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Africa Regional Debt Crisis - Amidst Covid-19 outbreak pandemic

The World Health Organisation (WHO) characterized the COVID-19 as a global health pandemic with huge global, regional and national economic, social and political impacts. The pandemic has thrown the world's most advanced health systems into disarray. It has affected royal families, politicians, prime ministers, musicians, sportsmen and general citizens. The numbers of infection cases on the Sub-Sahara Africa (SSA) region are predicted to rise to 500 000 by May 2020 (WHO), and the current country health systems will not cope but overwhelmed. SSA countries are already under other health pandemics such as HIV/AIDS, malaria, cholera, TB and Ebola.

According to the World Bank (2020), SSA region is going to fall into an economic recession for the first time in 25 years. Economic growth is projected to fall from 2.4% in 2019 to between 12.1% and -5.1% in 2020. Economic output losses forecasted to be between US$37 – US$79 billion. The reduction in production will be mainly due to country lockdowns, reduced FDI, slump in tourism, reduced remittances, capital flight and reduced foreign aid. Oil exporting countries such as Angola and Nigeria are be affected due to low demand and fall in oil prices. Countries are reviewing their 2020 budgets due to reduced revenue inflows.

Overall, these impacts will have a huge impact on debt management. The region was already sliding into debt crisis, with many governments already carrying large deficits. Governments are spending up to 45% of government revenue on external debt payments. This is massively crowding out public spending. Servicing and managing debt obligations under these healthcare and humanitarian challenges is not possible.

A fall in economic growth exposes SSA countries to debt vulnerabilities and worsen their fiscal positions, lowers their revenue generations and widens budget deficits. Before the COVID-19 health pandemic crisis the SSA region was already sliding into a new debt crisis, with 40% of the countries at high risk of debt distress. Debt-to-DGP ratio of many countries had reached levels not sustainable, Mozambique had 108,8%, Zambia 91.6%, Angola 95% (UNECA). A number of countries were already spending between 40% - 50% of their national budgets on debt servicing than they spend on health and education combined.

Global campaigning has already led to some movement from the IMF and G20, with some debt cancellation for the poorest countries and the suspension of bilateral debt service for a larger number of lower-income countries. The funds freed up are likely to be used by governments for healthcare, and immediate measures to support economies in the face of Covid-19.

So far, we have not seen any debt relief from the World Bank, and private creditors are not on board with the suspension of debt payments. A number of countries are very likely to default on payments to private creditors, which will necessitate a debt restructuring negotiations.

In terms of the domestic response of SSA governments, there have been widespread lockdowns of international and domestic travel, and governments have adopted national plans to prevent the spread of the virus and try to protect incomes, businesses, and livelihoods. There has also been a huge mobilization of resources from the private sector, CSOs and churches.

Multilateral Response

- In response to the economic impacts of Covid-19 on developing countries, G20 Finance Ministers have agreed an offer of a debt suspension of bilateral debt payments from 1 May to end December. For the countries receiving this suspension, the debt payments will come due between 2022-2024. Up to 77 countries are eligible, covering most SSA countries and including middle-income countries such as Ghana, Kenya and Zambia. SSA countries not covered include South Africa, Namibia, Botswana, as well as North Africa countries.

- To qualify for the debt suspension, a country has to be up to date on debt payments to the IMF and World Bank, it has to ask for the suspension (i.e. it won't be offered), and it needs to also have asked the IMF for emergency loans. Zimbabwe is therefore excluded because it was already in default on debt payments to the World Bank.

- The French government has estimated that the suspension will amount to around $12 billion, i.e. a third of all external debt payments for the countries concerned.

- The G20 have said that they will decide later in 2020 whether to extend the suspension. Intelligence gathered so far suggests they are expecting that they will have to do more, including possibly extending the suspension of debt payments.

- As part of its announcement, the G20 asked the multilateral institutions – the IMF and World Bank – and private creditors to also suspend debt payments for the same countries.

- The IMF has implemented a very limited cancellation of payments through its Catastrophe Containment and Relief Trust (CCRT).[1] 25 countries, 19 of which are in Africa, will have their debt payments cancelled for the next 6 months, covering around $225 million in total. It is highly likely that the IMF will extend this to cover 2 years' worth of payments for these countries.

- The World Bank is heavily resisting taking any action to suspend or cancel debt payments, saying it would harm their credit rating. A decision is expected on action by the World Bank in the next couple of months.

- In defense of their limited action taken on debt relief, the IMF and World Bank are saying they are lending lots of new money to countries to help them cope with Covid-19, describing this as a 'positive net transfer of resources'. However, this lending is adding to the indebtedness of countries.

- Debt payments owed by the 77 countries to the external private sector from May to December 2020 amount to $9 billion. TheG20 have asked the private lenders to participate in debt suspension on the same terms that G20 governments have offered. The international banking body the International Institute of Finance (IIF) have said they support the suspension and that they are in negotiations with the Paris Club and Western governments as to what they should do. However, no private sector creditors have so far committed to implement the suspension, which puts the onus on borrowing governments to stop paying if they need to, which in turn carries various risks.

- A large proportion of debt payments suspended under the G20 agreement are owed to China, which means China is playing a significant role in the debt relief offered so far. However, it is not expected that China will be willing to go further and offer outright debt cancellation, at least until multilateral and private creditors start participating in debt relief. Analysts believe it is more like to offer postponement of loan payments, debt restructuring, and debt for equity swaps.

- Virtually all international debt contracts are owed under the laws of the United Kingdom or the state of New York in the US. Of the 77 countries covered by the G20, 90% of bonds are owed under UK law. This means that if a

[1] In February 2015, the IMF established a Catastrophe Containment and Relief (CCR) Trust. This allows the Fund to provide grants for debt relief for the poorest and most vulnerable countries that are hit by catastrophic natural disasters or public health disasters. https://www.imf.org/external/np/exr/facts/pdf/ccr.pdf As of March 2016

government stops paying its private sector creditors, it could face legal action in the UK courts.

Global Civil Society Response

- Global civil society groups have been coordinating in response to the Covid-19 global South debt crisis since early April
- A common statement[2] has been issued, signed by over 200 networks and organisations from around the world.
- The response has involved coordinated advocacy towards the IFIs, G20, Paris Club, and borrowing governments, as well as public mobilization and campaigning, media and social media activities, and the production of a joint video.[3]
- There is consensus that the actions announced so far by creditors are definitely not enough, and discussions are now focused on short- and medium-term priorities and how to achieve them – including

    - How to push the World Bank, other IFIs and the private sector to offer debt cancellation,
    - how to secure legal protection for debt countries in the UK and New York,
    - how to achieve long-term structural change to prevent the building up of unjust debts again in future, including a UN-led systematic process for an enforceable debt restructuring.
    - How to push the IMF and World Bank to consider debt sustainability through the lens of human rights, rather than just on capacity to repay the debt

African Regional Response

- African Finance Ministers helped put the issue of debt payments during the crisis on the international agenda, when they called in March for a suspension of all interest payments in 2020, and principal and interest payments for fragile states.
- This call was coordinated by the UN Economic Commission for Africa. Many individual Finance Minister's and governments, with Uganda and South Africa have gone further, calling for cancellation of various debts.

- The UN Economic Commission for Africa has been working on a plan with African Finance Ministers to deal with external bond payments. The plan involves a debt restructuring where bondholders accept longer maturities and lower interest in return for Western institutions or governments part-guaranteeing the debt payments.

- AfDB's Covid-19 response new schemes - a USD 3 billion social bond and a USD 10 billion loan scheme - dedicated to supporting member countries and their C-19 service and infrastructure interventions https://www.afdb.org/en/news-and-events/press-releases/african-development-bank-group-unveils-10-billion-response-facility-curb-covid-19-35174. We need to target the bank for increased accountability and transparency.

- The African Union are looking at the debt crisis compounded by Covid-19 as a reversal of frameworks being put in place around domestic resource mobilization.

Civil society Demands

- It is critical to support public spending by African governments in response to Covid-19.
- The debt moratorium (suspension of debt payments) is just pushing the problem down the road and laying the ground for much bigger debt problems for countries in the future, when countries should be focused on rebuilding their economies after the pandemic. The standstill needs to be extended to at least 2021 minimum to provide countries with additional fiscal space.

- Debt cancellation needs to be part of the overall goal for a collective response, but it will be important to have a tactical approach, focusing on

[2] https://jubileedebt.org.uk/a-debt-jubilee-to-tackle-the-covid-19-health-and-economic-crisis-2

[3] https://twitter.com/eurodad/status/1252192195395944449?s=20

what can be achieved when, as opposed to necessarily demanding debt cancellation from the outset.

- Estimating debt cancellation needs - CSOs need to work on the issue of estimating debt cancellation needs: how much cancellation is needed and what for?
- Impact on credit ratings It will be critical to consider the potential negative impact on credit ratings of the various mitigation mechanisms, and how to tackle this.

- Role of debt from private lenders - a large proportion of the debts that countries are struggling with are from private lenders, and many of these debts are odious. It will be difficult to secure debt suspension or cancellation from these actors. In addition, many of these international companies are benefitting from huge Covid-19 stimulus packages in their own countries. CSOs need to call on the global North for justice that we are paying illegal debts to companies they are bailing out.
- There is need for increased transparency over lending and borrowing. It will be critical to ensure that any money that becomes available from debt suspension or cancellation is used properly. This work will be an important opportunity for domestic alliance-building in countries.

- Debt transparency (immediate and medium-term): Debt transparency needs to be promoted.

- The IMF should issue additional Special Drawing Rights (SDRs), and these should be reallocated to developing countries to provide extra financing to deal with Covid19 and the associated health and economic shocks

- Highlighting links between debt and corruption Any collective response needs to make clear the link between unsustainable debt and corruption in both borrowing and lending.

Reference

1. Africa Debt Crisis Online Strategy Meeting (April 2020) - this initial online strategy meeting hosted by Open Society Initiative for Southern Africa (OSISA), Open Society Foundation (OSF) and Jubilee Debt Campaign involving over 40 debt campaigners from sub-Saharan Africa and the global North financial centres took place on Wednesday 29 April.

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