnerabilities. In EAC, Tanzania, Uganda, and Rwanda were beneficiaries of MDRI, bringing about huge reduction of their debt levels hence enabling them to increase public investments in infrastructure and social services.

However, new borrowing needs and exogenous terms-of-trade shocks pose continuing debt challenges. In the CEMAC, notable beneficiaries were Cameroon and Chad. Debt relief provided through the MDRI helped these countries overcome some of their fiscal challenges but persistent economic vulnerabilities and governance issues have raised debt concerns again in these countries. This is as a result of channeling resources by the MDRI beneficiaries in the WAEMU, such as Mali and Niger, to development objectives. Long-term debt sustainability has been affected by political instability, among other factors, and new debt accumulation. Although the HIPC and MDRI initiatives allowed considerable debt relief for various African countries, hence allowing temporary reductions in debt-to-GDP ratios and increased fiscal space for social sector investment, these have been demonstrated to have very critical limitations under the DSF and RCC frameworks.

Whereas the HIPC-MDRI indeed reduced the burdens of debt at the beginning, incomplete structural reforms in addition to fiscal mismanagement and external vulnerabilities have made it impossible to sustain long-term debt through these initiatives. Hence, most of them had slipped back into high-risk or debt-distressed categories as revealed by Mozambique and Ghana when an external shock coupled with domestic fiscal pressures led Debt-to-GDP ratios breaching sustainable levels set by the DSF.

The RCC and DSF assessments of these countries post-HIPC and MDRI relief reveal that while debt stock reductions are crucial, they are insufficient in the absence of robust institutional and fiscal reforms. The DSF framework, with its focus on risk categorization

based on solvency and liquidity indicators, has frequently indicated elevated debt vulnerabilities in former HIPC and MDRI beneficiary countries. This reveals that debt relief initiatives partially succeeded in lowering debt burdens, but did not address the structural issues necessary for sustainable debt management.

4.3 Debt Service Suspension Initiative

The DSSI was initiated by the G20 in April 2020 in response to the challenges brought by COVID-19 pandemic. The initiative provided relief to 48 out of 73 of the poorest countries, including 32 African countries, enabling them to focus their resources on addressing the COVID-19 pandemic until the program ended in December 2021 after being extended from December 2020[27].

Several member states of RECs benefited from the DSSI (Table 3). Zambia was among the main beneficiaries of DSSI in SADC. At debt distress already before the pandemic, Zambia was finding it difficult to manage its debt burden. The DSSI created an important breathing space through the suspension of debt service payments, enabling the country to focus on urgent health and economic needs. However, Zambia's debt levels remain challenging driven by persistent fiscal deficits and economic volatility.

In the ECOWAS, several countries benefited significantly from the DSSI. Most of these countries were already battling high levels of public debt and limited fiscal space; therefore, the DSSI relief was quite instrumental in managing the economic shocks induced by COVID-19. For example, Guinea and Sierra Leone are resource-intensive economies that heavily depend on commodity exports. Global market volatility has severely disrupted their economies. The suspension of debt service payments was important temporary fiscal relief that allowed these countries to free resources for urgent health and economic recovery responses. Yet, even as the DSSI achieved these benefits, it did not deal with the underlying debt vulnerabilities of those countries, which continued to be prone to future economic shocks.

The notable beneficiaries include Kenya and Uganda of the EAC. For Kenya, for instance, mired by a high level of public debt, the opportunity brought forth by the DSSI was almost an immediate freeing-up opportunity to invest more money in the shock caused by COVID-19. This initiative in the case of Uganda was making room so as to permit it to begin to stabilize with fiscal normality, but this in fact has merely been temporary stabilization because it can't cure or sort out vulnerability in its underlying debt structure at a long term framework.

Among others in the WAEMU, Mali and Niger were significant beneficiaries of the DSSI. The truth is that these countries used the DSSI to mitigate the short-term fiscal pressures so that the concentration of resources on the response to the pandemic was feasible. While the risk of near-term default has been mitigated, debt vulnerability factors have

27 https://www.worldbank.org/en/topic/debt/brief/covid-19-debt-service-suspension-initiative

remained intact, together with reliance on foreign borrowing as looming challenges to sustainability.

4.4 G20 Common Framework

The G20 Common Framework (CF) for debt treatments beyond the DSSI ('the Common Framework') was launched in November 2020 to address debt vulnerabilities on a case-by-case basis. It was originally designed to provide structured debt relief, assisting countries eligible for the DSSI in managing and repaying their debts. However, by June 2024, it had received applications from only four countries namely Ethiopia, Chad, Zambia, and Ghana, and has yet to implement any debt treatments. Progress has been made in regard to countries that requested debt treatment under the CF. For example, Ethiopia secured an interim debt payment suspension agreement with bilateral creditors, including China, although negotiations are ongoing. Chad finalized a tentative agreement at the end of 2022. In March 2024, Zambia became the first country to successfully complete a debt restructuring under the G20's Common Framework[28].

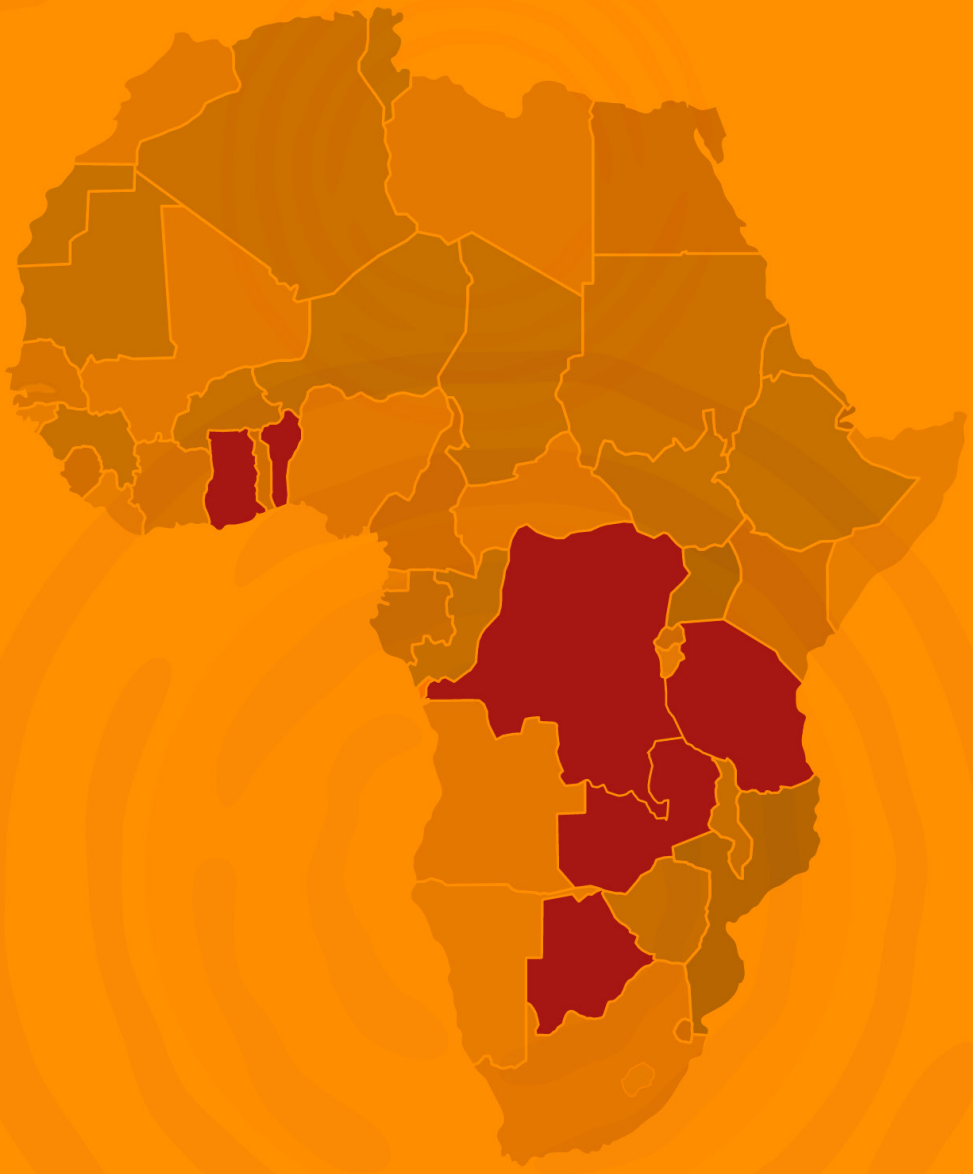
In January 2023, Ghana became the fourth country to seek treatment under the CF. Notably, in January 2024, Ghana reached an important milestone with a draft agreement by its official creditors; it restructured US$5.4 billion of debt[29]. Recent progress has been observed with relatively accelerated debt treatment for Ghana under the CF than the experiences of Zambia and other former applicants, further efforts are needed to strengthen the framework's future credibility. However, the CF has several drawbacks. Bureaucratic barriers and delays exacerbate economic challenges for countries in need[30]. For instance, debt restructuring in Zambia has taken over three years and is inflicting unwarranted costs on its economy. Such coordination takes time among the different stakeholders concerned, such as Paris Club and non-Paris Club creditors-one of these being China and India-domestic institutions, and several agencies. So as to surmount the problems of collective action and to avoid unwarranted burdens being placed on one set of creditors rather than another, the Common Framework needs private creditors to participate on terms comparable with those of official creditors.

28 AfDB 2024

29 Debt relief should be the African Union's focus at the G20

30 AFRODAD. Debt Restructuring under the G20 Common Framework and Alternative Policy Solutions. (2024).

COUNTRY EXPERIENCES



5. Country Experiences

This section discusses the varied experiences of some selected African countries from multiple RECs in two contexts: those facing increasing public debt burdens and, in turn, provide insights into the factors shaping their fiscal challenges with implications for debt sustainability on the continent. Some of these countries benefited from debt relief programs in the early 2000s, which reduced debt burdens temporarily and provided fiscal space for development. However, high levels of borrowing that have accompanied those policies have frequently, often occasioned by resort to market, based on borrower ambitious public spending habits since shifted several countries into precarious debt positions. Drawing on diverse experiences, case studies of each- from over-reliance on commerce loans in Zambia to a number of unprecedented bailouts through its financial system in Ghana, and all the way down to pandemic-related new spending-show just how easily that delicate balance slides into an unhealthy and unsustainable debt-in-development situation on behalf of the borrowers at the behest of lenders under pressure. Their stories are instructive on the risks of unrestricted borrowing and good economic management in a volatile world. The paper also looks at countries like Botswana and Tanzania that have adopted more conservative approaches to borrowing, in order to provide a more complete picture of how debt management strategies are implemented in different economic contexts. Such selection depicts a methodology based on diversity in debt dynamics, ranging from countries that have large debt distress to others which so far have maintained fiscal stability, relative to their comparisons, thereby making the comparative analysis of the various practices of debt management across Africa.

5.1 Zambia

During the last twenty years of its public debt, Zambia characterizes the complex interaction between economic, political, and global factors that influence fiscal stability and debt management. In the early 2000s, Zambia benefited from high international debt relief initiatives, such as the HIPC program. This effort saw the ratio of public debt to GDP shrink from 261.0% in 2000 to 18.9% in 2010. Such debt relief created some much-needed fiscal space, allowing the country to devote greater resources to developmental and growth needs. The fiscal stability injected by debt relief was, however, short-lived. In the aftermath of the global financial crisis and a commodity price boom, Zambia embarked on a protracted debt build-up. The country became more dependent on market-based loans from private institutions, and its debt composition gradually shifted toward higher interest rates and shorter maturity[31].

Zambia issued its first Eurobond in 2012, followed by other sovereign bonds in 2014 and 2015. This was the beginning of Zambia's more reliance on commercial debt, predominantly from bilateral lenders such as China, which constitute nearly a third

31 Ndung'u, Njuguna, Abebe Shimeles, and Damiano K. Manda. "Growing with debt in African economies: Options, challenges and pitfalls." Journal of African Economies 30, no. Supplement_1 (2021): i3-i13.

of Zambia's external debt. By 2019, Zambia's public debt had hit 94.4% as a share of GDP, with commercial debt constituting half of Zambia's external debt portfolio. The period between 2016 and 2020 saw a dramatic escalation in Zambia's debt challenges. Expansionary fiscal policies and ambitious infrastructure projects led to a doubling of the public debt, from 58.0% of GDP in 2016 to an unsustainable level of 94.4% in 2019, further increasing to 140.2% in 2020 and surpassing the SADC's debt convergence threshold of 60% of the GDP. The macroeconomic fundamentals worsened, with the pricing and quality of Eurobonds deteriorating over time. The fiscal balance (including grants), worsened to -13.8% of GDP in 2020, surpassing the 3% limit set by SADC.

By 2019, debt servicing costs surged, becoming the largest category of spending and accounting for more than 30% of spending[32]. The sovereign bonds yields went up significantly, with the 12-year bond yield rising from 15.9% in 2019 to an average of 24.2% in 2020, reaching the highest at 35.4% in April 2020. The situation culminated in Zambia defaulting on its external debt payments in November 2020 amid the COVID-19 pandemic. The COVID-19 pandemic simply added another layer of concern to the pre-existing debt woes facing Zambia. With its rising debt burden and a history of inefficient use of state resources, Zambia did not have the leeway it would require in finding any effective management to mitigate the pandemic's effects. The Zambian kwacha has plunged because of copper price falls and downgrades of credit ratings, stoking inflation that soared from 9.1% in 2019 to 22% in 2021, although this rate tempered at 11% by 2023. By the end of 2022, Zambia's debt sustainability assessment, conducted under the IMF-World Bank DSA for LICs, categorized the nation's debt-carrying capacity as "weak." This classification highlighted Zambia's limited ability to manage its debt obligations effectively without significant risk of default. In addition, the country's debt levels were deemed "unsustainable," reflecting a precarious fiscal situation where current debt loads were unlikely to be manageable without major restructuring or economic improvement efforts.

Zambia's total sovereign debt reached an estimated US$33.3 billion by end of 2022, underscoring the substantial fiscal challenges the country faced. This debt has both external and domestic components. The external debt, that totalled US$18.32 billion was held by various types of creditors. Multilateral institutions accounted for US$3.56 billion and bilateral creditors held US$6.32 billion. The largest single portion of external debt was from private creditors and stood at US$8.4 billion. Other than the external obligations, Zambia owed US$15.0 billion that was held domestically under local law. The domestic debt includes US$2.2 billion in Treasury bills, US$9.4 billion in government bonds, and US$3.4 billion in domestic arrears. Zambia embarked on restructuring agreements pertaining to its sovereign debt in 2023. For the most part, this had a bumpy process. After extensive negotiations, on June 22, 2023, Zambia and the Official Creditor Committee reached a deal under the G20 Common Framework to restructure its debt. The deal would restructure around $6.3 billion in official debt owed to bilateral

32 Mbewe, M., I. Masilokwa, T. Humann, M. Kalikeka, M. Kessler, and S. Mwamba. "The Road to Zambia's 2020 Sovereign Debt Default." Zambia Institute for Policy Analysis and Research (ZIPAR) and Finance for Development Lab. (2024).

creditors through extended debt maturities out to 2043[33]. This was inclusive of almost 40% NPV reduction by using a discount factor of 5%.

The terms were such that this restructuring provided the unprecedented easing of debt burdens because of a mix of extended maturities and reduced interest rates. The maturity extension averaged at more than 12 years, reducing Zambia's debt-servicing burden by a fair margin. Interest rates were set at a favourable 1% for the next 14 years, with a cap of 2.5% afterward in a baseline scenario. Principal repayments are scheduled to start in 2026, with annual payments of 0.5% (around $30 million) continuing until 2035.

The restructuring is projected to yield $5 billion in debt service savings from 2023 to 2031, reducing Zambia's debt servicing requirement to $750 million over the next decade. This is a stark contrast to the nearly $6 billion that Zambia would have owed under the original terms. Additionally, the agreement includes an adjustment mechanism, which stipulates accelerated repayment terms if Zambia's debt-carrying capacity improves to a "medium" status. This provision allows for final maturity to be shortened by five years and interest rates to increase up to 4%[34]. In November 2023, Zambia faced a setback when creditors, led by France and China, rejected a proposal to restructure approximately US$ 4 billion owed to bondholders. In March 2024, Zambia finalized a $3 billion debt restructuring agreement with its external bondholders (Steering Committee of bond holders). Under the debt restructuring agreement, Zambia's bondholders agreed to write off approximately US$840 million of their claims, offering significant debt relief to the country. Additionally, this agreement is expected to provide cash flow relief of about US$2.5 billion during the period of Zambia's IMF Extended Credit Facility program.

5.2 Ghana

Ghana's debt as a proportion of its GDP has increased drastically over the last two decades, surpassing the ECOWAS' debt convergence limit. Ghana's public debt as a percentage of GDP was 80.2% in 2000, declined steadily to a low of 18.2% in 2006, and then began to rise again. Figures from the IMF show more than a 100 percent increment between 2010 and 2022. As a proportion of GDP, Ghana's public debt increased from 62% in 2019 to over 80% in 2021[35]. This surge in public debt was primarily driven by the financial sector clean-up from 2018 to 2021[36], energy sector bailouts starting in 2019, and financing needs related to the COVID-19 pandemic in 2020. Ghana has faced severe economic and financial challenges since early 2022, leading to a default on some of its debt in December 2022.

33 AFRODAD. Analysis of the Debt Management Policies of International Financial Institutions and Multilateral Groups Amid Multiple Crisis: Their Potential and Alternative Policies to Address Current Debt Challenges. Policy Brief Paper, (2023a).

34 Grigorian, David A., and Aditya Bhayana. Zambia: A Case Study of Sovereign Debt Restructuring under the G20 Common Framework. No. 707. 2024.

35 Ministry of Finance Ghana 2022

36 The financial sector clean-up in Ghana from 2018 to 2021 contributed to debt vulnerability by significantly increasing public debt as the government took on additional liabilities to stabilize failing banks and other financial institutions, leading to higher debt servicing costs and straining the country's fiscal position. The total bailout package to the financial sector as of 2021 totalled 25.3 Ghanaian cedis (equivalent to 7.5% of Ghana's GDP).

Notwithstanding, Ghana's fiscal balance (excluding grants) had deteriorated significantly from an average of -6.6% in the period 2011–2019 to -17.4% in 2020, the highest recorded among SSA countries in the COVID year 2020. The public debt-to-GDP ratio increased remarkably from an average of 49.6% to 72.3% in 2020 and 92.4% in 2022[37]. The country's challenges were further heightened by multiple downgrades by credit rating agencies. By 2022, Ghana joined the ranks of countries defaulting on external debt since the onset of the COVID-19 pandemic. The formal declaration of a debt crisis in July 2022 was preceded by months of consistent downgrades of Ghana's long-term local and foreign currency issuer default rates by several agencies, notably Moody's Ratings, Fitch Ratings, and S&P Global Ratings.

These downgrades came in response to rises in Ghana's debt stock and debt service levels, as well as heightened liquidity constraints. The volume of external debt has grown especially fast over the last ten years before 2022. External debt expanded by about 80 percent between 2015 and 2021, from US$ 20.1 billion to US$ 36.2 billion. In the same period, the cost of servicing external debt more than tripled from US$ 1.05 billion to US$ 3.23 billion. The Ministry of Finance in Ghana explained that partly, the crisis has emanated from government overspending occasioned by the COVID-19 outbreak, while other analysts link it to the Russia-Ukraine war[38]. Some link economic challenges to poor management of the economy to mitigate such external shocks, given that almost all countries in the world are affected by the pandemic and the war in Ukraine but with different economic outputs.

5.3 Botswana

Over the last two decades, Botswana has had sound debt management. The levels of public debt as a share of GDP remain low compared to other economies that have endured different types of external shocks. Starting at 8.16 percent in 2000, Botswana's debt-to-GDP ratio has hovered somewhat modestly over the last decade, peaking to 20.93% in 2011 from the global financial crisis, and for the rest of the years after that, it stabilized within the range of 18-19 percent. Unlike many African countries, Botswana did not benefit from the HIPC initiative or the MDRI. This stability is largely attributed to Botswana's long-standing record of prudent economic management and strategic fiscal policies. The government's use of countercyclical policies has been effective in maintaining fiscal responsibility and ensuring public debt sustainability, even during volatile economic periods. As a result, Botswana has successfully navigated global economic fluctuations while keeping its debt levels under control, showcasing its robust debt management framework.

Additionally, Botswana has adhered to the SADC DCC with an average of 14.0 percent of the GDP concerning public debt between 2000 and 2022. Resulting from this kind

37 Were, Maureen. Emerging public debt challenges in sub-Saharan Africa. No. 2024/36. WIDER Working Paper, (2024).

38 Ministry of Finance. "Press Release: Re-audit of the Government of Ghana COVID-19 Expenditure for the Period March 2020 to June 2022." Accra: Ministry of Finance, 2023.

of disciplined fiscal management by the country, its debt-to-GDP ratio has fallen within the thresholds set by SADC, which again indicates how much importance this country has placed on economic stability and sustainability. This adherence by Botswana points to good governance and strategic economic planning, hence it sets a yardstick for other member states in the region[39].

5.4 Tanzania

Due to good debt management under a suitable legislative framework supported by prudent fiscal policy, Tanzania was able to hold the level of its public debt on the ground with sustainable limits while sticking to convergence criteria of both SADC and EAC even with exogenous shocks, that is, by COVID-19 and changes in international economic environment. In the 1990s, Tanzania faced significant debt distress. However, substantial debt relief was received in the early 2000s under the HIPC Initiative and the MDRI. This support significantly alleviated Tanzania's debt burden, providing crucial fiscal space for increased borrowing aimed at developmental projects and infrastructure improvements[40].

Tanzania's public debt has been increasing albeit at a slow pace. Tanzania's public debt grew from 21.7% the GDP 2008 to 40.4% of the GDP in 2019. By June 2020, the public debt stock stood at USD 24.5 billion, with external debt accounting for 72.6% of the total debt[41]. The increase in debt can be partly attributed to the government's initiatives to upgrade transportation and energy infrastructure. External debt remained a significant component of public debt, rising to USD 16.7 billion (72% of total public debt) by June 2019 from USD 4.4 billion in June 2008 (44.8% of total public debt). The share of domestic public debt to total public debt averaged 25.24%, and 27.7% between 2001–10, and 2011–20, respectively.

Debt management in Tanzania is guided by the Government Loans, Guarantees, and Grants Act No. 30 of 1974, as amended in 2004, and the National Debt Strategy of 2002. The Ministry of Finance and Planning, the Bank of Tanzania, and the Attorney General's Office jointly execute the National Debt Strategy and ensure that the country maintains fiscal discipline and sustainable debt levels. Tanzania's public debt as a share of GDP stood at 44.9% in 2022 and averaged 37.5% between 2001 and 2022. Despite the rise in debt, Tanzania's debt sustainability remains robust. The DSA as of June 2024 indicates that the present value of the public debt-to-GDP ratio is about 35%, well below the 55% benchmark based on Tanzania's debt-carrying capacity. This suggests that Tanzania has not breached the debt convergence criteria of both the EAC and the SADC.

5.5 Republic of Congo

The Republic of Congo remains in a state of debt distress, primarily due to its reliance on volatile oil revenues and challenges in debt management, and it continues to struggle

39 https://www.sadc.int/pillars/public-debt

40 IMF 2024

41 Bank of Tanzania. "Monetary Policy Statement 2021/22." Dar es Salaam: Bank of Tanzania, 2021.

with adhering to CEMAC's DCC which aim to limit public debt to sustainable levels. In this regard, debt distress has been deepened through various external economic factors, issues of governance, and structural weaknesses within its debt management framework.

Between 2014 and 2016, Congo experienced a sudden decline in oil prices, showing how that vulnerability could be realized with the high dependence of the country's revenue on oil exports. This downturn led to a rapid increase in public debt, including extensive arrears and obligations from oil-backed loans, which further intensified its debt burden. The IMF's support was pivotal, as Congo engaged in a three-year Extended Credit Facility arrangement in 2019, which aimed to address debt vulnerabilities by restructuring its liabilities, notably its oil-backed debt. Through these restructuring agreements, the country managed to extend maturities, negotiate haircuts, and link repayments to oil price fluctuations. This approach allowed Congo to maintain its debt commitments even amid fluctuating oil revenues, contributing to a reduction in external debt as a percentage of GDP from 55.7% at the end of 2021 to around 42% by mid-2023[42].

However, Congo's adherence has turned out to be quite ad hoc with respect to CEMAC's Debt DCC. The fiscal policy as pertains to CEMAC requires members at all times to ensure that public debt will be below a threshold of 70% of its GDP and not accumulate arrears. With high levels of debt overstepping limits persistently at this level along with a compilation of other unresolved issues relating non-transparent mobilized debt, therefore, it results in an absence of a general articulation strategy aimed at stemming against the country's surmised problems about debt. The lack of adequate debt monitoring systems has further led to the accumulation of unregulated commercial and domestic debt, which the government is still working to resolve. CEMAC's DCC also requires that member states ensure concessional terms for new debt. While Congo has restricted new debt to concessional terms under IMF and World Bank guidance, it has occasionally failed to prevent the accumulation of arrears, resulting in ongoing repayments and restructuring discussions with major creditors such as Brazil, India, and Russia[43][44].

To improve its debt sustainability, Congo has introduced structural reforms, such as reactivating the National Public Debt Committee in 2019 to enhance debt management transparency and enforce CEMAC's guidelines[45]. Recent audits and the development of a domestic arrears repayment strategy aim to address existing arrears while reducing debt vulnerabilities. Nonetheless, Congo's heavy reliance on oil revenues and the need

42 IMF. Republic of Congo: Fourth Review under the Three-Year Arrangement under the Extended Credit Facility, Requests for Modification of Performance Criteria, Waivers of Non-observance of Performance Criteria, and Financing Assurances Review—Debt Sustainability Analysis. (2023b).

43 World Bank. Republic of Congo: Joint World Bank-IMF Debt Sustainability Analysis Update. (2019)

44 IMF. Republic of Congo: Fourth Review under the Three-Year Arrangement under the Extended Credit Facility, Requests for Modification of Performance Criteria, Waivers of Non-observance of Performance Criteria, and Financing Assurances Review—Debt Sustainability Analysis. (2023b)

45 IMF. Republic of Congo: Staff Report for the 2019 Article IV Consultation-Debt Sustainability Analysis. (2020).

for continual reforms in public finance management remain critical to achieving long-term debt sustainability and adherence to CEMAC's DCC.

5.6 Benin

Benin has made notable progress in managing its public debt through sound economic reforms and improved fiscal policies, positioning itself as a relatively stable country within WAEMU compared to regional peers. The country has implemented a Medium-Term Debt Management Strategy to manage refinancing risks and ensure debt sustainability. Although Benin's debt-to-GDP ratio has increased, reaching around 54% as of recent assessments, this remains within the WAEMU's DCC, which limits public debt to 70% of GDP. This prudent debt management is largely attributed to Benin's focus on economic diversification, especially in agriculture and infrastructure, reducing its reliance on external financing and limiting exposure to volatile global markets[46].

Additionally, Benin has demonstrated commitment to transparency and efficiency in public financial management, earning it continued support from international financial institutions such as the IMF[47] and World Bank, which have acknowledged the country's proactive approach to debt sustainability[48]. However, rising global interest rates and external shocks, such as the COVID-19 pandemic, have created fiscal pressures that Benin must continue to navigate carefully to maintain debt sustainability in the long term while adhering to WAEMU's DCC. In light of the COVID-19 pandemic, Benin strategically chose not to participate in the G20 Debt Service Suspension Initiative (DSSI), opting instead to negotiate debt conditions directly with creditors to maintain its credit standing and support economic recovery efforts effectively.

46 https://www.cabri-sbo.org/en/blog/debt-reforms-and-managements-of-risks-in-the-public-debt-portfolio-in-benin

47 https://www.imf.org/en/News/Articles/2022/07/08/pr22252-benin-imf-executive-board-approves-usd638m-eff-ecf-concludes-2022-article-iv-consultation

48 World Bank. Striving for effective debt policy and management: Benin's journey. World Bank Blog. (2023).

CONCLUSION AND POLICY IMPLICATIONS

6. Conclusion and Policy Implications

6.1 Conclusion

The study sought to establish a holistic understanding of the debt challenges facing African countries through an analysis of historical and current debt trends, the effectiveness of debt relief initiatives, and the effectiveness of the RECs DCC in promoting debt sustainability among the member states. The study relied on existing literature on public debt and data from the IMF and World Bank to analyze the role of RECs DCC and IMF's DSA in enhancing debt sustainability among the member states of various RECs in Africa. The analysis indeed revealed that though these RECs have adopted convergence criteria for the harmonization of fiscal policies, as well as setting debt-to-GDP thresholds, the extent of compliance is not uniform among the member states. For instance, the EAC and WAEMU are more advanced in the application of convergence criteria, while others, like SADC and ECOWAS, are still at different levels in the process of being fully complied with by their respective member states. Besides, because of the prevailing economic conditions that are different among countries, there is a lack of mechanisms that enforce the compliance of all aspects of the RCC and therefore complete adherence does not occur. In this regard, the gap poses an important question of how exactly the DCC framework is effective in ensuring debt sustainability when there are no enforceable sanctions for non-compliance.

Despite significant debt relief efforts through initiatives such as HIPC and MDRI, many African countries continue to grapple with unsustainable debt levels. The debt relief initiatives provided temporary reprieve; however, external shocks such as global economic downturn, global shocks like the COVID-19 pandemic and disruptions in global financial markets led to renewed borrowing. These factors have exacerbated existing vulnerabilities and highlighted the limitations of current debt management frameworks. Addressing these challenges is crucial for achieving long-term economic stability and sustainable development across the continent.

The IMF's DSA framework has provided valuable insights into the debt sustainability of African countries. However, the findings indicate that the framework's global standards often do not fully capture the unique economic contexts and development needs of African nations. The DSA's focus on external debt distress and standardized thresholds may overlook critical factors such as domestic debt vulnerabilities and the need for substantial public investments in infrastructure and social services.

The study underscores the imperative need to rethink debt management strategies in Africa and move beyond the traditional DCC employed by RECs and the IMF's DSA. The conventional DCC metrics, while useful, are insufficient in capturing the multifaceted nature of debt sustainability within the context of Africa's diverse economic landscapes and development challenges.

6.2 Policy Implications

While the RECs DCC provides a framework for debt management, it has limitations in addressing Africa's complex debt challenges. Therefore, it is important to propose alternative policies that are tailored to the continent's unique economic landscape can enhance debt sustainability amidst ongoing development crises. This can be attained through:

1. Establish Integrated Regional Financial Institutions to Complement RECs DCC

Establishment and integration of regional financial institutions to give full force to the debt management situation in Africa. Their services could extend to technical, financial, and even policy guidance tailored to the specifics of African needs. This could be better integrated through regional financial institutions offering specific technical assistance, financial support, and policy guidance for both external and domestic debt problems in Africa. For example, the African Monetary Fund would clearly, upon full implementation, have a well-defined role in the stabilization of economies, emergency financing, and supporting debt restructuring processes. This would be an institution that can cooperate with the RECs, serve as a regional shock absorber, and is much better equipped to handle the intricacies of debt vulnerabilities peculiar to the economic landscape in each country.

2. Strengthen Debt Convergence Criteria by Addressing Domestic Debt Vulnerabilities for Comprehensive Debt Sustainability in Africa

One of the major limitations of the DCC, as applied within African RECs, is that it mostly focuses on aggregate debt, with limited regard for the risks that may be created by, for example, domestic debt. If domestic debt is not well managed, it may turn out to be very detrimental in creating a state of financial instability and increasing the burden of the debt on member states at the expense of funding for basic services. In order to make the DCC more effective, African RECs need to come up with measures that can monitor and manage domestic debt levels. By expanding the DCC to include domestic debt vulnerabilities, RECs will be well assured that debt sustainability analysis provides a complete view of all risks associated with indebtedness. This will go a long way in helping member states maintain fiscal stability and limit the effects brought about by both external and internal debt pressures. A more holistic DCC will go a long way in enabling countries to manage debt in a sustainable manner and enhance their resilience to economic shocks.

3. Leverage Natural Resource Wealth to Reduce Dependency on Borrowing in Africa

African countries are endowed with immense natural resources-minerals, oil, gas, and biodiversity-which, if exploited optimally, will contribute to reducing dependence on external borrowing. This shall be fostered by the establishment of a Pan-African natural capital Sovereign Wealth Fund. This fund would serve as a complementary financing source to support development projects, reduce dependence on external debt, and enhance long-term debt sustainability. By pooling revenues from resource-rich

countries, a regional Sovereign Wealth Fund can build financial resilience, address liquidity challenges, and facilitate investments that foster sustainable growth and fiscal stability. It would also involve the adoption of policies along with frameworks that might enhance value addition and improve governance over natural resources; base heritage and endowment in African economies for more adequate revenue generation, increased fiscal resilience, and reduced vulnerability to debt crises.

4. Adopt a Hybrid Debt Sustainability Approach Combining Regional Standards with Country-Specific Flexibility

Given the diverse debt challenges across Member States of various RECs, it is crucial to recognize that debt sustainability policies cannot be one-size-fits-all. It is important for RECs to adopt a hybrid debt sustainability framework that combines regional DCC with tailored, country-specific debt management policies. This approach retains the advantages of regional benchmarks while leaving room for flexibility to deal precisely with the peculiar fiscal and economic conditions of each Individual Member State; debt sustainability on the continent is hence more relevant and effective. Each REC secretariat should be encouraged to establish a technical assistance team that will work closely with the Member States in implementing debt sustainability policies that best suit their needs. This may include policy guidance, technical training, and capacity-building support. Thirdly, RECs should undertake comprehensive reviews every three to five years to keep the DCCs up to date with changing economic conditions. These reviews would provide an opportunity for RECs to revise regional benchmarks to maintain their relevance and effectiveness. This is an iterative process that permits RECs to respond to changes in the global and regional economic environment.

5. Enhancing Debt Sustainability by Addressing External Borrowing and Foreign Exchange Reserves

Against this background, particularly with current dependence on foreign commercial debt in countries such as Kenya, Ghana, and Zambia, there is an urgent need for an enhanced framework of debt-sustainability analysis. The framework has to be inclusive of a foreign exchange reserves assessment using standard metrics on market-access countries. For instance, reserves must be measured against the sum of maturing external debt and current account deficits to ascertain whether the country is able to meet its short-term obligations. Similarly, market signals, like currency depreciation and rising bond yields, must be factored into the assessment to anticipate any debt distress that may arise. Second, there is a need for governments in LICs to establish stringent regulations to monitor private external borrowing by banks and corporations. As seen in the case of Zambia, unregulated external borrowing by private sectors may bring about sharp vulnerabilities that have significantly worsened national debt crises. By integrating these assessments into the DSA and coupling with a careful evaluation of foreign exchange reserve adequacy, policymakers will be better equipped to assess both solvency and international liquidity, thus safeguarding their economies against

possible shocks. It is going to be ultimately rewarding since such a combination would help mitigate the risk over external debt by ensuring that countries do not fall into liquidity crises pertaining to fulfilling international financial obligations.

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APPENDIX

Table A1: RECs and Member States

REC	Year of Establishment	Member States	Current Level of Integration
SADC	1992	Angola, Botswana, Comoros, DR Congo*, Eswatini, Lesotho, Madagascar, Malawi, Mauritius, Mozambique, Namibia, Seychelles South Africa, Tanzania* Zambia, Zimbabwe	Free Trade Area, 2008
ECOWAS	1975	Benin*, Burkina Faso*, Cabo Verde, Côte d'Ivoire*, Gambia, Ghana, Guinea*, Guinea Bissau*, Liberia Mali*, Niger*, Nigeria, Senegal*, Sierra Leone, Togo*	Customs Union, 2015
EAC	1967	DR Congo*, Burundi, Kenya, Rwanda, Somalia South Sudan, Uganda, Tanzania*	Common Market, 2010
CEMAC	1964	Cameroon, Central African Republic, Chad, Equatorial Guinea*, Gabon, Republic of the Congo	Monetary Union, 1964 Customs Union, 2006
WAEMU	1962	Benin*, Burkina Faso*, Côte d'Ivoire*, Guinea, Bissau*, Mali*, Niger*, Senegal*, Togo*	Monetary Union, 1962 Customs Union, 1999

* Refers to countries with multiple memberships in the various RECs

Table A2: Member States of African RECs and Status of Adherence to Respective Convergence Criteria as of 2023

Country	REC	Public debt (% of GDP)	Fiscal balance	Inflation	IMF Risk of Debt Distress
Angola	SADC	84.5	-1.2	13.6	N/A
Botswana	SADC	19.4	-2.5	5.1	N/A
Comoros	SADC	33.2	-4.3	8.4	High
DR Congo	SADC	14.3	-1.7	19.9	Moderate
Eswatini	SADC	37.8	-6.3	5.0	N/A
Lesotho	SADC	63.6	1.0	6.3	High
Madagascar	SADC	56.6	-6.1	9.9	Moderate
Malawi	SADC	81.3	-10.1	30.3	In Debt Distress
Mauritius	SADC	81.1	-5.3	7.0	N/A
Mozambique	SADC	91.9	-2.8	6.1	High
Namibia	SADC	67.2	-3.8	5.9	N/A
Seychelles	SADC	56.7	-1.9	-1.0	N/A
South Africa	SADC	73.9	-4.6	5.9	N/A
Tanzania	SADC	46.3	-3.5	4.0	Moderate
Zambia	SADC	115.2	-6.6	11.0	In Debt Distress
Zimbabwe	SADC	90.2	-2.0	667.3	In Debt Distress
Benin	ECOWAS	54.2	-4.3	2.8	Moderate
Burkina Faso	ECOWAS	61.9	-6.9	0.9	Moderate
Cabo Verde	ECOWAS	115.4	-4.4	3.1	Moderate
Côte d'Ivoire	ECOWAS	57.1	-5.2	4.4	Moderate
The Gambia	ECOWAS	71.7	-3.5	17.0	High
Ghana	ECOWAS	86.1	-4.5	37.5	In Debt Distress
Guinea	ECOWAS	40.3	-1.6	7.8	Moderate
Guinea-Bissau	ECOWAS	77.8	-7.3	7.2	High
Liberia	ECOWAS	55.7	-3.4	10.1	Moderate
Mali	ECOWAS	53.0	-3.8	2.1	Moderate
Niger	ECOWAS	51.8	-5.0	3.7	Moderate
Nigeria	ECOWAS	46.3	-5.1	24.7	N/A
Senegal	ECOWAS	79.6	-4.9	5.9	Moderate
Sierra Leone	ECOWAS	80.0	-5.8	47.7	High
Togo	ECOWAS	67.2	-6.9	5.1	Moderate
Burundi	EAC	62.8	-5.3	30	High
DR Congo	EAC	14.3	-1.7	19.9	Moderate
Kenya	EAC	73.3	-7.0	7.7	High
Rwanda	EAC	62.1	-7.0	14.0	Moderate
South Sudan	EAC	54.1	-4.0	40.2	High
Tanzania	EAC	46.3	-3.5	4.0	Moderate

Uganda	EAC	49.9	-5.1	5.4	Moderate
Cameroon	CEMAC	41.9	-0.9	7.2	High
Central African Rep.	CEMAC	55.7	-3.7	3.2	High
Chad	CEMAC	35.1	4.8	2.7	High
Rep. of Congo	CEMAC	100.8	4.2	4.5	In Debt Distress
Equat. Guinea	CEMAC	42.4	0.8	2.5	N/A
Gabon	CEMAC	70.5	-0.1	3.6	N/A
Guinea	CEMAC	40.3	-1.6	7.8	Moderate
Benin	WAEMU	54.2	-4.3	2.8	Moderate
Burkina Faso	WAEMU	61.9	-6.9	0.9	Moderate
Côte d'Ivoire	WAEMU	57.1	-5.2	4.4	Moderate
Guinea-Bissau	WAEMU	77.8	-7.3	7.2	High
Mali	WAEMU	53	-3.8	2.1	Moderate
Niger	WAEMU	51.8	-5.0	3.7	Moderate
Senegal	WAEMU	79.6	-4.9	5.9	Moderate
Togo	WAEMU	67.2	-6.9	5.1	Moderate

Note: For Public debt: Values are green if a Member State's public debt is below the respective threshold. Values are red if public debt exceeds the RCC threshold. For Fiscal Balance: Values are green if the fiscal balance is within the RCC limit. Values are orange if the fiscal balance exceeds the RCC limit by less than 1 percentage point. Values are red if the fiscal balance exceeds the RCC limit by more than 1 percentage point. For Inflation: Values are green if the inflation rate is within the respective RCC threshold. Values are orange if the inflation rate exceeds the RCC threshold by less than 1 percentage point. Values are red if the inflation rate exceeds the RCC threshold by more than 1 percentage point. For risk of debt distress, green refers to low risk of debt distress, yellow is for moderate risk, orange is for high risk while red is for countries in debt distress based on IMF 2024 ratings. N/A refers to countries not covered in the DSA.

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